



# Annual Report

T H E   A U D I T O R - G E N E R A L

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

28 September 2004

Dear Mr President

Dear Mr Speaker

In accordance with section 28 of the *Auditor-General Act 1997*, and pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present my report on the operations of the Australian National Audit Office for the year ended 30 June 2004.

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

Yours sincerely

A handwritten signature in black ink, appearing to read 'P.J. Barrett', is positioned above the printed name and title.

P.J. Barrett  
Auditor-General



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# Highlights and areas of focus

## Highlights

- we delivered a comprehensive program of performance audits aimed at adding value to public sector performance and accountability.
- we achieved a more even tabling program of performance audits during the year, thus avoiding periods of congestion experienced in previous years.
- we brought forward our financial statement audit timetables to meet the Government's compressed reporting deadlines.
- we produced a guide to assist in the adoption of International Financial Reporting Standards.
- a number of our audits highlighted the need for improvements in aspects of financial management including compliance with key legislative requirements.
- a record number of presentations at seminars and conferences on audit issues which drew on observed better practice and audit findings, thus enhancing the effectiveness of our audits.
- we conducted an audit review of the first triple bottom line report produced by an Australian Government Agency.
- we enhanced our IT audit capability through targeted recruitment, professional development programs and increased use of data analysis techniques.
- we continue to contribute to the development of national and international accounting and auditing standards.
- in response to the outcome of our annual staff survey, a conference for Executive Level staff was held which focussed on the roles and responsibilities of this important cohort.

## Areas of focus for the coming year

- improve the management of our workforce through the development of a workforce plan contributed to by staff at all levels.
- review our product range to assess whether we have the right mix of products and services to meet our objectives.
- identify improved ways to increase and measure productivity and performance.
- follow-up of the implementation of audit recommendations through entity audit committees and entity reviews, to improve effectiveness.
- enhance our audit approaches and techniques to deal effectively with high risk audits.
- enhance our audits of internal control environments within entities, focussing particularly on legislative adherence and fraud preventative protection.
- keep abreast of and implement changing auditing standards in relation to triple bottom line reporting.
- review and revise, as necessary, the ANAO's auditing standards.
- the implementation of improved document management systems and practices, particularly in relation to performance audit working papers.
- reassess our quality assurance framework and external peer review.
- reassess our high level information technology audit capability and progress our Information System and Technology Strategic Plan.
- provide appropriate briefings and support to new Parliamentarians, the next Government and a new ANAO Executive.
- progressively implement an external communication strategy directed towards enhancing our relationships with stakeholders and clients.
- assist our clients to manage the impact of the adoption of international accounting standards and the harmonisation of Government Finance Statistics with Generally Accepted Accounting Principles.
- conduct an environmental scan to enhance our appreciation of developments occurring in the public sector both here in Australia and internationally.

# New Challenges—Fresh Solutions

## Introduction by the Auditor-General



**Pat Barrett AO**  
Auditor-General for Australia

In last year's annual report I outlined how the ANAO has been progressively improving its organisational governance arrangements to meet the challenges of a constantly changing and more demanding environment, including pressures arising from being part of the accounting and auditing professions. As my term as Auditor-General comes to a close, in this, my final annual report, I would like to focus on how the Office has positioned itself to deal with these challenges going forward by becoming more pro-active and flexible in fulfilling its statutory obligations. Recently, I have developed two papers, one on performance auditing<sup>1</sup>, and the other on assurance auditing<sup>2</sup>, which set out in some detail an explanation of the issues being confronted in those two main elements of our business and what we have done, and are doing, to address them in a pro-active and professional manner.

The evolution of the public sector, under successive internal reforms and external pressures, is making greater demands on agencies, and their auditors. While a number of these pressures stem from fundamental changes to the legislative framework for public sector governance in the late nineties, they continue to have a profound effect on the way in which agencies operate today. New challenges are ever present, notably those that relate to the adoption of new technology, the growing convergence of

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<sup>1</sup> *Performance Auditing in a Changing APS Environment*, Address, Canberra, 1 April.

<sup>2</sup> *Assurance Auditing in a Changing AGPS Environment*, Occasional Paper, Canberra, 26 June.

the public and private sectors, the 'whole of government' approach, and the effects of globalisation, which are quite pervasive in their impact.

The ANAO is responding to these challenges on many fronts. We recognise that we are part of, and need to contribute to, the public service environment. It is especially important that the Office understands the nature and operations of the public sector and how we can work collaboratively to improve public administration. To this end, the ANAO has implemented a range of initiatives to ensure that the Office has a well-developed understanding of the key issues facing the public sector as well as important concerns of the Parliament. The ANAO is also committed to continually reviewing and improving its business management, which supports the effective and efficient delivery of our suite of audit products. Finally, the audit independence provided under the *Auditor-General Act 1997* is recognised explicitly as the key to the ANAO's effectiveness.

### **Our relationship with the Parliament**

As the Parliament is our primary client, our interaction with both individual parliamentarians and parliamentary committees is geared towards ensuring that our (assurance and performance) audit products and services are tailored to Parliament's needs. The ANAO's relationship with the Parliament is crucial to its ability to maintain the quality and relevance of our audit products. Parliament makes the ultimate decision on the ANAO's resources—this is important for signalling the independence of the Auditor-General by removing the issue of fee dependence between auditor and our public sector clients.<sup>3</sup> This is clearly a different relationship to that experienced in the private sector. Nevertheless, all ANAO products are fully costed as an important part of its accountability to Parliament. That said, we are also conscious of the costs of audit activities on APS entities in the same context.

### **Our focus on clients**

The ANAO continues to be an active participant in the public sector's changing environment. To this end, the primary focus of our role has moved from ensuring compliance with legislation to a broader approach, that is, to assist agencies in improving public sector administration. The success of this approach requires considerable cooperation between the ANAO and the bodies with which it deals. Consequently, our relationship management strategies are given particular prominence, with links being constantly formed and strengthened through a range of activities including: assistance to parliamentary committees and agency audit committees; liaison with state/territory and international counterparts (e.g. the International Organisation of Supreme Audit Institutions (INTOSAI) and the Australasian Council of Auditors-General (ACAG); and the ongoing interaction with the accounting profession, particularly through the major accounting bodies.

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<sup>3</sup> All agency audits are charged on a notional basis reflecting the full cost of undertaking, and reporting on, each individual audit. While audit fees are charged for all audits of statutory authorities and government companies, these fee receipts are paid directly to consolidated revenue. The ANAO's costs are directly funded by Parliamentary appropriation.

An increasingly important facet of the ANAO's ongoing work with our various stakeholders is the relationships we are developing with the audit committees of individual agencies. With the introduction of legislation (in 1998) requiring all Australian Government bodies to establish an audit committee, the ANAO has put significant emphasis on developing its relationship with these audit committees by senior ANAO staff routinely observing and participating in committee meetings. Through this mechanism the ANAO seeks to: develop its linkages with agency review processes; co-ordinate our annual audit program with an agency's review and other similar activities; and strengthen the effectiveness and credibility of audit committees in the eyes of both our internal and external stakeholders.

The strategic importance of meeting our clients' needs is enshrined in the first of the ANAO's four key results areas on its balanced scorecard with the objective to satisfy the needs and expectations of the Parliament, the Executive Government and audit clients in relation to performance assurance and accountability. The ANAO aims to achieve this by enhancing our dialogue and relationship with all members of Parliament and Parliamentary committees—particularly the Joint Committee of Public Accounts and Audit (JCPAA)—so that they are well informed about the ANAO's activities. As well, this will better place us to provide them with timely and constructive assistance, including secondment of ANAO staff to assist parliamentary committees in reviewing matters relevant to our audit reports.

The ANAO also strives to build on its product and professional relationships with the Executive Government and each of its audit clients so that it can continue to meet their audit related requirements and contribute to public sector reform in our particular areas of knowledge and expertise. We have made specific arrangements to ensure that the Prime Minister, and all other Ministers, are made aware of our audits and reports, including offers of briefings which allow them to be fully informed.

Our ultimate aim is to be accessible to Parliament and the Australian Public Service (APS) to enhance the reach and significance of our work, and to maintain the ANAO's relevance and credibility through the acceptance, and implementation, of its audit findings and recommendations. To reinforce this important performance requirement, senior ANAO executives have a requirement for Parliamentary liaison built into their individual performance agreements. As well, we have an extensive program of presentations at seminars and conferences that draw attention to, and reinforce, the better practice observed in our audits, as well as our audit findings, thus enhancing our client effectiveness.

### **Adding value and providing assurance**

The ANAO's overarching aim is to add value to public sector performance. Therefore, it is important for us to suggest improvements to public administration—our particular emphases are on necessary remedial action, better practice and achievement of required results, while reflecting public service values and ethics. An important focus in the conduct of all performance audits is the identification of better practice and the provision of recommendations aimed at improving efficiency and administrative effectiveness with agency agreement and commitment. The ANAO frames its recommendations to assist agencies in achieving better outputs and outcomes and promoting improved performance. This also requires agreement with, and commitment by, agencies to the implementation of those recommendations within

a reasonable time period. Clearly, to demonstrate to the Parliament that the ANAO's audit activity adds value to public sector administration, it is important to achieve identified results not just agreement to our recommendations.

Therefore it is important that the ANAO works cooperatively with agencies to gain genuine acceptance of its recommendations if we are to be effective, add value, and maintain our credibility as an agent of change. Our preferred approach is to encourage agencies to take any necessary remedial action on identified matters during the course of an audit by acknowledging, and reinforcing, timely implementation of initiatives developed by them and/or suggested by the ANAO. Our senior officers endeavour to meet formally and informally with agency senior management throughout the year to discuss audit related issues and strategic directions. In particular, the ANAO promotes an agency's interest and involvement at the start of each audit and in planning processes to facilitate progress and completion of the audit as well as commitment to its findings and recommendations.

While the ANAO endeavours to construct recommendations that will be accepted by agencies, occasions do arise where a difference of opinion is held and we need to exert our independence. Nevertheless, our effectiveness is largely related to the extent to which our recommendations are accepted and fully implemented. In this respect, we are also attentive to any statements by individual Ministers about action being taken by portfolio agencies on performance audit and other audit recommendations. Since 1 July 2003, following a recommendation by the JCPAA<sup>4</sup>, agency comments on a proposed report have been published in the final report. As well, a summary of agency comments is included in the brochure accompanying each performance audit report. While we are prepared to provide factual explanations of the findings and recommendations in our reports, there is only 'one' written report to Parliament.

The impact of our recommendations is assessed through the conduct of follow-up audits, which determine whether they have been implemented or alternate action to address the issues, was taken. Alternatively, the impact can also be assessed through a series of audits on a common theme or program activity, for example, privatisation in the APS. As well, the ANAO works closely with the various audit committees of public sector organisations to monitor the implementation of its recommendations. However, the most effective action is the JCPAA's quarterly public hearings on selected audit reports and any JCPAA inquiry conducted as a result of these reports. In selecting audit reports for review, the Committee considers the significance of: the program or issues raised in the audit reports; the audit findings; arguments advanced by the audited agencies; and the public interest of the report.<sup>5</sup>

<sup>4</sup> In JCPAA Report 386, *Inquiry into the Auditor-General Act 1997* (September 2001), the Committee recommended a number of amendments to the Auditor-General Act. One recommendation is that the Auditor-General should include in the final report agency comments on the draft report.

<sup>5</sup> JCPAA 2004 Report 402—*Review of Auditor-General's Reports 2003–2004: First and Second Quarters*. JCPAA, Canberra, p.1.

## Our approach—meeting emerging issues and achieving high level performance

The ANAO has endeavoured to strategically position itself so that it can adequately respond to emerging issues in the public sector. To this end, we have placed significant emphasis on tailoring our products to meet the needs of clients and to continue to identify opportunities for improvement. Changes in the APS environment in recent years have necessitated a more strategic, risk-based approach to audit activity. The ANAO recognises the importance of being an active participant in the process of change and the need to target products that span the accountability continuum from providing basic assurance and assessment of performance through to better practice and benchmarking guides. Our aim is to provide value added services and enhance the performance of the APS.

### Adopting an integrated audit approach

The ANAO is committed to delivering high quality audit products. We are therefore always alert to ensure that our range of products are focused on providing assurance that the risks facing the APS, and the management of its finances and programs, are being adequately addressed through an integrated audit approach. The ongoing challenge for the ANAO is to strike the right balance of audit activity across the public service to fulfil the ANAO's statutory obligations, while meeting the particular needs of Parliament and individual agencies. Key to this is understanding the Parliament's priorities and the business/functional imperatives of agencies that are creating a need for audit examination. The ANAO's audit product mix has to reflect Parliamentary concerns about compliance issues in public administration and about how the delivery of public services can be improved, as well as achieving high quality outcomes.

The ANAO has developed an integrated auditing framework that draws on the strengths of both the financial (assurance) and performance audit sides of its business. This approach capitalises on intelligence gathered in each field and allows the ANAO to target areas for audit activity to reflect the circumstances of individual APS entities as well as the increasing focus on across-entity cooperation and shared service delivery. Our emphasis is on timely, relevant audits which do not unnecessarily duplicate, or overlap with, other review and evaluation activity and place undue pressure on particular entity staff and senior management.

### Our integrated range of audit products

My mandate extends to some 300 public sector bodies, including Australian Government agencies, authorities, companies and their subsidiaries. These audit clients include Budget dependent agencies involved in the delivery of core services, and commercially oriented entities such as Government Business Enterprises (GBEs).

With our goal of providing well-targeted products and services that provide both assurance and value for money, the ANAO provides an audit product continuum ranging from high-level performance audits to traditional financial statement audits supplemented by Better Practice Guides (BPGs) and Business Support Process (BSP) audits covering a range of issues currently challenging the APS. The range of products presently produced by the ANAO includes the following major activities.

*(a) Performance Audits*

Performance audits are conducted in all ministerial portfolios (with the main concentration being directed to portfolios with significant Government outlays or revenues) to examine and report to the Parliament on the economy, efficiency and effectiveness of the operations of the administration of the Australian Government and to recommend ways in which these may be improved. During 2003-04, forty-six performance audit reports were tabled in the Parliament. All recent performance audit reports are placed on the ANAO's homepage at <http://www.anao.gov.au>, and are also summarised in the ANAO's series of six-monthly activity reports.<sup>6</sup>

Performance audits often involve assessments of governance, probity and the quality of management in individual agencies and are based on the auditor's professional opinion derived from compliance with related standards. As such, they are complementary to our financial statements audits. However, these audits can never, nor are they designed to, provide complete assurance as to an entity's operations. This 'expectation gap' is a complex issue that challenges the profession as much as it challenges our immediate range of stakeholders. However, it may help understanding and acceptance if the audits are seen as complementary to an agency's accountability documents, such as annual reports and the Portfolio Budget Statements.

*(b) Business Support Process Audits*

General performance audits include what we term Business Support Process (BSP) audits. These audits provide greater control assurance by examining business processes which support the delivery of outputs by public sector agencies. The focus of BSP audit reports is essentially the efficiency and effectiveness of the accountability, control, and compliance mechanisms and systems operating within public sector agencies. BSP audits are generally conducted in a number of agencies, with findings reported in generic terms to Parliament and on an individual basis to client agencies. The results of these audits are often a catalyst for examination of these business processes more widely in the APS and promote better practice.

*(c) Cross-agency Audits*

The ANAO has sought to maximise its efforts and the value added to public sector administration through an increased focus on cross-agency audits. These audits provide an analysis of performance across the public sector. They are conducted on agencies where there are shared objectives, shared service delivery or, simply, a sharing of common issues and demands. Cross-agency audits are gathering importance as agencies increasingly find new methods to deal with shared issues, and form alliances and partnerships, including with the private sector, to deliver government services. This approach is also becoming more relevant with the greater use of a 'whole-of-government' approach to

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<sup>6</sup> See, for example, ANAO Audit Report No.28 2003–04, *Audit Activity Report: July to December 2003*, Canberra, 12 February.



public administration as indicated by the Prime Minister<sup>7</sup> and noted in a Management Advisory Committee Report.<sup>8</sup>

The ANAO considers that the ability to leverage off experience and knowledge gained from these multi-agency audits provides a significant return for the audit effort involved. Topics covered, or planned to be covered, via cross-agency audits include annual performance reports, intellectual property, special accounts, performance management, fraud, workforce planning, outsourcing of legal services, and Internet service delivery.

#### (d) *Assurance Auditing*

Financial statement audits express an opinion on whether financial statements of Australian Government entities have been prepared in accordance with the Government's reporting framework and give a true and fair view (in accordance with applicable Accounting Standards and other mandatory professional reporting requirements) of the financial position of each entity as at year end, and the results of the entities' operations and the entities' cash flows. In 2003–04, the ANAO conducted assurance audits of 256 entities. As well, we undertook more substantive checks of the legislative basis for expenditure and appropriate use of delegated authority, where previous audits had reflected deficiencies.

In addition to the audit opinion on the financial statement, the ANAO provides each client with a report that deals with the results of the financial statement audit process. A report is also provided to the responsible Minister. The ANAO presents two cross-entity assurance reports each year to Parliament. The first details the results of an assessment of the control structure of major entities<sup>9</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>10</sup>

The ANAO has been emphasising to public sector entities over many years the importance of risk management as an element of their control environments. We have also drawn to entities' attention the initiatives being taken by National Archives in the area of records management and the better practice involved. Documentation of the internal control structure is a prerequisite for planning and developing an effective audit approach. The latter includes a formal assessment of the inherent, control and detection risks as part of audit planning. This is highly relevant to the increased audit emphasis on the detection of fraud, as well as on legislative adherence, as part of the greater attention being required to provide assurance of a sound control environment for the confidence of all stakeholders.

<sup>7</sup> Howard, J, The Hon. 2002. *Strategic Leadership for Australia Policy Directions in a Complex World*, Address to the Committee for Economic Development of Australia, Sydney, 20 November. Available at <<http://www.pm.gov.au/news/speeches/2002/speech1996.htm>>.

<sup>8</sup> Management Advisory Committee 2004. *Connecting Government—Whole of Government Responses to Australia's Policy Challenges*, Commonwealth of Australia, Canberra.

<sup>9</sup> ANAO Report No.58 2003–04, *Control Structures as part of the Audits of the Financial Statements of Major Australian Government Entities for the year ending 30 June 2004*, Canberra, 30 June.

<sup>10</sup> ANAO Report No.22 2003–04, *Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2003*, Canberra, 23 December.

In 2002, Cabinet endorsed a recommendation that Parliament should be provided with the Final Budget Outcome Report within 45 days of the end of the financial year. To achieve this goal, material agencies were required to advance financial statement preparation and obtain audit clearance of the financial information of large entities by 30 July this year. The ANAO, and material agencies, were provided with additional resources to meet this compressed timetable. In terms of the number of material agencies that received audit clearance by 30 July, the timetable was largely met—of the 66 material agencies audited by the ANAO, 49 of these agencies received audit clearance by the due date with the majority of the remainder cleared shortly thereafter. However, experience this year has not been fully satisfactory despite the efforts made by all concerned.

We have been encouraging agencies to undertake ‘hard closes’ of their accounts at least by May, and preferably by March/April, to take some of the pressure off finalising these accounts within the required timetable. These initiatives are quite achievable but would depend on close cooperation with the auditors. Nevertheless, with the adoption of International Financial Report Standards for the 2004–2005 financial year and any impacts of harmonisation of Australian GAAP and Government Financial Statistics, it is likely that virtually all of the agencies affected will have considerable difficulty in meeting the 20 July 2005 deadline.

#### *(e) Better Practice Guides (BPGs)*

The *Auditor-General Act 1997* (Section 23) gives the authority for the Auditor-General to provide information to public sector bodies. This has facilitated the development of a program of BPGs (as well as client seminars) designed to assist public sector agencies in improving their performance. BPGs aim to improve public administration by ensuring that better practices employed in some organisations are promulgated to the whole of the APS. The ANAO is in a unique position to compare operations across the public sector, and sometimes with the private sector, allowing it to add value to a wide range of stakeholders. The ANAO has also worked with other agencies in the production of some BPGs, including the recent guide developed on annual performance reporting prepared in association with the Department of Finance and Administration.<sup>11</sup>

The program for BPGs is based on the ANAO’s understanding of the emerging issues impacting on the performance of the public sector. BPGs may be produced in conjunction with a performance audit or, alternatively, a BPG might be prepared as a result of a perceived need to provide guidance material in a particular area of public administration. However, from an audit viewpoint, the BPGs provide a credible and useful basis for audit criteria used as a reporting framework for subsequent audits. There is also the advantage for agencies of ‘no surprises’, in terms of what is being examined in those audits.

BPGs are very important outputs in the achievement of the ANAO’s outcome of ‘Improvement in Public Administration’. BPGs add value by bringing together lessons learnt across the public sector and have

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<sup>11</sup> ANAO 2004, *Annual Performance Reporting, Better Practice Guide*, Canberra, April.

been well received by program managers looking to learn from the experiences of others and are becoming increasingly important source documents for managers operating in an environment of devolved authority and responsibility. They are especially valuable to small agencies that find it difficult to develop and maintain in-house expertise on the wide range of public sector management issues and which have tended to rely heavily on detailed legislative and policy frameworks and guidance from central agencies in the past.

*(f) Information Support Services*

The Office also provides information services, including assistance to Parliament, national and international representation and client seminars. Assistance to Parliament includes the provision of submissions to Parliamentary committee inquiries and reviews and briefings on audit reports tabled in Parliament.

ANAO staff organise and participate in conferences, seminars and workshops to share expertise and disseminate better practice and lessons learnt from auditing activity, as I noted earlier. We have made hundreds of presentations over the last decade aimed at drawing attention to ANAO reports and recommendations, as well as identification of better practice, to achieve maximum value from those reports. A growing element of this role is communicating the ANAO's activities and outcomes through representational activities with a wide range of stakeholders and contracts, including Parliamentary committees, boards of Government authorities and companies, as well as professional organisations. The ANAO also makes extensive use of the Internet to distribute information to stakeholders and the general public. A good example is the recent comprehensive guide we prepared to assist agencies in their adoption of the International Financial Reporting Standards prepared by the International Accounting Standards Board.

*(g) Information Technology (IT) Auditing*

For many years, the ANAO has invested in the use of technology to provide more efficient and effective audit products to the Parliament. The ANAO's IT Audit capability exists to provide an integrated audit support service to all business units within the ANAO responsible for the management and delivery of both performance and assurance audit activities. The ANAO's long-standing practice of integrating information technology specialists into its audit teams provides independent IT assurance through the identification and assessment of risks associated with the adoption and use of new and emerging technologies within Australian Government agencies.

However, recognising the rapidly increasing importance and use of IT and communications, we have endeavoured to build up a cell of such expertise to work closely with both assurance and performance auditors in developing suitable audit approaches and in the use of particular IT based techniques, methodology and models. The increasing use of the Internet and organisational Intranets, not just for information processing and dissemination but also for service delivery, coupled with issues such as knowledge and records management, makes this a major strategic priority for the Office.

### Building on our national and international relationships

The ANAO continues to work closely with colleagues in Australia and overseas to draw on the collective international experiences of audit offices to benchmark our performance and to compare the performance of Australian agencies against that of overseas bodies. The ANAO also works with the United Kingdom (UK) on benchmarking activities and has a peer review program in place with the New Zealand audit offices. The ANAO exchanges staff with other national audit bodies to build expertise and knowledge of better auditing practices globally. In this regard, we have recently seconded a senior ANAO officer to the UK National Audit Office.

The ANAO is a member of a number of international institutions including INTOSAI (created to promote the exchange of ideas and experiences between supreme audit institutions around the world) and the Asian Organisation of Supreme Audit Institutions (ASOSAI—a regional grouping of INTOSAI) representing 32 Asian audit institutions which serves as a centre for regional audit development. We have participated in the preparation of a number of research reports on relevant audit topics as well as in a range of training programs for both assurance and performance auditors.

At a national level, the ANAO participates in the Australasian Council of Auditors-General (ACAG), attending regular meetings and facilitating an exchange of information between Auditors-General in the States and Territories of Australia and Fiji, New Zealand, Hong Kong (in the past) and Papua New Guinea. The Council promotes and fosters public sector auditing in the Australasian region through an exchange of experiences, ideas, training and development and mutual cooperation.

The ANAO also has close links with the accounting profession, including significant firms in the accounting and auditing business. I am currently the Australian Director on the Board of the International Federation of Accountants and a Member of CPA Australia's Financial Reporting and Governance Centre of Excellence. Senior staff of the ANAO also have close links and involvement with the major accounting bodies. More than half the staff have professional accounting qualifications, with the others having a diverse range of tertiary qualifications and associations with a range of professional organisations.

### Managing our business

Like all public sector agencies negotiating the challenges of the changing public sector environment, the ANAO has strengthened its own business practices to respond to these new demands and directions by giving specific attention to:

- a) **relationship management** aimed at demonstrating integrity and transparency, as well as contributing to well-targeted products and services that provide assurance and value for money; and
- b) adopting a **culture of continuous improvement** that demonstrates accountability to Parliament, in terms of legislative responsibilities, and for overall results to *all* stakeholders.

As the complexity of the subject matter of the ANAO's work increases, it is becoming more important for the Office to improve the way in which it presents its analysis and findings. There is also an increased

focus on the use of simple language to convey complex arguments. Consequently, we do conduct editorial reviews with professional assistance to both improve the presentation of our reports and make them more readable. To assist stakeholders to gain a quick overview of the key elements of our audits, all performance audit reports are accompanied by a brochure, which includes the summary, key findings and overall conclusion of the audit.

### Developing Our Audit Work Program (AWP)

The ANAO undertakes a comprehensive planning approach to ensure that our outputs are effectively integrated for maximum impact, and continue to meet the needs of the Parliament, the Government and public sector entities. The development of the AWP takes account of the APS environment and the business risks likely to impact on the APS during the period under review. Over recent years, a number of factors that have significantly affected the APS environment, these include: requirements for a more responsive, contestable public service; greater collaboration between agencies, stakeholders, and levels of Government; and an increased focus on sound governance, including risk management and performance assessments.

The ANAO's ability to identify key public sector themes and risks is enhanced by our organisational structure, which is aligned to the Australian Government's portfolio structure, as well as by our consultation processes with the JCPAA and other Parliamentary Committees. This enables ANAO senior executives to develop a thorough understanding of the portfolio for which they are responsible. It also facilitates the development of effective working relationships with key agency personnel. This approach is supported by agencies—a key factor in the successful audit implementation is using auditors with previous agency auditing experience.

### Resourcing, maintaining and developing our audit capability

Significant effort has been put into ensuring that the ANAO has the relevant expertise required to undertake financial audits and performance audits in emerging areas—it is important that ANAO officers have the necessary specialist skills and experience to provide assurance in such areas. This means striking a balance between building and maintaining specialist skills in-house, and building effective alliances and partnerships with specialists in relevant industries, other agencies in the APS, other Audit Offices and academic institutions. Senior staff have had to devote more time and effort in these respects, particularly in personal mentoring and development, and more generally in dealing effectively with higher than acceptable staff turnover. Ironically, the latter is largely the result of our success of the various initiatives we have taken to recruit and develop our staff whose skills are in high demand elsewhere in the APS and in the private sector.

The ANAO has an integrated learning and development program which recognises the importance of highly 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. While the ANAO is committed to improving its skills base to meet

contemporary auditing needs, in some cases it may be necessary to 'buy in' expertise. This is particularly the case in highly technical areas. However, when entering into such arrangements generally, and with private sector accounting and auditing firms in particular, the ANAO is always alert to ensure that audit independence is not compromised. We are increasingly confronting conflict of interests situations in the use of staff and services provided by professional auditing and consulting firms. The latter have been in high demand in the APS, notably in Canberra.

### Measuring our performance—the ANAO's balanced scorecard

The ANAO has developed, and will continue to update, a scorecard for communicating and understanding how the Office is performing. The scorecard, which forms an integral part of the ANAO's Business Plan, is aligned with our four Key Result Areas and provides information to support a focus on current and future audit efforts. Performance measures relate to three Output groups (performance audit services, information support services and assurance audit services) which link back to the ANAO's two Outcomes—improvement in public administration and assurance.

The scorecard includes both quantitative and qualitative measures and is designed to allow stakeholders to assess how cost-effectively the ANAO is delivering its products and to what extent the ANAO is achieving its agreed outcomes—thus providing the Parliament with assurance that the ANAO has the appropriate processes in place to produce reliable, and useful, reports. The ANAO's performance against the scorecard is detailed in this annual report. As noted earlier, an important indication of our effectiveness is the extent to which our audit findings and recommendations are accepted and implemented by APS entities. We have been re-examining our performance measures in this particular respect and are considering a comprehensive review of the implementation of our audit recommendations.

### Quality assurance and peer reviews

To ensure that the ANAO's performance audits are completed in accordance with ANAO Auditing Standards (incorporating the Australian Auditing Standards) the ANAO conducts a quality assurance review of selected audits. The review of 2002–03 performance audit reports is currently being finalised. However, past QA reviews have demonstrated compliance with the standards and, given the strength of our internal quality assurance regime, I would expect the same result again. In a recent performance audit report, the ANAO's independent auditor commented that:

My review indicates that the ANAO's overriding objective through the conduct of a performance audit is to endeavour at all times to improve public administration and accountability.

and

My observation is that the ANAO does provide value for money...<sup>12</sup>

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<sup>12</sup> Coleman, Michael J, 2004, *Report of the Independent Auditor of the Australian National Audit Office on the Results of a Performance Audit of Value for Money Provided by the ANAO*, June 24, pp.3,4.

The Office of Controller and Auditor-General of New Zealand (OAG) 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. Some suggestions for improvement were also made. These reviews are highly professional and are based on clearly articulated principles and standards, with the discipline that goes with such a framework. In 2004, the ANAO conducted a similar review of selected OAG reports. Peer reviews are an important means of exchanging better practice between audit offices, as I noted earlier.

### Reporting of broader corporate social responsibilities

The growing global trend towards recognising corporate social responsibility and sustainability signals a new approach to business and its method of reporting. Recently, CPA Australia's Audit and Assurance Centre of Excellence published a database on their web site of over 160 companies worldwide which publish Triple Bottom Line (TBL) reports accompanying their financial reports. The database provides information about these reports, including a listing of those providing TBL audit services. This commitment to TBL by CPA Australia shows the increasing importance of this type of reporting as a means of Chief Executives discharging their accountability.

There are many definitions and explanations of what TBL is and what it stands for. Mark Sullivan, the Secretary of the Department of Family and Community Services (FaCS), defines TBL and its uses as follows<sup>13</sup>:

TBL focuses on reporting and making decisions explicitly taking into consideration information on economic, environmental and social performance. As such TBL can be seen as both an internal management tool as well as an external reporting framework.

While TBL reporting is not new to the private sector, it is a new concept to the public sector. In 2003, FaCS prepared the first-ever verified TBL in the Australian Government sector. This year, FaCS will again prepare a TBL for verification by the ANAO. The Department of Environment and Heritage will prepare its first TBL report for 2003–2004 which the ANAO has also been asked to audit.

During a speech at the launch of the FaCS TBL report, I spoke of the ANAO's initial reservations about providing a verification statement for FaCS' first attempt at producing a TBL report. My reservations stemmed from concerns that a large number of qualifications may have detracted from the importance that such progressive reporting in the public sector demonstrates.<sup>14</sup>

Even now there is still no approved standards in existence for preparing or verifying TBL reports, although in 2003, the Minister for the Environment and Heritage released a guide prepared by Environment Australia on TBL reporting on company performance.<sup>15</sup> In verifying the FaCS TBL report, the ANAO used Standards Australia's draft standard *General Guidelines on the Verification, Validation and Assurance of Environmental and Sustainability Reports (DR 03422)*. A recent study in the United

<sup>13</sup> M Sullivan, 2002, 'Beyond Financial Disclosure', *Australian CPA*, Volume 72, issue 11, p.44.

<sup>14</sup> P Barrett, 2003, 'Address at the Launch of the Department of Family and Community Services' *Triple Bottom Line Report*, Canberra, 30 October, p.1.

<sup>15</sup> Environment Australia, 2003, *Triple Bottom Line Reporting in Australia: A Guide to Reporting Against Environmental Indicators*, Canberra, June.

Kingdom indicated that there is a clear need for integrating corporate social responsibility into the ISO management systems.<sup>16</sup> Such an approach would lead to a more standardised global approach to this type of reporting covering key elements such as: compliance with all relevant rules and regulations pertaining to the environmental; consumer, fair labour standards, human rights, and health and safety protection; corporate responsibility and corporate ethics policies; relations with communities; and measurement and regular reporting to the full range of stakeholders and the general public.<sup>17</sup>

While there are a number of benefits of TBL reporting, consideration should also be made of the costs of such reporting upon the organisation. However, in the absence of any academic research on the cost of TBL reporting, the cost of not reporting may be higher 'in terms of reputational risk, negative image of brands and so on'.<sup>18</sup> While such reporting may not be within the capacities of a range of organisations, the ANAO will continue to support the initiatives taken by Australian Government agencies in this respect.

### Looking forward

The ANAO's risk-based methodology continues to serve the Office well. It is a structured approach for identifying risks and addressing them in the context of an integrated audit approach between the number of audit products the ANAO provides to the Parliament. The risks identified as part of this process may require audit teams to ask the 'hard questions' of our clients. However, this again reinforces the importance of the Office's unique mandated independence allowing the ANAO to complete its work without 'fear or favour'.

As the complexity of the risks identified by our audit teams increases, it also reflects the complexities of the environment within which our client agencies are operating. Questions of accountability for public money managed by agencies, and related corporate governance and financial management issues, for example, will continue to provide complex issues for ANAO staff and their client agencies to work through for some time to come. These issues will need to be addressed in a framework where the private sector is taking a greater role in both providing goods and services to the public sector and actually delivering public services as a partner or a competitor.

The public's expectations of the Government to carry out its work in a proper manner are increasing. To this end, innovations such as TBL reporting and budgeting, or extending the ANAO's mandate to include auditing the Final Budget Outcome, may go some way to meeting these expectations. More immediately, the impact of issues such as adoption of Australia's equivalents to International Financial Reporting Standards (IFRS) and the potential for convergence of Australian accounting principles and the economic principles of Government Finance Statistics (GFS) will bring their own impacts for consideration and resolution. Even the Australian Government's leading role in the timely provision of the Final Budget Outcome to the Parliament, puts increasing demands upon the resources and the approach of the ANAO for financial statement auditing. The ANAO, working with its client agencies,

<sup>16</sup> P Castka et al, 2004, 'Integrating corporate social responsibility (CSR) into ISO management systems—in search of a feasible CSR management system framework', *TQM Magazine*, 19 May, p.216.

<sup>17</sup> *ibid.*

<sup>18</sup> *ibid.*

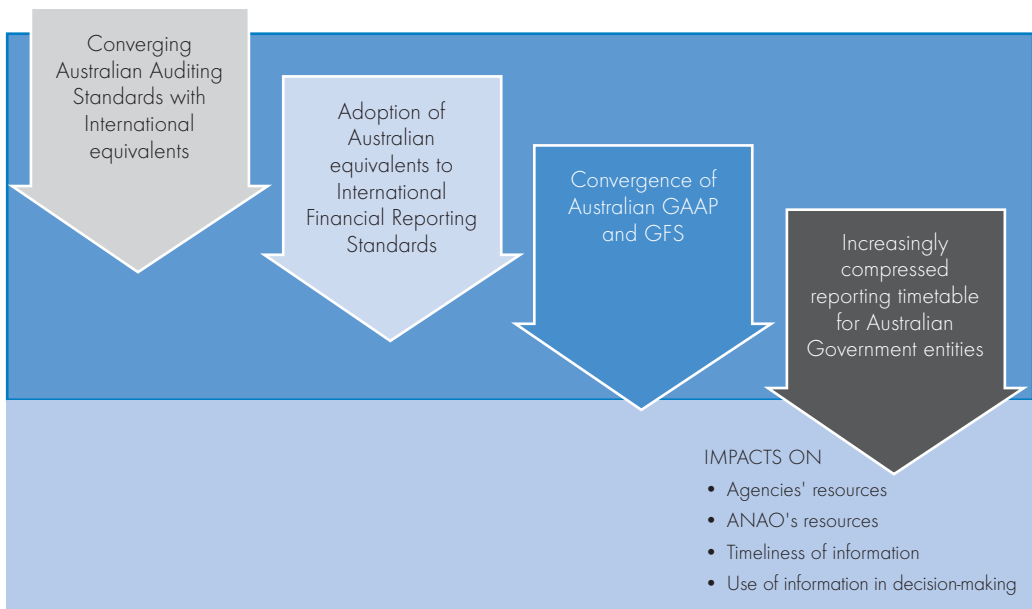


is doing its part to meet increasingly tighter reporting deadlines, and, importantly, doing so without diminishing the value of the assurance provided to the Parliament.

While Australia still retains a largely self-regulated approach to corporate governance, the *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004*—CLERP 9—does represent a step towards greater prescription for the Australian accounting and auditing professions. Australian Government companies, which are bound by the *Corporations Act 2001*, will need to apply the legislative changes arising from CLERP 9. It would be better practice for other Australian Government agencies to also apply the principles of this legislation. From late 2003, for example, the ANAO began adopting the then proposed changes relating to rotation of auditors and provision of non-audit services, and has reviewed CLERP 9 to identify other policy implications that might reflect desirable practice as a good corporate citizen.

The increased awareness of maintaining the perception, as well as the practice, of independence and the proposed changes to CLERP 9, are already impacting upon the ANAO when it contracts out financial statement audit work to accounting firms. As well, this increased compliance regime is also being felt in Australia through the strict provisions of the United States *Sarbanes-Oxley Act*—relating to auditor independence and testing of controls in a company (Section 404)—in respect of the private sector (e.g. The National Australia Bank) and in my area of responsibility (e.g. Telstra). It is quite possible that demands for greater public assurance and the perceived need for the accounting/auditing profession to restore public confidence will see extension, at least for some elements, of this regime more generally. However, any such extension is also likely to increase audit and compliance costs as is reflected in the following Figure.

**Figure 1: The Impact on the APS**



Nevertheless, the Office is well placed to meet these challenges, including those that flow from an ever-changing and more complex APS environment, due mainly to our robust governance and planning arrangements, our proven integrated audit approach, our client focus, and the quality of my senior leadership group supported by a very professional audit and support team. I wish to acknowledge their efforts in meeting these challenges and for the ongoing support and loyalty they have shown for the ANAO and its public interest role. As in the past, these characteristics will supply the building blocks for the future with whatever challenges it brings.

I would also like to acknowledge specifically the ongoing efforts of the team who has the prime responsibility for preparing the ANAO's Annual Report as an important accountability document. The production is done with considerable professionalism, patience and good humour under the close oversight of my Deputy, Oliver Winder, and my senior executive group. There is real 'ownership' of the outcome and recognition of our particular commitment to the Parliament and the Government for our performance and results.

A handwritten signature in black ink, appearing to read 'P.J. Barrett', with a stylized flourish at the end.

P.J. Barrett  
Auditor-General  
September 2004

# Report overview

## The Auditor-General's role and responsibilities

The Auditor-General, through the ANAO, provides an independent review of the performance and accountability of 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, the Executive and audit clients and to add value to public sector performance and accountability.

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

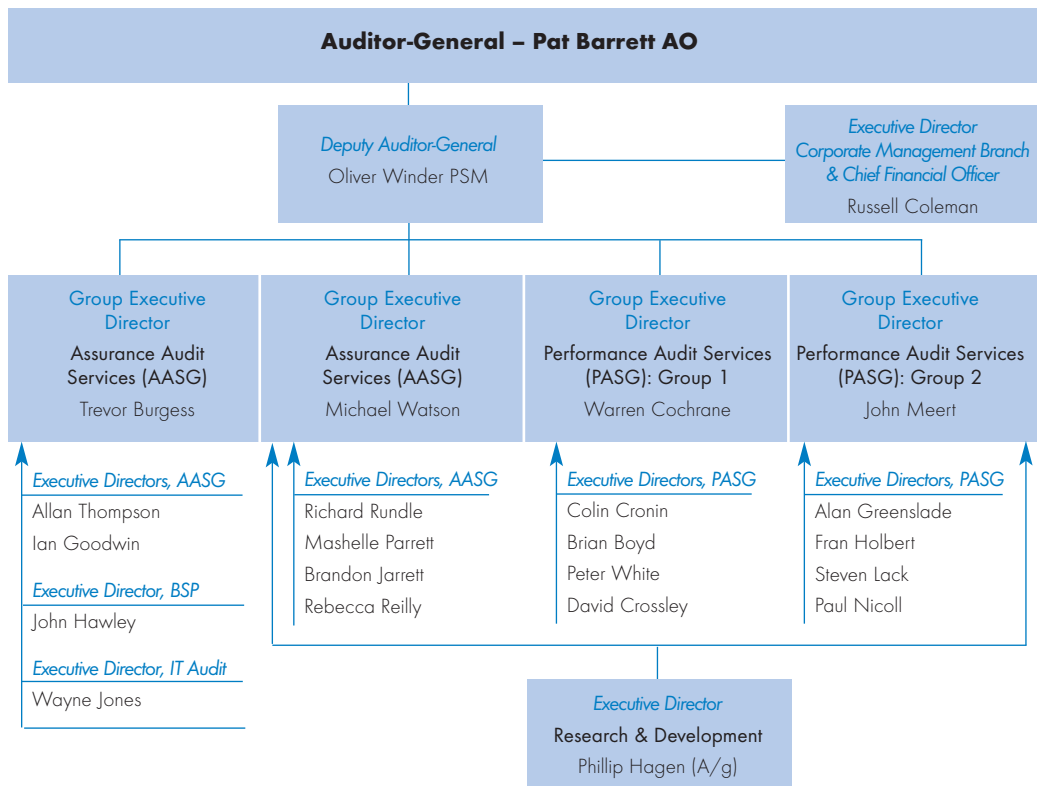
The Auditor-General's mandate extends to all Australian Government agencies, authorities, companies and subsidiaries with the exception of performance audits of Government Business Enterprises (GBEs) and of persons employed or engaged under the *Members of Parliament Act 1994*. Performance audits of wholly owned GBEs may only be undertaken at the request of the responsible Minister, the Finance Minister or the Joint Committee of Public Accounts and Audit (JCPAA).

## Organisation

The ANAO is organised internally into two Service 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, the Executive, boards, chief executive officers and the public. AASG 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 2004, is shown in Figure 1.

Figure 2: Organisation and senior management structure as at 30 June 2004



## 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.

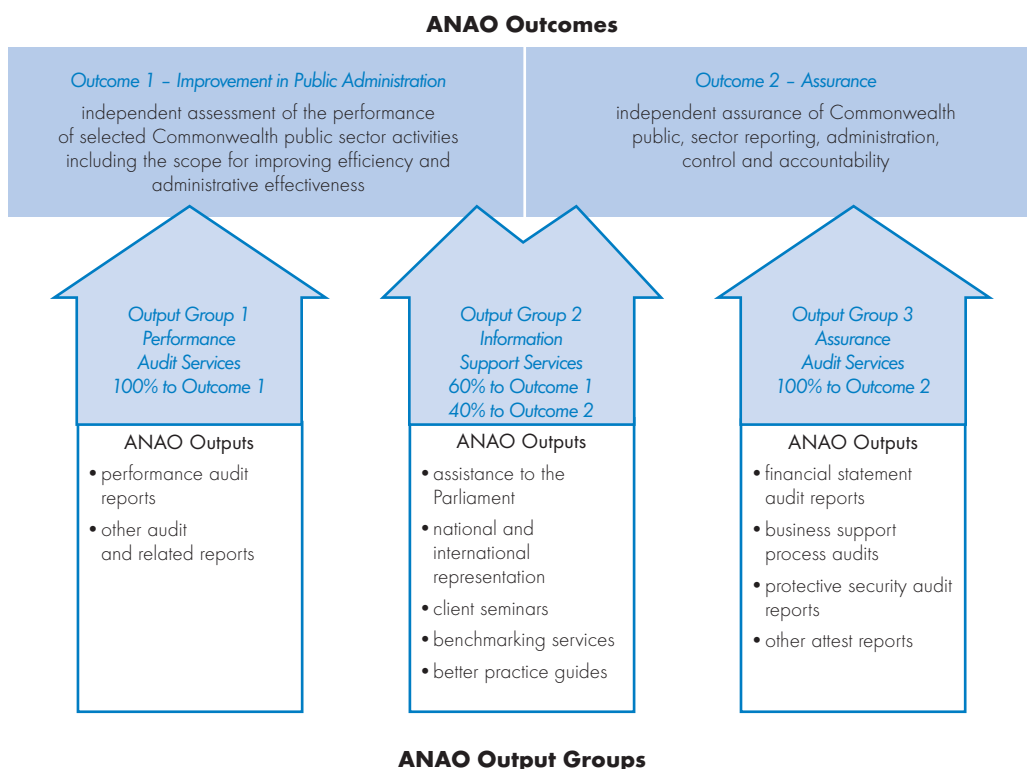


The ANAO's homepage.

## The ANAO's Outcome–Output framework

The following explanation relates the Outcome-Output framework, as set out in the ANAO 2003–04 Portfolio Budget Statement (PBS), to the ANAO's actual achievement for the year. Figure 2 shows the ANAO's current outputs and their relationships through output groups to the ANAO's outcomes.

Figure 3: The ANAO's Outcome–Output framework



The three output groups contribute in varying degrees 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 2003–04, 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 2003–04 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 remained strong during 2003–04 as a result of continued prudent management. At the same time, the ANAO has met its primary business targets, including the production of 64 audit and audit related products and meeting its financial statement audit responsibilities.

The ANAO continues to have sufficient assets to meet ongoing liabilities and commitments, including escalations in lease obligations, employee entitlements and asset replacement. More detailed information on the ANAO's financial position is outlined in the 2003–04 Financial Results Summary at Appendix 2.

The ANAO's Independent Auditor found that the ANAO's financial systems and controls were operating effectively and year-end financial statement preparation procedures were well organised and undertaken in an efficient and timely manner. Internal Audit coverage during the year also found that the ANAO's control environment was sound.

The change in the financial results for 2003–04 compared with those for 2002–03 is primarily due to:

- (a) the previous year's results being impacted by the recognition of rental income of \$2.558m from a sub-lease;
- (b) increases in employee expenses flowing from the current certified agreement and increased staffing numbers; and
- (c) increases in information technology (IT) and administrative expenses and lease costs.

## Resources for Outcomes

Table 1: Financial resources summary

## Summary—ANAO by outcome

	<b>\$'000 Actual 2003–2004</b>
Outcome 1	24 597
Outcome 2	31 621
<b>Subtotal Outcomes</b>	<b>56 218</b>
<b>Revenue from other sources</b>	<b>(976)</b>
<b>TOTAL PRICE FOR OUTCOMES</b>	<b>55 242</b>
Revenue from Government (Appropriation) for Departmental Outputs	(55 168)
Operating Deficit	(74)

	<b>\$'000 Actual 2003–2004</b>
<b>By Output Group</b>	
Output Group 1 (Performance Audit Services)	23 711
Output Group 2 (Information Support Services)	1 511
Output Group 3 (Assurance Audit Services)	30 996
<b>Subtotal Outcomes</b>	<b>56 218</b>
<b>Revenue from other sources</b>	<b>(976)</b>
<b>TOTAL PRICE FOR OUTCOMES</b>	<b>55 242</b>
<b>Revenue from Government (Appropriation) for Departmental Outputs</b>	<b>(55 168)</b>
<b>Operating Deficit</b>	<b>(74)</b>
<b>Average Staffing Level</b>	<b>297</b>

Table 2: Resources for Outcome 1

<b>Outcome 1—Improvement in Public Administration</b>	<b>\$'000 Budget 2003–04</b>	<b>\$'000 Actual 2003–04</b>	<b>\$'000 Variance</b>
<b>Price of Departmental Outputs</b>			
<b>Output Group 1 (Performance Audit Services)</b>			
Output 1.1 Performance Audit Reports	16 538	21 907	(5 369)
Output 1.2 Other Audit and Related Reports	1 293	1 804	(511)
Subtotal Output Group 1	17 831	23 711	(5 880)
<b>Output Group 2 (Information Support Services)</b>			
Output 2.1 Assistance to the Parliament	212	282	(70)
Output 2.2 National and International Representation	114	312	(198)
Output 2.3 Client Seminars	82	34	48
Output 2.4 Benchmarking Services	351	2	349
Output 2.5 Better Practice Guides	565	256	309
Subtotal Output Group 2	1 324	886 <sup>19</sup>	438
<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>	<b>19 155</b>	<b>24 597</b>	<b>(5 442)</b>
<b>Revenue from other sources</b>	<b>(370)</b>	<b>(138)</b>	<b>232</b>
<b>TOTAL PRICE FOR OUTCOME 1</b>	<b>19 525</b>	<b>24 735</b>	<b>(5 210)</b>
<b>Revenue from Government (Appropriation) for Outputs</b>	<b>19 155</b>	<b>21 856</b>	<b>(2 701)</b>

<sup>19</sup> In the past Information Support Services costs were distributed evenly between Outcome 1 and Outcome 2. With better cost attribution methods we are now able to allocate costs more accurately. For this year, the actual attribution is 60 per cent to Outcome 1 and 40 per cent to Outcome 2.



Table 3: Resources for Outcome 2

<b>Outcome 2—Assurance</b>	<b>\$'000 Budget 2003–04</b>	<b>\$'000 Actual 2003–04</b>	<b>\$'000 Variance</b>
<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	212	198	14
Output 2.2 National and International Representation	115	219	(104)
Output 2.3 Client Seminars	82	24	58
Output 2.4 Benchmarking Services	351	2	349
Output 2.5 Better Practice Guides	565	182	383
Subtotal Output Group 2	1 325	625 <sup>20</sup>	700
<b>Output Group 3 (Assurance Audit Services)</b>			
Output 3.1 Financial Statement Audit Reports	30 161	27 577	2 584
Output 3.2 Business Support Process Audit Reports	3 468	1 899	1 569
Output 3.3 Protective Security Reports	338	292	46
Output 3.4 Other Attest Reports	721	1 228	(507)
Subtotal Output Group 3	34 688	30 996	3 692
<b>Subtotal Output Groups</b>	<b>36 013</b>	<b>31 621</b>	<b>4 392</b>
<b>Revenue from other sources</b>	<b>(659)</b>	<b>(837)</b>	<b>178</b>
<b>TOTAL PRICE FOR OUTCOME 2</b>	<b>36 672</b>	<b>32 458</b>	<b>4 214</b>
<b>Revenue from Government (Appropriation) for Outputs</b>	<b>36 013</b>	<b>33 312</b>	<b>2 701</b>

<sup>20</sup> In the past Information Support Services costs were distributed evenly between Outcome 1 and Outcome 2. With better cost attribution methods we are now able to allocate costs more accurately. For this year the actual attribution is 60 per cent to Outcome 1 and 40 per cent to Outcome 2.

## 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 2003–04, consideration was given to the following audit themes:

- governance, following the Australian and international experiences of corporate failures;
- programs to meet the needs of communities in rural Australia following the drought;
- national defence preparedness and security in the context of the heightened threat environment;
- the health and wellbeing of Australians through effective health, education and employment programs;
- environmental issues, including community concerns and expectations about the management of the environment; and
- economic management, 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 Commonwealth 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.)

Our progress in reporting on those themes is highlighted below. The main issues raised in audit reports are summarised in Appendix 4.

### Governance, following the Australian and international experiences of corporate failures

The ANAO published, in July 2003, its Better Practice Guide *Public Sector Governance*, which updates two previous ANAO Better Practice Guides published in 1997 and 1999. The guide aims to help public sector organisations achieve better public sector governance by discussing the overarching public sector governance framework and proposing practices to address common governance problems.

Other related work included an audit which found that the Special Employee Entitlements Scheme for Ansett Group Employees has been effective at timely delivery of entitlements to former Ansett employees. Management could have been more efficient in relation to tax consequences of the Scheme and repayment of the Scheme loan. Governance arrangements for the HIH Claims Support Scheme were found to have achieved the Government's objective of assisting HIH policyholders experiencing financial hardship. Experience with the Scheme provided lessons that would benefit agencies responsible for implementing any future Australian Government financial assistance schemes.

An audit of supervision of superannuation funds by the Australian Prudential Regulation Authority (APRA) found that some two-thirds of funds were not allocated a risk rating and that there was no evidence of APRA risk-rating large public-offer superannuation funds managed by approved trustees.

An audit of governance frameworks and risk management in Australian Government organisations found that risk management and insurance practices generally needed to be improved. Insurance frameworks and practices had the greatest potential to be improved. A cross-agency audit of record-keeping in large Australian Government organisations concluded that agencies had taken active steps to improve record-keeping practices, which were at different stages of development, and that there was significant risk of non-capture and unauthorised disposal of records.

### Programs to meet the needs of communities in rural Australia following the drought

An audit of the Agriculture—Advancing Australia Package found that the Package has been successful in meeting most service delivery standards but that strategic and performance management and compliance require strengthening for more effective outcomes. Management of Networking the Nation—the Regional Telecommunications Infrastructure Fund demonstrated elements of better administrative practice but there was scope to improve administration of Networking the Nation and, more particularly, the Rural Transaction Centres program.

An audit of the Dairy Industry Adjustment Package highlighted the value of focusing on service delivery challenges in large initiatives, to complement the necessary attention to policy development and stakeholder relationship management.

### Defence preparedness and security in the context of the heightened threat environment

An audit of Australian Defence Force (ADF) preparedness management systems found that they provide a sound framework for preparedness planning down to the unit level. Linkages between Government strategic guidance, Defence operational planning and Service outputs could be strengthened by system design improvements, which should result in better outcomes.

In Defence's 'Wedgetail' Airborne Early Warning and Control project, the requirements phase and links to the acquisition phase have been managed effectively and organisational designs, strategies and management processes remain appropriate for this advanced technology project. Defence's Project Bushranger, undertaken to acquire infantry mobility vehicles, has experienced cost, delay and design problems but much effort had been made to fix them.

Other audits examined Defence's management of its contract for recruiting services and Air Force's development of its combat aircrew. The latter audit also reviewed the deployment of Air Force fighter aircraft to the Middle East in 2003. An audit of the Army Individual Readiness Notice found progress in implementing earlier audit recommendations but that data inaccuracies understated the level of individual readiness.

The CrimTrac agency, which helps combat crime with a national crime information system, has made progress in achieving key deliverables, including a replacement fingerprint system, a DNA<sup>21</sup> database, a child sex offender system and rapid access to nation-wide policing information.

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<sup>21</sup> DNA: deoxyribonucleic acid.

### Health and wellbeing of Australians through effective health, education and employment programs

An audit of selected agencies' approaches to monitoring and evaluating internet-delivered government programs and services concluded that, in relation to websites and portals, in most instances objectives were unclear and there had been little user research. The situation was more positive at the individual internet-delivered service or program level, where information is routinely used to improve service delivery. Another audit found that the Department of Family and Community Services has developed basic portals, in response to a Government directive, but these were in a static phase and without funding for development.

The Department of Health and Ageing's management of the Multipurpose Services Program and the Regional Health Services Program was generally effective, but departmental staff did not have confidence in data on the central rural health database and did not use program information effectively. An audit examined the Department's review of the Plasma Fractionation Agreement with CSL Limited that sought to provide the responsible Minister with advice on whether to exercise the extension option in the Agreement. The audit found that information available to the departmental steering committee was insufficient for the committee to form an objective view on the financial merit of the advice that was provided to the Minister.

Centrelink demonstrated good performance in respect of its business continuity management (BCM) and emergency management. It has comprehensive and detailed BCM that generally provides appropriate preventive controls to minimise the likelihood of outages to many of its critical business processes.

The Department of Veterans' Affairs' administration of the Repatriation health card system and arrangements for veterans to access primary health care services is generally sound. However, controls should be strengthened and the accuracy and integrity of electronic data holdings improved. IT audit work in the Department underlined the importance of appropriate performance indicators to assess the extent to which agency strategies are being achieved.

### Environmental issues, including community concerns and expectations about the management of the environment

An audit of service delivery by major programs in the Australian Greenhouse Office concluded that, on the basis of the seven programs examined, there were substantial challenges in the administration of greenhouse programs that focused on abatement or renewable energy. Administrative processes could have been better focused on comprehensive risk assessment at the planning stage, and on designing programs with more measurable objectives and targets. The absence of these factors has made it difficult to measure results against program objectives and has exposed some programs to risks that could have been better identified and treated in the early stages of the programs.

A follow-up audit found that the Great Barrier Reef Marine Park Authority had implemented six recommendations, and made good progress in implementing the seventh, in an earlier audit report. They related to improving and reporting information on program effectiveness. The ANAO made a further recommendation: that the Authority include an estimate of total Australian Government and State Government expenditure on managing the Great Barrier Reef in its reporting to the Parliament.

Economic management, 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 Commonwealth 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.)

Several cross-agency audit reports tabled during the year proved the value of such audits in prompting improvement in agencies' management and accountability. One demonstrated significant scope for agencies to improve financial management and reporting of their Special Accounts. Agencies also need to give greater attention to legislative requirements and appropriation management practices for Special Accounts.

An audit of discretionary compensation and debt relief mechanisms available to Australian Government agencies resulted in a change to reporting requirements such that all compensatory mechanisms now need to be separately disclosed in the annual financial statements. Another audit report, on financial delegations for expenditure of public monies, concluded that agencies generally had adequate controls for applying such delegations but that they were not always managed in accordance with relevant legislation.

An audit of administration of Freedom of Information (FOI) requests, the first ANAO audit on this topic, found that staff with specific responsibility for FOI processing had a sound understanding of the requirements of the relevant Act. An audit of performance reporting in selected agencies' 2001–02 annual reports found that outcomes, agency outputs and administered item outputs were well specified in most instances, but that annual reporting frameworks need to be improved.

The Department of Transport and Regional Services took some time to develop procedures to administer important aspects of federal airport lessees' contractual obligations. It has improved its contract management approach and needs to attend to recovering costs of lease administration from lessees and to undertaking regular annual lease reviews for all airports.

## Report on control structures as part of the audit of Financial Statements

This report updates the ANAO's assessment of audit findings relating to major entity internal control structures, including governance arrangements, information systems and control procedures through to March 2004.

This year's report also considered a number of strategic reforms which will potentially have a significant influence over the continuing evolution of better practice financial management practices in the public sector. Issues affecting the Australian Government Public Sector (AGPS) include:

- robust corporate governance;
- joined-up Government arrangements;
- asset and liability management issues;

- departmental and administered transactions;
- adoption of Australian equivalents to International Financial Reporting Standards and harmonisation with International Auditing Standards;
- convergence of Australian Generally Accepted Accounting Principles and Government Finance Statistics; and
- increasingly compressed reporting timetables for Australian Government entities as a result of the Department of Finance and Administration's Budget Estimates Framework Review.

This report also provides a summary of the financial, accounting and Information Technology (IT) control processes adopted by entities. It includes an update on the broader corporate governance issues that impact on financial management and reporting.

### 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.

This year's report indicates that the AGPS is still in a 'consolidation phase' and there are a number of aspects which are required to enhance entities' stewardship. Progress against key financial performance elements indicates that entities need to improve their understanding of performance, not only from a financial perspective but also from a whole of organisation standpoint.

Given the quantum of expenditure incurred with programs and liability management issues, critical financial data analysis and familiarisation will be an essential success factor for AGPS senior management, in the discharge of the stewardship role.

### Information technology systems

In general, improvements in IT operating practices have been made over the year. That said, however, a significant number of entities also need to improve their business continuity management practices, in order to ensure the continued availability of service delivery and business information. The ANAO will continue to focus on information security and business continuity management. Over the next year, the ANAO will be undertaking further data analysis of entities' FMIS systems covering general ledger, purchase to pay cycle and asset accounting, as well as reviewing system configuration.

The Australian Government has a significant and growing investment in information and communication technology (ICT). The continued focus on ICT as a key enabler has contributed to information technology (IT) and supporting systems becoming critical components of important business processes within government entities. Over the next couple of years, there will be a number of emerging issues and challenges facing the ICT environment that will have an impact on IT governance and the maturity of IT processes. Of particular note, is the increasing demand to provide more integrated and interactive information and services in order to improve the performance and management of government services.

New technologies have also introduced increased complexity, speed, interconnectivity and dependence on information systems within the IT environment. Going forward, most entities should investigate enhancing their practices with a view to improving information security management. While mindful of Government requirements for security, a risk versus cost of control approach should be adopted as part of this process.

### Control procedures

An entity's system of internal control includes the procedures established to provide reasonable assurance that operational and administrative objectives are achieved. The ANAO examines internal control procedures within significant operational and accounting processes and financial systems. In most entities, the key areas covered include: appropriations and other revenues; payment of expenses; employment and related costs; cash management; and asset management.

Overall, the results of the 2003–04 audits were consistent with those of the previous year. Some entities continued to experience difficulty with a number of control processes specific to their operations, including: segregation of duties and inappropriate delegations; procedures to ensure the completeness and accuracy of the recording of transactions; and reconciliation of asset registers.





# Reporting on performance

## 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 2003–04 is structured in accordance with the ANAO's Outcome–Output framework, as outlined in the 'Report overview' section.

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

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 2003–04

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 products and services	Business targets for number and mix of our products are met. <b>Performance audit products</b> - performance audit reports <b>Information support products</b> - better practice guides - benchmarking studies - activity reports - financial statement client seminar series <b>Assurance audit products</b> - financial statement audit opinions - business support process audit reports - protective security audit reports - financial statement related reports	100%  45  7 1 2 2  260 8 1 2	45  5 0 <sup>5</sup> 2 2  256 <sup>6</sup> 9 1 2
The JCPAA's satisfaction that the overall quality, timeliness and coverage of our products and services is at an acceptable level.	High level of satisfaction	JCPAA survey returns were overall very satisfied with ANAO's work. <sup>2</sup>	Results of Quality Assurance Reviews indicate audits meet ANAO Auditing Standards.	100% of audits reviewed.	100% of audits reviewed. The main areas identified for improvement were documentation of audit risk, systems documentation and sampling techniques.
Public sector entities acknowledge the value added by ANAO products and services.	90% value role of ANAO	88% AASG <sup>3</sup> 97% PASG <sup>4</sup>	Services and products meet cost and timeliness standards.	80% for all product types.	100% All time and cost variations were approved.

## ANAO scorecard 2003–04

KRA 3 Highly Performing People				KRA 4 Good Business Management		
Staff satisfaction is at an acceptable level.	> 70%	74% <sup>7</sup>		The performance of support services met agreed targets.	100%	CMB <sup>10</sup> and R&D <sup>11</sup> Branch targets were met to a high level of satisfaction.
Staff turnover is at an agreed level.	<18% turnover <sup>8</sup>	19.4%		Full costs are recovered either notionally or actually (Performance Audit Services Group).	100%	97% <sup>12</sup>
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.	80% Noting that some 10% neither agree nor disagree. <sup>4,9</sup>		Full costs are allocated to audit products and services (Assurance Audit Services Group).	100%	100% <sup>13</sup>
Professional development program result in an improvement in the level of performance of staff.	Staff and supervisors acknowledge an improvement in the level of on-the-job performance.	77% <sup>7</sup>		Implementation of Business Plan initiatives within agreed timeframes and standards.	100%	Thirteen of the fifteen initiatives were fully implemented. One awaits progress outside our control and the other is being progressed.
Staff acknowledge ANAO Values and Behaviours are exhibited in the workplace.	85%	90% <sup>7</sup>				

### Notes:

1. Parliamentary Survey conducted biennially. Figure from 2002-03 survey.
2. 2004 JCPAA survey.
3. 2002-03 AASG Client Survey (no survey conducted in 2003-04).
4. 2002-03 PASG Client Survey completed in December 2003.
5. Benchmarking reports were not produced this year, see chapter on Output Group 2 - Benchmarking services.
6. Subject to Government determinations.
7. 2003-04 ANAO Staff Survey.
8. This is an ANAO wide target, which measures the number of staff leaving as a percentage of total ANAO staff.
9. Ratings scale 1 to 5.
10. CMB Survey June 2003.
11. Formal and informal feedback on service provided.
12. See chapter on Output Group 1 - Cost of Performance Audit Services.
13. See chapter on Output Group 3 - Cost of Assurance Audit Services.

## Output Group 1

### Performance Audit Services

The outputs that comprise Output Group 1 in 2003–04 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.

#### 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 Government Business Enterprise (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. BPGs 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 effective performance audit outcomes. In selecting audit topics for 2003–04, consideration was given to the following issues:

- 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
- economic management, 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 Commonwealth 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.)

The ANAO's Audit Work Program is developed in close consultation with the JCPAA and agencies. The JCPAA also seeks and coordinates comments from 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 Act, the Auditor-General provides a copy of the proposed report to the audited agency. If the recipient of the proposed report gives written comments to the Auditor-General within 28 days of receiving the report the Auditor-General must consider those comments before preparing a final report.

In its Report 386 (*Inquiry into the Auditor-General Act 1997*, tabled 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. Amending legislation will be introduced into the Parliament in conjunction with other amendments to the Act, but the Auditor-General decided that he would give effect to this change prior to a legislative requirement to do so. The Auditor-General decided that, for proposed reports issued from 1 July 2003, responses to proposed reports would be included in full in final reports, and advised agency heads accordingly.

The inclusion of agency comments in full in 2003–04 audit reports posed some challenges for performance audit teams. One particular challenge was 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. The ANAO will continue to work with agencies to minimise the risk of protracted delays in order to ensure that audit reports to the Parliament are timely.

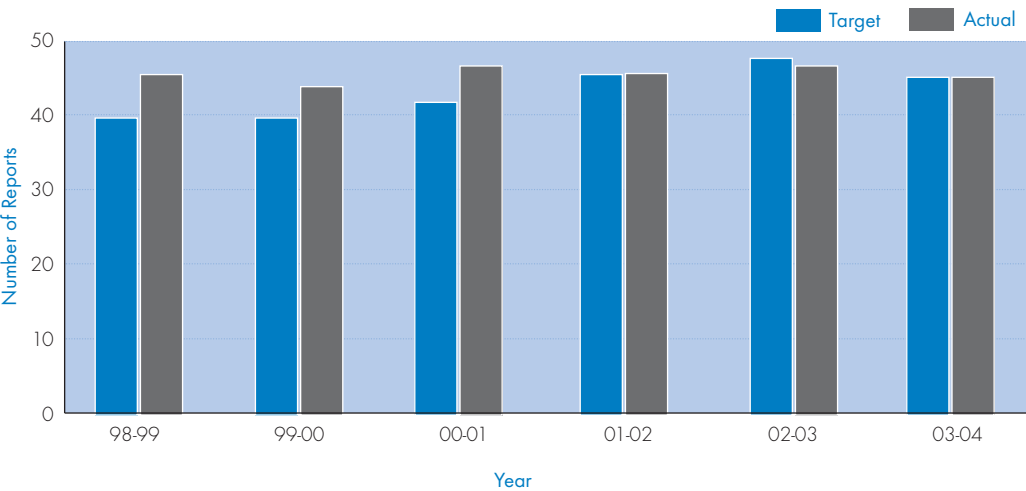
Performance

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 45 performance audit reports were produced against a target of 45. For 2002–03 the comparable figures were 47 and 48. Figure 4 shows the number of reports produced under this output over the past six years.

Figure 4: Number of performance audit reports



Performance audits may be conducted in all ministerial portfolios. The audit reports tabled during 2003–04 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 2003–04 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 *Audit Activity Report*.

### *Average timeframes and costs*

The average time taken to complete a performance audit report was 11 months, with a range from 6.2 to 16.8 months. The average cost was \$335 315 with a range from \$96 576 to \$560 000.

### *Cost of Performance Audit Services*

The performance audit reports output (Output 1.1) consumed \$21.907 million in resources in 2003–04 (\$18.097 million in 2002–03).

Overall, the Performance Audit Services Group charged 139 743 hours in 2003–04, generating \$18.514 million in notional staff costs recovery against actual staff costs of \$19.043 million.<sup>22</sup> (120 325 hours in 2002–03, generating \$16.210 million in notional staff costs recovery against actual staff costs of \$16.199 million.)

### **Other audit and related products**

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

### *Audit Work Program*

During the latter half of 2003–04, the *Audit Work Program 2004–05* 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 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 2004 and a list of performance audit topics from which audits for 2004–05 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.

<sup>22</sup> The notional cost (\$18.514m) is derived from the number of hours worked on the service multiplied by the charge out rate, compared with the actual amount spent (\$19.043m).

### *Audit Activity Reports—Summary of Outcomes*

Audit activity reports are produced to:

- inform the Parliament of the issues being addressed by the ANAO in its work to both encourage, and provide assurance of, 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.

In the past, Audit Activity Reports have been produced biannually, the first report covering the period July–December and the second report covering January–June. In 2004 a decision was taken to produce only one Audit Activity Report per year, to cover the period July–December. The information that was previously reported in the January–June Activity Report is available in the ANAO Annual Report, which is tabled in a timely manner to ensure that clients are able to easily access the information that was previously reported in the January–June Activity Report.

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 products (Output 1.2) in 2003–04 was \$1.804 million (\$1.763 million in 2002–03).

## **Contribution to Outcome 1—Improvement in public administration**

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

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

### **Contribution to the Parliament**

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





ANAO performance auditors David Rowlands (left), Celine Roach and Andrew Sibraa.

### 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 396 *Review of Auditor-General's Reports, 2002–2003, First, Second and Third Quarters* reviewed audit reports on aviation security management, grants management in the Aboriginal and Torres Strait Islander Commission, facilities management at HMAS Cerberus, client service in the Child Support Agency, the Australian Taxation Office's relationship with tax agents, Commonwealth guarantees, two employee entitlements support schemes, and Northern Territory Land Councils. The JCPAA report also covered several assurance audit reports as indicated in the Parliamentary interest section of Output Group 3.

JCPAA Report 398 *Review of Auditor-General's Reports, 2002–2003, Fourth Quarter* reviewed audit reports on managing residential aged care accreditation, Defence housing and relocation services, and goods and services tax fraud prevention and control.

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 the following audits which will be reported on in the next annual report as the relevant JCPAA reports had not been completed by the end of June 2004.

- Audit Report No.1 2003–04 *Administration of Three Key Components of the Agriculture–Advancing Australia (AAA) Package* (cross agency);
- Audit Report No.4 2003–04 *Management of the Extension Option Review–Plasma Fractionation Agreement* (Department of Health and Ageing);
- Audit Report No.6 2003–04 *APRA’s Prudential Supervision of Superannuation Entities* (Australian Prudential Regulation Authority);
- Audit Report No.11 2003–04 *Annual Performance Reporting* (cross agency);
- Audit Report No.13 2003–04 *ATSIS Law and Justice Program* (Aboriginal and Torres Strait Islander Services);
- Audit Report No.21 2003–04 *Special Employee Entitlements Scheme for Ansett Group Employees (SEESA)* (Department of Employment and Workplace Relations, Department of Transport and Regional Services);
- Audit Report No.24 2003–04 *Agency Management of Special Accounts* (cross agency);
- Audit Report No.25 2003–04 *Intellectual Property Policies and Practices in Commonwealth Agencies* (cross agency);
- Audit Report No.34 2003–04 *The Administration of Major Programs* (Australian Greenhouse Office); and
- Audit Report No.36 2003–04 *The Commonwealth’s Administration of the Dairy Industry Adjustment Package* (Department of Agriculture, Fisheries and Forestry–Australia).

JCPAA Report 399 *Inquiry into the Management and Integrity of Electronic Information in the Commonwealth* was tabled in March 2004. The inquiry was partly in response to Audit Report No.13 2001–02 *Internet Security within Commonwealth Government Agencies* and the ANAO BPG *Internet Delivery Decisions*. The ANAO made a submission to the inquiry.

In June 2003 the JCPAA announced that it would inquire into Audit Report No.26 2002–03 *Aviation Security in Australia*. JCPAA Report 400 *Review of Aviation Security in Australia* was tabled in June 2004. The ANAO provided a submission to the inquiry and gave evidence at a public hearing in October 2003. The JCPAA made five recommendations, complementing those made by the ANAO, to help strengthen Australia’s aviation security regime.

Audit Report No.17 2003–04 *AQIS Cost Recovery Systems–Follow-Up* and Audit Report No.47 2003–04 *Developing Air Force’s Combat Aircrew* were undertaken at the request of the JCPAA. Also at the JCPAA’s request, the ANAO has begun an audit of the administration of non-prescription medicines by the Therapeutic Goods Administration.

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

Audit Report No.10 2003–04 *Australian Defence Force Recruiting Contract* was undertaken in response to a recommendation by the Senate Foreign Affairs, Defence and Trade References Committee in its 2001 *Inquiry into the recruitment and retention of Australian Defence Force personnel*.

Audit Report No.15 2003–04 *Administration of Staff Employed Under the Members of Parliament (Staff) Act 1984* was undertaken at the request of Parliament.

Audit Report No.39 2003–04 *Integrity of the Electoral Roll-Follow-up Audit* was undertaken in response to a recommendation made by the Joint Standing Committee on Electoral Matters in its review of Audit Report No 42 2001–02 *Integrity of the Electoral Roll*.

Audit Report No.59 2003–04 *Defence's Project Bushranger: Acquisition of Infantry Mobility Vehicles* was undertaken in response to a request by the Joint Standing Committee on Foreign Affairs, Defence and Trade in its *Review of Foreign Affairs, Trade, and Defence Annual Reports 2000–2001*.

The House of Representatives Standing Committee on Legal and Constitutional Affairs requested an audit of the Family Court of Australia. Audit Report No 46 2003–04 *Client Service in the Family Court of Australia and the Federal Magistrates Court* examined client service arrangements in each of the courts named.

### *Other ANAO undertakings at the request of the Parliament*

A Senate resolution of 14 May 2003, which adopted recommendations of the Foreign Affairs, Defence and Trade References Committee, requested that the ANAO undertake certain additional audit work in the Department of Defence on major Defence projects. The ANAO submitted a request for additional funding to the Government in the context of the ANAO's 2004–05 Budget. The request was also discussed with the JCPAA in the Budget context. The ANAO's budget appropriation for 2004–05 does not include additional funds for the work requested by the Senate resolution. The Government has indicated that the question of whether to provide additional funding will be deferred until the 2005–06 Budget to allow the new Defence Materiel Organisation time to establish its procedures.

On 22 May 2003, the Clerk of the Senate, Mr Harry Evans wrote to the Auditor-General enclosing a copy of a Senate resolution requesting that the ANAO audit certain aspects of the Australian Radiation Protection and Nuclear Safety Agency's licensing processes.

The ANAO undertook inquiries in relation to the Department of Prime Minister and Cabinet's domestic anti-violence campaign at the request of Senator the Hon. John Faulkner, Leader of the Opposition in the Senate.

### *Briefings*

The ANAO briefed The Hon. Philip Ruddock MP, then Minister for Immigration and Multicultural and Indigenous Affairs, on the detention centre contracts audit. The audit was reported as Audit Report No.54 2003–04 *Management of the Detention Centre Contracts–Part A*.

The ANAO briefed the Defence Sub-Committee of the Joint Standing Committee on Foreign Affairs, Defence and Trade on Audit Report No.46 2002–03 *Australian Industry Involvement Program–Department of Defence*.

### 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. These recommendations are also expected to yield significant efficiencies or financial benefits, further enhancing the cost-effectiveness of performance auditing.

Summaries of a selection of ANAO audit reports that addressed a range of issues in public sector entities in 2003–04 are set out below.

Audit Report No.1 2003–04 *Administration of Three Key Components of the Agriculture–Advancing Australia (AAA) Package*. The AAA Package is the Australian Government's flagship rural policy program. The audit contributed to improved public administration in a number of ways. The *Farm Household Support Amendment Bill 2003* amended the *Farm Management Support Act 1992* to make administrative changes to implement recommendations of the ANAO audit. Other lessons of the audit have been incorporated in administration of the package, which was extended in the most recent Budget to 2007.

Audit Report No.20 2003–04 *Aid to East Timor*. The audit assessed the way that AusAID plans and manages aid to East Timor. The ANAO concluded that AusAID made a significant and timely contribution to the international response to the humanitarian crisis in East Timor. AusAID's humanitarian response was followed by a well planned and targeted interim strategy for delivery of post-crisis assistance. However, there were some shortcomings with respect to risk management and performance management. AusAID is addressing the ANAO's recommendations in the development of a new country strategy for Australian aid to East Timor.

Audit Report No.24 2003–04 *Agency Management of Special Accounts*. The audit examined all 297 Special Accounts (and their predecessors) that have existed. The audit demonstrated significant scope for agencies to improve financial management and reporting in respect of their Special Accounts. Recent improvements to Special Account disclosure requirements and the publication in October 2003 of Special Account Guidelines by the Department of Finance and Administration have provided a

stronger platform for management and reporting of Special Accounts. Further improvement must also come from closer attention to legislative requirements and appropriation management practices by agencies responsible for managing individual Special Accounts.

*Audit Report No.25 2003–04 Intellectual Property Policies and Practices in Commonwealth Agencies.* The Australian Government, due to the breadth and diversity of its activities, is a major generator, procurer and user of intellectual property. The audit examined agency approaches to managing intellectual property and identified themes common to management of all types of intellectual property. It found that, overall, only 30 per cent of agencies have developed specific policies or procedures for managing intellectual property. The ANAO recommended a whole-of-government approach on intellectual property management and improvement in administration of agency intellectual property. There has been significant activity and interest generated in this area since the release of the report.

*Audit Report No.30 2003–04 Quality Internet Services for Government Clients—Monitoring and Evaluation by Government Agencies.* The audit examined selected agencies' approaches to monitoring and evaluating internet-delivered government programs and services. It concluded that, in relation to websites and portals, in most instances objectives were unclear and there had been little user research. The situation was more positive at the individual internet-delivered service or program level, where information is routinely used to improve service delivery. Overall, agencies' approaches to monitoring and evaluating internet services were inadequate but this was not unexpected, given the short period that internet services have been a key feature of service delivery. There was evidence that agencies are endeavouring to improve their monitoring and evaluation.

*Audit Report No.54 2003–04 Management of the Detention Centre Contracts—Part A.* The audit examined the Department of Immigration and Multicultural and Indigenous Affairs' management of its detention centre contract with the service provider. Although the Department has met program objectives, there were significant shortcomings in its contract management. A key issue was the lack of a documented assessment of the risks involved in contracting out the provision of detention services to inform contract management. Other issues needing attention were monitoring of contractor performance and financial monitoring and reporting.

*Better Practice Guide: Management of Scientific Research and Development Projects in Commonwealth Agencies.* This Guide has had a wide take-up among Commonwealth research and development agencies. It has also provided useful input into the Department of the Prime Minister and Cabinet Implementation Unit.

### ***Innovation in Performance Audit Methodology***

*Audit Report No.26 2003–04 Supporting Managers—Financial Management in the Health Insurance Commission.* The audit had a particular emphasis on the financial framework and systems and their ability to assist managers to make informed decisions on resource use. The audit team developed a methodology that combined the perspectives, skills and knowledge of performance and financial

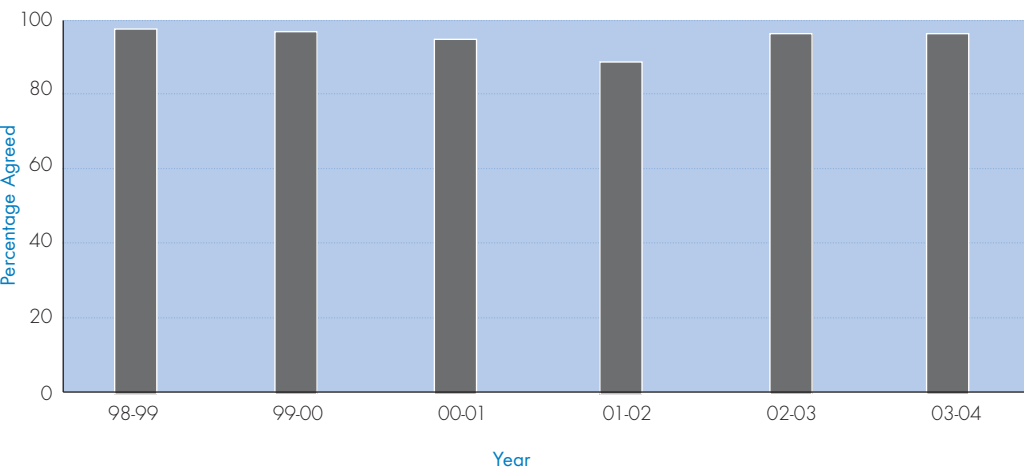
statement auditors. This approach created a more comprehensive analysis of key issues in financial management. The focus on financial management is significant also, owing to stronger interest in accountability, and particularly in the role of auditors in both the private and public sectors, because of CLERP 9.<sup>23</sup> The ANAO will continue to develop this methodology in similar audits in the Department of Health and Ageing and the CSIRO.

*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 2004–05 the number of recommendations accepted by audited entities was 214 out of the 220 recommendations made, or 97.3 per cent. This is similar to last year’s result of 97.9 per cent. Figures for the last six years are illustrated in Figure 5.

Figure 5: Agreement to recommendations in performance audit reports



<sup>23</sup> CLERP 9: Corporate Law Reform Program, Chapter 9.

### 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 performance audit teams.

In the December 2003 survey the consultant firm reported on responses received for the 2002-03 reporting period. Overall, the ANAO's performance was rated at the highest level since the commencement of the survey in 1996-97. This indicates that the ANAO audit reports continue to be viewed very positively and continue to play an important role in improving public sector administration. The ANAO Scorecard in the chapter *Reporting on Performance*, provides some key survey results, which support this overall opinion.

### Financial impact

No audit reports tabled in 2003-04 identified agreed<sup>24</sup> specific savings that could be made from implementing recommendations. One report<sup>25</sup> did, however, identify opportunities for significant future financial benefits through improved compliance initiatives. In addition, the potential annual recurring financial benefits estimated in previous years would have continued during 2003-04.

### Quality assurance

The ANAO conducts a quality assurance review of selected audits to assess whether ANAO performance audits are completed in accordance with ANAO Auditing Standards, incorporating Australian Auditing Standards. The review of audits tabled in 2003-04 found that those examined complied with these standards.

The ANAO has an arrangement with the New Zealand Office of the Controller and Auditor-General (OAG) for peer review of performance audits. Peer reviews are an important means of exchanging better practice between audit offices. An OAG team reviewed two ANAO performance audits during 2003 and reported that the audits examined were of a high standard. In July 2004, an ANAO team reviewed two NZ performance audits and will deliver a comprehensive report to the OAG with the findings of their review.

The ANAO's independent auditor produced a report entitled *A Report by the Independent Auditor of the ANAO on the Results of a Performance Audit of "Value For Money" Provided by the ANAO*. The report concluded, among other things, that the ANAO does provide 'value for money' in its performance audit reports and that overall arrangements are designed to increase accountability, enforce effectiveness and increase efficiency. More information on the findings of this report can be found in the chapter on *Management and Accountability*.

<sup>24</sup> Agreement between the ANAO and auditee.

<sup>25</sup> Report No. 48 2003-2004 *The Australian Taxation Office's Management and Use of Annual Investment Income Reports*. For example, although not possible to quantify at this stage, ANAO considers many millions of dollars of additional potential revenue will be available through improved use of investment information.

## 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 liaise closely with the Parliament by providing 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 \$0.480 million in 2003–04 (\$0.824 million in 2002–03). The significant variation is largely explained by the three ANAO staff placements with Parliamentary Committees, which were fully paid by the ANAO in 2002–03, and also an increase in liaison as a result of emerging issues, for example, the Corporate Law Economic Reform Program.

#### 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 measure for this output is the number of products and services published during the year. In 2003-04 five BPGs were published against a target of seven. Cost is also an important measure, noting that part of the costs of a BPG may be attributed to the previous year. Costs are discussed below. Measures of quality are addressed under 'Contribution to Outcomes'.

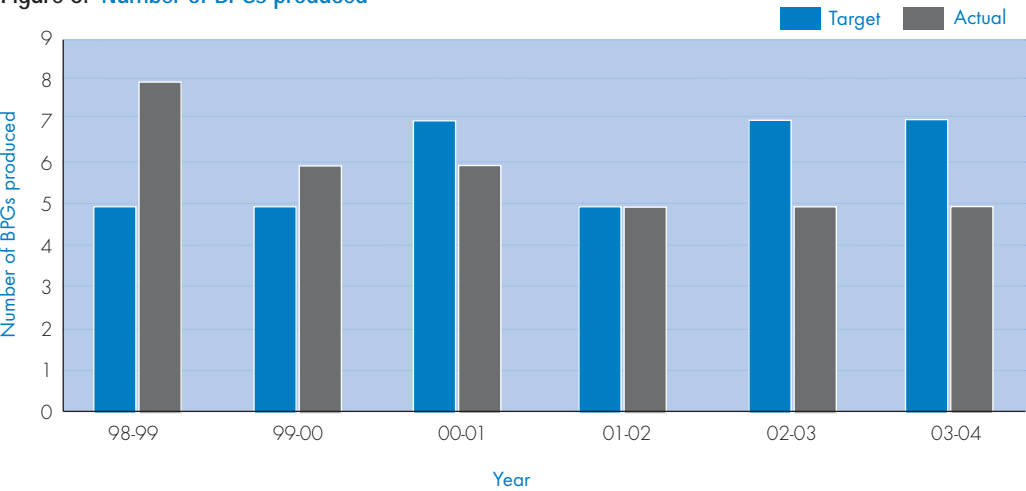
### *BPGs published in 2003-04*

The five BPGs published in 2003-04 were:

- *Public Sector Governance* (July 2003). This BPG is designed to assist public sector organisations to improve their governance framework, processes and practices. This guide updates two previous ANAO BPGs: *Applying Principles and Practice of Corporate Governance in Budget Funded Agencies* (July 1997) and *Corporate Governance in Commonwealth Authorities and Companies* (May 1999).
- *Management of Scientific Research and Development Projects in Commonwealth Agencies* (December 2003). This BPG was prepared to provide practical assistance to senior managers in establishing processes and structures to support management of scientific research and development projects.
- *Better Practice in Annual Performance Reporting* (April 2004). This BPG, prepared jointly by the ANAO and the Department of Finance and Administration, provides guidance to agencies in measuring, assessing and reporting of agency performance in the annual report.
- *AMODEL Non-Commercial Authority Illustrative Financial Statements for the Year Ended 30 June 2004* (May 2004) and *AMODEL Agency Illustrative Financial Statements for the Year Ended 30 June 2004* (April 2004). These two BPGs 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.
- *Security and Control Update for SAP R/3* (June 2004). This BPG was prepared to provide assistance to Australian Government entities in ensuring that security and internal control considerations in the form of 'better practice procedures' within the SAP R/3 system are configured or developed correctly. This guide updates and expands on the previous BPG, *Security and Control for SAP R/3* (October 1998).

Figure 6 shows this years result compared to the number of BPGs produced over the last six years.

Figure 6: Number of BPGs produced



Cost

BPGs cost \$0.438 million in 2003-04 (\$0.806 million in 2002-03). The costs of producing the five BPGs was approximately the same as the cost of the five last year. The main reason for the difference is the year in which the costs are attributed. For example, the most expensive BPG this year was the guide on Corporate Governance, which was almost entirely funded in 2002-03.

Increasing awareness of BPGs and related products

During 2003-04, ANAO officers participated in a number of APS forums, seminars and conferences to increase awareness of various BPGs and other audit reports. The ANAO also developed a distribution policy for BPGs aimed at targeting those stakeholders with a special interest in the subject matter. The distribution list includes Parliamentarians with a known interest in the subject, all portfolio chief executive officers, all portfolio chief financial officers; and agencies and individuals with a special interest in the subject (public and private sector).

A selection of better practice guides produced by the ANAO in 2003–04.



## Benchmarking services

In the development of the 2003-04 Audit Work Plan, it was decided to suspend the conduct of benchmarking projects in favour of higher priority audits.

### *Cost*

Benchmarking cost \$0.004 million in 2003-04 (\$0.604 million in 2002-03). The amount attributed to benchmarking this year was in respect of work done in finalising existing projects.

## National and international representation

### *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 (GWG); and
- International Federation of Accountants (IFAC).

In meeting our responsibilities to these organisations, the Auditor-General and selected ANAO staff attend international conferences, short-term placements and training workshops, prepare research papers and assist with secondments.

As mentioned last year, 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 July, September and November 2003, and March 2004.

The ANAO participated in the 18th ASOSAI Assembly in the Philippines in October 2003, where the final version of the ASOSAI Research Project on IT Audit Guidelines was presented. The Guidelines were produced by an international team of ASOSAI members that included the ANAO. The ANAO also fulfilled its role as an active ASOSAI member by agreeing to host an ASOSAI-sponsored workshop on the audit of public debt in October 2004. Preparations have already begun for the workshop, which will be attended by over 40 delegates from all over the world.

The ANAO also took part in the 8th Tokyo Audit Forum in Japan in February 2004, presenting a paper on the development of audit methodology and improvements in the performance audit reporting process.

The ANAO presented two papers at the 9th Meeting of the INTOSAI Working Group on Environmental Auditing held in Brasilia in May–June 2004. The papers drew on recent ANAO audit experience relevant to biodiversity conservation and sustainable development.

During the year, a representative from the ANAO visited the Auditor-General's Office of Papua New Guinea with a view to placing an ANAO officer in this organisation. This activity was conducted under the Enhanced Cooperation Program (ECP) administered by AusAID. The ECP's goal is to assist Papua New Guinea to overcome major constraints to stability and growth, including issues of governance, accountability and public sector performance.

The ANAO is part of a team of auditors conducting the first-ever peer review of performance audit work undertaken by the Government Accountability Office (GAO) in the United States. The international team includes representatives from the GAO's counterpart offices in Australia, Canada, Mexico, Norway, the Netherlands, South Africa and Sweden. The team's task is to determine whether the GAO's internal quality control system is adequate and whether the GAO's quality control policies and procedures are being complied with to provide reasonable assurance of conformance with applicable professional standards. The review will cover the suitability of design and the operating effectiveness of the GAO's system of quality controls for performance audits and will test products issued in the calendar year 2004.



ANAO Executive Director Wayne Jones (far left) with Stig J Sunde (left) and Rune Johanessen from the Office of the Auditor-General of Norway.

The ANAO contributes to the development of other audit offices by hosting a number of international visitors throughout the year. During 2003–04, the ANAO hosted more than 20 short-term visits from delegations from a number of countries including Belgium, Cambodia, Canada, China, Indonesia, Japan, Korea, Norway, South Africa, Taiwan, Thailand and the UK. Delegates were generally very positive in their responses to their stay and indicated they found their visit to the ANAO to be an informative and worthwhile experience.

The ANAO expanded its international staff exchange program to include the Office of the Comptroller and Auditor-General of Ireland, as well as continuing our existing arrangements with the Office of the Auditor-General of Canada and Audit New Zealand. More information on these exchanges may be found under 'Management of human resources' in the 'Management and Accountability' section of this report.

### *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 attending business meetings, preparing papers, participating in information exchanges, peer reviews and training. The Auditor-General also attended the CPA Australia National Public Sector Convention in Perth, November 2003, where he presented two papers entitled *Outsourcing and Partnerships in the Public Sector—Driving a Generic Brand Approach* and *Implications of Harmonisation of Proposed International Standards for the Public Sector*.

### *Cost*

The national and international representation output cost \$0.531 million in 2003–04 (\$0.538 million in 2002–03).

### **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 is proactive in providing advice on topical and emerging issues to assist agencies to meet any new accountability and reporting requirements. In June 2004, the ANAO publicly released a guide entitled *Comparison Between Pre-2005 Australian Standards and Australian Equivalents to International Financial Reporting Standards*. Initially intended as an internal reference for ANAO staff, the guide outlines the key differences between the current Australian Accounting Standards and the new internationally compliant standards that will be applicable from 1 January 2005. The ANAO considered that the guide could be useful to Australian Government agencies and other bodies generally, to assist them in the transition to the new standards requirements.

The ANAO also arranges seminars to provide advice on topical and emerging issues. The focus of this activity is directed towards improving financial reporting. Two series of financial reporting seminars were conducted in 2003–04, with five seminars per series. As in previous years, these seminars generated a great deal of interest and were well-received by attendees. Of the responses received from the

seminar feedback survey, 92 per cent indicated that participants were satisfied that the seminar had met their needs. This is well ahead of the ANAO's target of 75 per cent.

As in 2002–03, a full day workshop on performance auditing was conducted for public sector internal auditors in 2003–04. This workshop again proved to be very popular with agencies, covering the essentials of performance audit in a practical and useful context.

As discussed previously under 'Other audit and related products' of Output Group 1, *Opinions* newsletter is published quarterly to provide audit clients with information on developments in financial reporting and disclosure, together with details of recently completed performance audits and BPGs. *Opinions* has a wide distribution encompassing other audit offices, Chief Executives, Chief Financial Officers and Heads of Internal Audit (of the larger agencies).

During the year a number of ANAO staff accepted invitations to speak to Australian Government organisations and other bodies on topical issues and issues arising from audit reports and BPGs. More information on these presentations may be found at Appendix 5.

### ***Cost***

The client seminars and advice output cost \$0.058 million in 2003–04 (\$0.248 million in 2002–03). The difference in costs compared with last year is explained by some one off activities in quality assurance and emerging accounting issues, as well as a reduction in the number of speeches and presentations prepared by service groups this year.

### **Contribution to outcomes**

In the past Information Support Services costs were distributed evenly between Outcome 1 and Outcome 2. With better cost attribution methods we are now able to allocate costs more accurately. For this year the actual attribution is 60 per cent to Outcome 1 and 40 per cent to Outcome 2. The 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 audit reports;
- protective security audit 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 and give a true and fair view, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements, of the financial position of each entity as at year end, and the results of the entities' operations and the entities' cash flows for the year then ended.

The Auditor-General 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. One details the results of an assessment of the control structure of major entities<sup>26</sup> while the other 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>27</sup>

Audit Report No.22 2003-04 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2003*. This report summarised the final result of the audits of the financial statements of Commonwealth entities for the period ended 30 June 2003, including the Consolidated

<sup>26</sup> This report was tabled on 26 June 2004: ANAO Audit Report No.58 2003-04 *Control Structures as Part of the Audits of Financial Statements of Major Commonwealth Entities for the Year Ended 30 June 2004*.

<sup>27</sup> This report was tabled on 9 January 2004: ANAO Audit Report No.22 2003-04 *Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2003*.

Financial Statements of the Australian Government. The report provided a commentary on a number of contemporary issues relating to the Commonwealth Financial Reporting Framework, focusing on the Consolidated Financial Statements of the Australian Government and the Final Budget Outcome Report. The report also outlined the results of a verification of the Department of Family and Community Services' triple bottom line report, a first for the Australian Public Service.

The report noted that there had been a small improvement in timeliness of the financial statement preparation process from that achieved in the previous year. However, despite this improvement, material entities will need to continue the refinement of their processes over the next two years to meet the 2005 deadline of audit cleared financial statements by 20 July. 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 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 was raised as part of the final audit phase—these issues were consistent with issues from the interim audit phase and those of previous years. 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;
- formalise existing business arrangements with external service providers;
- segregate incompatible duties to assist in preventing errors and/or fraud;
- improve business continuity and/or disaster recovery planning and testing;
- improve reconciliation processes over key accounts to reduce the possibility of errors or fraud;
- improve key information security controls, in particular user access privileges;
- update fraud control plans;
- review and refine asset management processes;
- improve the processes for the capture and reporting of employee benefits; and
- assess current management practices for special accounts.

Another issue requiring attention from a number of entities was quality assurance and review processes for reasonable results, as part of the entities' financial statement preparation processes.





AASG financial auditing staff, Cate Saunders and Colin Bienne.

Audit Report No.58 2003–04 *Control Structures as part of the Audits of the Financial Statements of Major Australian Government Entities for the Year Ended 30 June 2004*. 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 2003–04. 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 provided an update on the broader corporate governance issues that impact on financial management and reporting.

The report also represented a means for individual entities 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.

The ANAO found that most entities had improved their performance in these areas. However, improvement was still necessary, particularly in regard to: increased executive committee analysis of organisational effectiveness; improved reporting of non-financial performance measures; more formal audit committee analysis of internal audit processes; and an increased focus on various corporate governance practices.

### Information technology systems

The Australian Government has a significant and growing investment in information and communications technology (ICT). The Consolidated Financial Statements of the Australian Government, for the financial year ended 30 June 2003, report an investment cost in ICT of \$5.85 billion.

In general, improvements were made over the year for both the information security and business continuity management practices. Most entities attained a 'Defined Process' rating for their information security management practices.<sup>28</sup> Although there were some entities below the baseline, there was also a number of entities above the baseline. Going forward, most entities should investigate improving their practices with a view to obtaining a 'Managed and Measurable' rating for information security management, where this is justified.<sup>29</sup> The extent to which entities move towards this rating will depend on the nature of the entities' operations and the importance of information security management in service delivery. While mindful of Government requirements for security, a risk versus cost of control approach should be adopted as part of this process.

A significant number of entities still had business continuity management practices below the Defined Process rating, the minimum baseline. These entities will need to improve the maturity of their practices in order to ensure the continued availability of service delivery and business information.

In relation to SAP, the most used financial management information system, satisfactory results were obtained in the area of SAP configuration. However, for half the entities reviewed, a lack of documentation of SAP security policies and procedures was identified. Most entities also had weaknesses in relation to security administration. In relation to the accounts payable function, further improvement was required over payment processing, particularly in the area of vendor creation and

<sup>28</sup> A 'Defined Process' rating is attained when systems and procedures have been standardised, documented, communicated and implemented.

<sup>29</sup> A 'Managed and Measurable' rating is attained when there is a full understanding of the issues at all levels. Responsibilities are clear and process ownership is established.

segregation of functions. For some entities, these weaknesses had necessitated the implementation of compensating manual controls to mitigate any risks.

The ANAO will continue to focus on information security and business continuity management. While entities have generally improved the maturity of their practices, further progress needs to be made for most entities to reach a maturity level that is considered appropriate. Over the next year, the ANAO will be undertaking further data analysis of entities' financial management information systems (FMIS) covering general ledger, purchase to pay cycle and asset accounting, as well as reviewing system configuration. A suite of data analysis tools is being developed to focus on SAP. This could eventually be expanded to include other FMIS and human resource (HR) systems, depending on audit procedures and resource availability.

### 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.

In general, control procedures over business and accounting processes have been maintained at a reasonable level of effectiveness, with only moderate variation from the prior year's audit results. The ANAO identified some continuing weaknesses in entities' control processes. For example, some agencies did not have appropriate delegations or segregation of duties in place to support their payment processes. The ANAO has also consistently raised shortcomings in the reconciliation of asset registers. Quality of documentation for accounting estimates continues to be an issue for some agencies.

### Key findings

The ANAO rates its financial statement audit 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 the interim audits of entities reviewed during 2003–04, excluding the Department of Defence, indicated that the effectiveness of control procedures over business and accounting processes was generally consistent with that found in the prior year. This was demonstrated by the following findings:

- the number of entities with 'A' category audit issues remained at just one in 2003–04 as in 2002–03;
- the total number of 'B' category audit issues across all entities increased from 68 in 2002–03 to 98 in 2003–04;
- while seven entities reported an improvement in the number of 'B' category audit issues in 2003–04, 10 entities showed a deterioration in their position, with five entities remaining in the same position; and
- the number of entities with no category 'A' or 'B' audit issues remained at three in 2002–2003 as in 2003–2004.

The Department of Defence was excluded from the overall analysis of audit activity. At the time of publication, the resolution of issues in Defence remained uncertain.

### Issues to be addressed

The ANAO's interim audit results show that for most entities, the fundamental processes underpinning financial statement reporting were in place. A small number of entities still require considerable improvement in implementing better practice, particularly the Department of Defence and the Australian Taxation Office.

A number of issues, which influence the ANAO's ability to provide positive assurance about an entities' internal control environment, were also identified in this year's Control Structures report. These issues include:

- shortcomings in corporate governance frameworks;
- lack of clarity in joined-up Government arrangements;
- poor management of asset and liability management;
- non-compliance with procedures for Departmental and Administered transactions;
- transitional difficulties with the adoption of Australian equivalents to International Financial Reporting Standards and harmonisation with International Auditing Standards;
- transitional difficulties with the convergence of Australian Generally Accepted Accounting Principles and Government Finance Statistics; and
- reduction in time available due to increasingly compressed reporting timetables for Australian Government entities as a result of the Department of Finance and Administration's Budget Estimates Framework Review.

### Audit methodology

This is the fourth 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

Prior to this year, a client survey was conducted for each of the previous three years with results very favourable to the ANAO. It was therefore decided not to continue the practice of an annual survey as a matter of course. The conduct of future surveys will be decided on a year by year basis.

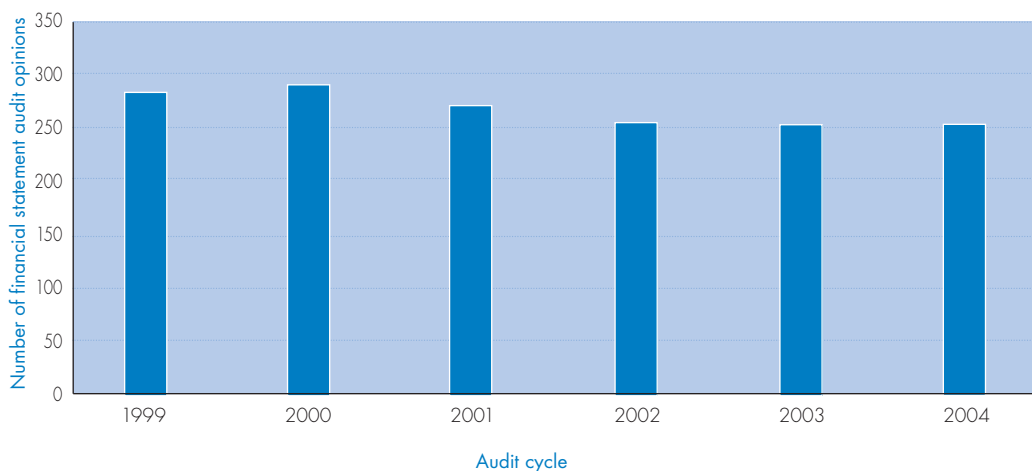
### Performance

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 2002-03 financial statement audit cycle, which ended in October 2003, in comparison to previous periods, is illustrated in Figure 7.

**Figure 7: Number of outputs from the financial statement audit process**



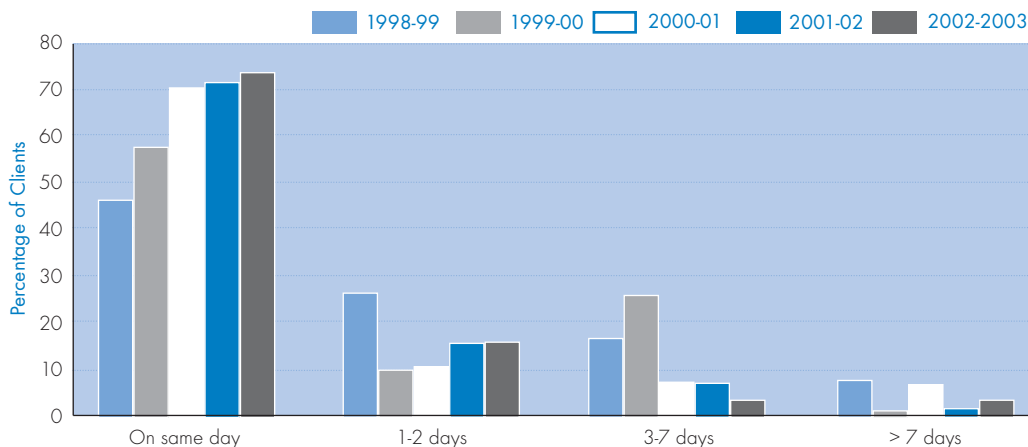
The ANAO issued 256 audit opinions for the audit cycle ended October 2003. This compares with 257 opinions in the previous cycle. Separate reports were also provided to Ministers on the results of all financial statement audits.

### *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 2003, 88 per cent of opinions were issued on the day the financial statements were received or within two days. This was the same proportion as for the audit cycle ended October 2002.

The time taken to issue audit opinions after the date of signing the financial statements for the last six years is shown in Figure 8.

**Figure 8: Timeliness of issuing audit opinions**



### *Completion within agreed timelines*

The ANAO endeavours to complete financial statement audits within agreed timelines. The percentage of audits that were completed within the agreed timeframe has remained constant over the last two years at 76 per cent.

### *Cost of Assurance Audit Services*

Financial statement audits (Output Group 3.1) for the 2003–04 financial year required approximately 176 000 hours and consumed \$27.577 million (163 000 hours and \$25.850 million respectively in 2002–03) of resources. The audit cycle ended October 2003 required approximately 166 000 hours compared to a budget of approximately 162 000 hours. The increase in the hours required to complete the audits was primarily a result of two factors: the increased complexities in financial reporting; and the

ongoing requirement to complete the audit of material entities by 15 August to enable the Government's Final Budget Outcome reporting to be completed by 30 September 2003.

Overall, the Assurance Audit Services Group charged 210 204 hours in 2003-04, generating \$24.277 million in notional staff costs recovery and actual revenue against actual staff costs of \$24.312 million (204 645 hours in 2002-03 generating \$22.458 million in notional staff costs recovery against actual staff costs of \$22.146 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. These fees are 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 2003-04.

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**

Business Support Process (BSP) audits examine business processes that support the delivery of outputs provided by public sector entities. They are normally conducted in a selection of entities, under the provisions of section 18 of the *Auditor-General Act 1997*, which provides for the examination of a particular aspect of the operations of the whole or part of the Australian Government sector. The audits contribute to ANAO Outcome 2—Assurance.

BSP audit reports focus 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 internal control structure; and
- the extent of legal compliance, and of compliance with internal and external policies and procedures.

The audit findings and recommendations are usually reported to Parliament in generic terms, without identifying the entities to which they apply. In addition to the parliamentary report on each audit, an individual report is provided to the chief executive officer of each of the entities examined in the audit. Output from these audits may also include the development of Better Practice Guides (see Output Group 2).

## 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 2003–04 against a target of eight. The nine reports were:

- Audit Report No.3 2003–04 *Management of Risk and Insurance*;
- Audit Report No.5 2003–04 *The Senate Order for Departmental and Agency Contracts (Autumn 2003)*;
- Audit Report No.7 2003–04 *Recordkeeping in Large Commonwealth Organisations*;
- Audit Report No.19 2003–04 *Property Management*;
- Audit Report No.31 2003–04 *The Senate Order for Departmental and Agency Contracts (Financial Year 2002-2003 Compliance)*;
- Audit Report No.35 2003–04 *Compensation Payments and Debt Relief in Special Circumstances*;
- Audit Report No.42 2003–04 *Financial Delegations for the Expenditure of Public Monies in FMA Agencies*;
- Audit Report No.49 2003–04 *The Use and Management of HRIS in the Australian Public Service*; and
- Audit Report No.57 2003–04 *Administration of Freedom of Information Requests*.

Each of these reports is summarised at Appendix 4, grouped according to the main issues that guided planning of the audit program.

### *Average timeframes and costs of the tabled reports*

The average time taken to complete the tabled BSP audit reports was 12.2 months with a range from 6.3 months to 19 months.

The average cost of the tabled BSP audit reports was \$347 222 with a range from \$195 000 to \$615 000.

### *Audits in progress*

There were seven BSP audits in progress as at 30 June 2004. The titles of these audits were:

- *Management of Internal Audit in Commonwealth Organisations*;
- *Administration of Fringe Benefits Tax*;
- *Superannuation Guarantee Payments for Independent Contractors*;



- *Senate Order for Departmental and Agency Contracts—2003 Calendar Year;*
- *Management of Trust Monies in CAC Bodies;*
- *Purchasing Procedures; and*
- *Management of Contracted Business Support Services.*

### ***Cost of the BSP audit program***

The BSP audit reports output consumed \$1.899 million in resources in 2003–04 (\$2.224 million in 2002–03).

### **Protective security audits**

Protective security audits are undertaken under section 18 of the *Auditor-General Act 1997*, under a similar approach to that taken for BSP audits. The 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, timeliness and cost. Measures of quality are discussed under 'Contribution to Outcomes'.

### ***Number of protective security reports***

One protective security audit report, Audit Report No.55 2003–04 *Management of Protective Security*, was tabled during 2003–04 against a target of one. The report of the audit is summarised at Appendix 4.

### ***Timeframe and cost of the tabled report***

The length of time taken to complete the tabled report was eight months. The cost of the report was \$225 000.

### ***Cost***

The protective security audit reports output consumed \$0.292 million in resources in 2003–04 (\$0.137 million in 2002–03). The tabled audit was commenced during 2003–04.

### **Other attest reports**

The ANAO also provided assurance services to entities on matters outside the scope of the annual financial statement audit. Entities can request the ANAO to undertake reviews of aspects of their activities on a cost recovery basis and a number of entities, as part of their own corporate governance arrangements, are seeking reviews or audits of their half-year financial statements. In addition, these services included grant acquittal certificates, performance information verification and other special

purpose engagements. Of particular interest this year was the ANAO verification of the Department of Family and Community Services triple bottom line<sup>30</sup> report in 2003, which was the first of its kind in the Australian Government sector. More reports of this type are expected in the coming year.

The cost of the other attest output for 2003–04 was \$1.228 million (\$1.253 million in 2002–03).

## Contribution to Outcome 2—Assurance

Through the conduct of financial statement audits, BSP audits, protective security audits and other attest audits, the ANAO contributes to providing assurance to individual entities, 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 reporting entities, which provide stakeholders with assurance that an entity's financial statements fairly represent its financial operation and its position at year-end.

### Financial statement audit opinions

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 entities to fulfil their own accountability obligations.

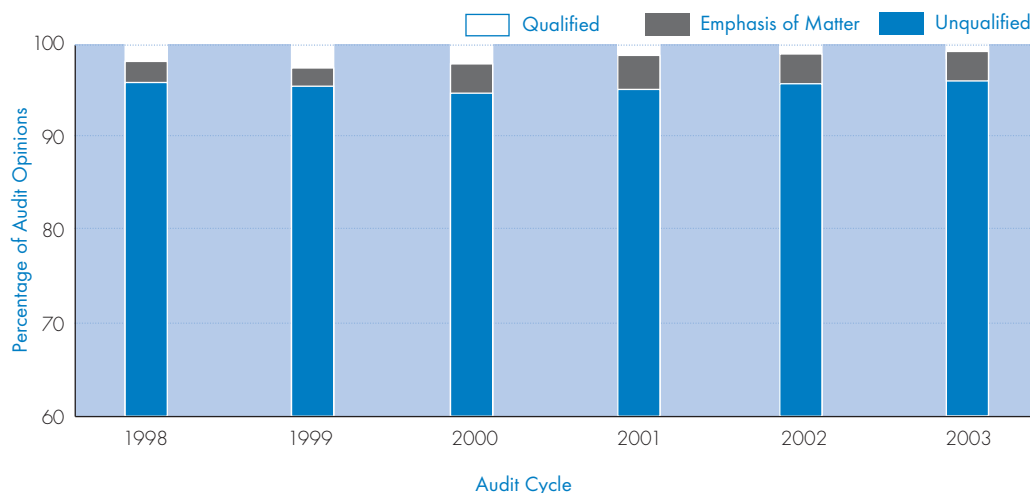
The provision of the audit opinion therefore fulfils an intermediate outcome. The indicators of ANAO effectiveness in relation to audit opinions expressed on financial statement audits are as follows:

- 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 agency boards and the management of each entity 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 2003 was 95 per cent.

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<sup>30</sup> Triple Bottom Line (TBL) focuses on reporting and making decisions explicitly taking into consideration information on economic, environmental and social performance. As such TBL can be seen as both an internal management tool as well as an external reporting framework.

Figure 9: Percentage of unqualified opinions<sup>31</sup>

### Other assurance audit reporting

The financial statement audit opinions are complemented by the assessments provided in the biannual reports to the Parliament covering the control structures of material reporting entities (June) and the financial statements of all reporting entities (December), and the periodic BSP audit reports providing assurance on selected financial and administrative topics. The final contributors to Outcome 2 are the reporting of protective security audits and conduct of specific-purpose attest audits.

A significant component of the financial statement audits, BSP audits and protective security audits is a report on the outcome of the audits for presentation to audit committees, chief executive officers, boards of management and/or senior management of agencies. Such reports provide an assessment of the internal control structure in operation and make recommendations designed to improve the entity's controls environment. An effective internal control structure can significantly lower the risk that the financial statements produced by an entity will contain material errors. It also reduces the risk that business support processes and protective security arrangements will suffer from significant breakdowns.

Where applicable, assurance audit reports provided to individual entities and presented to the Parliament outline recommendations for improvement, which, in the main, are accepted by management of the relevant entities.

The 2003-04 Controls Structures discussed earlier in this chapter provides a summary of the financial accounting and information technology control processes adopted by entities. It also includes an

<sup>31</sup> The 'emphasis of matter' references are provided in *unqualified* reports to draw the reader's attention to important matters that aid understanding of the financial statements.

update on the broader corporate governance issues that impact on financial management and reporting. In addition, issues affecting the ANAO's ability to provide positive assurance about an entities internal control environment are also addressed in this section.

BSP and protective security audits completed during 2003–04 provided assurance on:

- public reporting and accountability (Report Nos. 5, 31 and 35);
- administration of legislation, including the use of specific delegations, with particular reference to aspects of the FMA Act and the *Freedom of Information Act 1982* (Report Nos. 35, 42 and 57);
- recordkeeping policies, systems and practices, including the use and management of electronic records and purpose-built information systems (most reports, but particularly Report Nos. 7 and 49); and
- management of business support services and facilities, including risk insurance, office accommodation and security (Report Nos. 3, 19 and 55).

The BSP and protective security audit reports covered a total of 37 separate reporting entities, comprising 14 Departments of State, 14 other FMA Act agencies, and nine CAC Act bodies.

### Parliamentary interest

Audit Report No.5 2003–04 *The Senate Order for Departmental and Agency Contracts (Autumn 2003)* and Audit Report No.31 2003–04 *The Senate Order for Departmental and Agency Contracts (Financial Year 2002–2003 Compliance)* were conducted at the request of the Senate. These audits examined FMA Act agencies' compliance with the Senate Order for Departmental and Agency Contracts, initially issued on 20 June 2001. They represent the fourth and fifth audits in a series of biannual audits commencing from Audit Report No.33 2001–02, which was presented to Parliament in February 2002. A sixth audit is currently in progress.

In early 2004, the Senate Finance and Public Administration References Committee conducted a review of the second year of operation of the Senate Order. The review obtained evidence from the third, fourth and fifth audits of the Senate Order. ANAO officers attended a public hearing conducted by the Committee on 25 March 2004. At the time of preparing this annual report, the Committee had not yet issued its report on the review.

The JCPAA did not examine any assurance audit reports tabled during 2003–04. However, JCPAA Report 396 *Review of Auditor-General's Reports, 2002–2003, First Second and Third Quarters*, tabled in October 2003, reported on the Committee's review of three assurance audit reports that were tabled in 2002–03. These reports covered: financial statements of Australian Government entities for 2001–02; management of trust monies (BSP audit); and physical security arrangements in Australian Government entities (protective security audit). The Committee indicated its support for the three audits and made one recommendation arising out of the audit findings from the report on financial statements. The JCPAA report also covered several performance audits as indicated in the 'JCPAA' section of Output Group 1.

### 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. Key statutory provisions governing the responsibilities of registered company auditors are set out in the *Corporations Act 2001* and the professional requirements are determined by CPA Australia and the Institute of Chartered Accountants in Australia.

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



# Management and accountability

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

## Corporate governance

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

### Executive Board of Management (EBOM)

The purpose of 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*. The Board is responsible for setting and monitoring the ANAO's strategic directions, overseeing key business opportunities and risks and the ANAO's budget.

As at 30 June 2004, the Committee's membership comprised:

- Pat Barrett AO, Auditor-General (Chair);
- 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 Branch (CMB).



The Executive Board of Management as at 30 June 2004. From left: Warren Cochrane, Trevor Burgess, Pat Barrett, Michael Watson, Oliver Winder, John Meert and Russell Coleman.

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

### Audit Committee

The ANAO's Audit Committee 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 2003–04. At 30 June 2004 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
- Observers at each meeting included: Michael Coleman, Independent Auditor; David Gray of Acumen Alliance Chief Internal Auditor, and Russell Coleman, Executive Director Corporate Management and Chief Financial Officer.



### People Committee

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

As at 30 June 2004, the membership of this committee comprised:

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

### Business Committee

The purpose of the Business Committee is to assist 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.

As at 30 June 2004, the membership of this committee comprised:

- John Meert (Chair), Performance Audit Services;
- Peter White, Performance Audit Services;
- Rebecca Reilly, Assurance Audit Services;
- Darren Box, Research and Development Branch;
- Brandon Jarrett, Assurance Audit Services;
- Fran Holbert, Performance Audit Services;
- Mary-Ann Johnston, Assurance Audit Services;
- Jeff Storer, Performance Audit Services;
- Denzil Bourne, Corporate Management Branch; and
- Julie McNamara, Assurance Audit Services.

### Information Strategy Committee

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

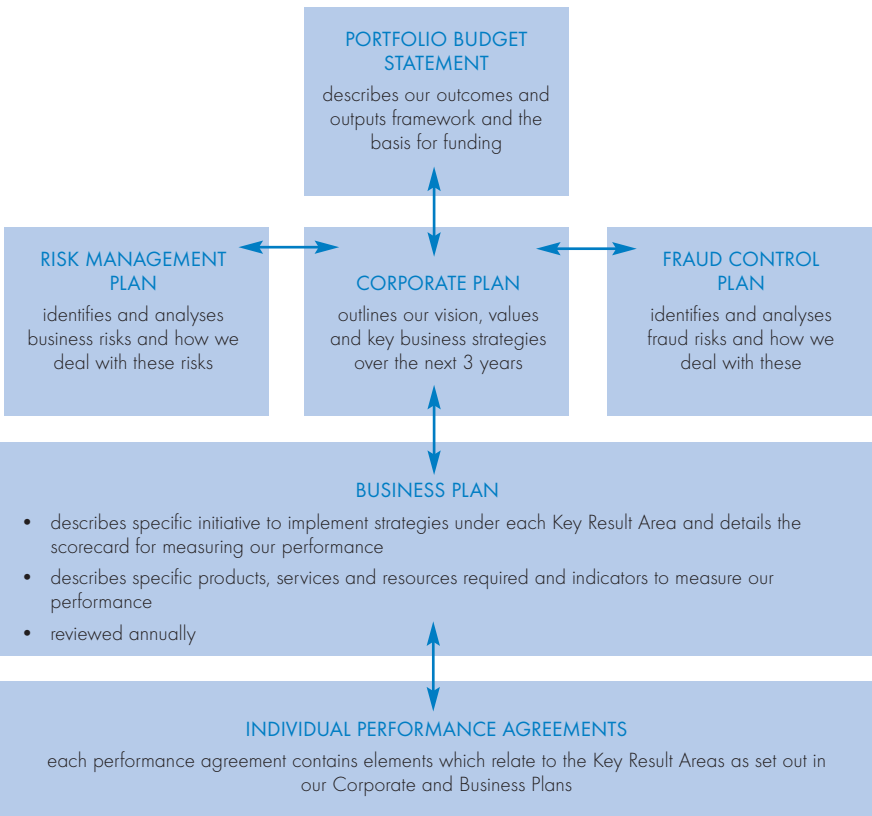
As at 30 June 2004, the membership of this committee comprised:

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

Strategic planning framework

Key elements of the ANAO’s strategic planning framework are depicted in Figure 10.

Figure 10: Strategic planning framework



### *Corporate Plan*

The ANAO's *Corporate Plan 2001–2004* is the defining document for all planning and other strategic and operational activities for its three-year period.<sup>32</sup> 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 2003–2004* was issued in July 2003. 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 a three-year rolling plan that is updated annually.

### *Risk management*

The ANAO adopts the Joint Standard AS/NZS 4360:1999 in our approach to risk management. The ANAO updates its Risk Management Plan and individual plans for each of the Service Groups, CMB and R&D Branch, at least annually. This review is designed to take account of any changes to our environment, including revised business requirements and changes to our control environment. The Risk Management Plan underpins the ANAO's corporate governance framework, with the Audit Committee being responsible for overseeing its implementation.

In summary, the ANAO approach to risk management identifies risks associated with our business objectives. Risks are considered at both the strategic and operational 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 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?

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<sup>32</sup> The 2004–2007 Corporate Plan took effect in July 2004.



Gordon Carey from Research & Development Branch with Lesley Jackman, 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 fraud 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. We periodically 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 reviewed every two years. This review was completed in July 2004. The fraud control framework was extensively revised in July 2002 and the review found that only minor changes were needed to our Fraud Risk Assessment and Fraud Control Plan to protect our business operations.

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, Systems & Technology Strategic Plan 2004–2006*

The ANAO's *Information, Strategy & Technology Strategic Plan 2004-2006* was finalised in November 2003. Drawing upon relevant strategies in the ANAO's Business Plan 2003–2004 and future business directions, the Strategic Plan outlined key information and technology initiatives in the following areas:

- management of records, information and knowledge;
- access to, and quality of, management information;
- IT infrastructure, including connectivity, architecture and security; and
- training and support to staff in the use of the ANAO's systems and applications.

A Work Plan has been developed which identifies and prioritises projects to implement these initiatives. The Work Plan includes, as a priority, a project to implement technology to:

- enable the collection, recording and retention of audit evidence, and
- assist in establishing linkages between audit evidence and audit conclusions and recommendations.

The Plan will be formally reviewed and updated annually in line with the updating of the ANAO's Business Plan.

### *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 11. The Code also recognises the importance of auditing and accounting standards developed by the Australian auditing and accounting professional bodies.

Figure 11: 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. The ANAO's Independent Auditor is Michael Coleman, partner of KPMG who has been appointed until 30 November 2005.

A performance audit entitled *Report by the Independent Auditor of the Australian National Audit Office on the Results of a Performance Audit of "Value for Money" Provided by the ANAO* was completed in June 2004.

The objective of the audit were to assess whether selected audit reports represented 'value for money'. In considering 'value for money' the audit focussed on the Performance Management Principles that identify good practice in performance reporting and criteria associated with effectiveness, efficiency and economy. The audit involved independent and systematic examination of the performance audit processes in place within the ANAO.

The audit concluded that the ANAO's over-riding objective through the conduct of performance audit is to endeavour at all times to improve public administration and accountability. The Performance Audit Service Group (PASG) seeks to achieve this in a cooperative fashion with bodies being audited and welcomes suggestions and comments at any time. The ANAO facilitates this interaction through regular meetings during audits, post-audit surveys for a significant cross section of performance audits undertaken and consultation on audit programs.

The audit found that the ANAO does provide 'value for money' when assessed against the above-mentioned criteria, although current practice is not the only way to achieve 'value for money'. While the review identified some areas where minor performance opportunities exist it was found that overall arrangements with the PASG are designed to increase accountability, improve effectiveness and increase efficiencies.

The report made a number of 'low priority' recommendations which have been agreed to by the ANAO.

### Internal audit

The ANAO's Internal Audit function is responsible to the Auditor-General through the ANAO Audit Committee for providing an assurance concerning ANAO systems and processes directed at attaining better practices and the objectives specified in the ANAO's Corporate Plan.

Audits completed or in progress in 2003–04 included reviews of:

- Workforce Planning and Retention of Staff;
- Budgeting and Cost Allocation;
- Financial Compliance (in progress);
- Action Plans (in progress);
- Quality Assurance Processes (in progress); and
- Administering the *Auditor-General Act 1997* (in progress).

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 the ANAO and action has either been taken or is in progress to address them.

### Inquiries by parliamentary committees

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

- Joint Committee of Public Accounts and Audit: *Inquiry into the Management and Integrity of Electronic Information in the Commonwealth*;
- Joint Committee of Public Accounts and Audit: *Review of Aviation Security in Australia*;
- Joint Committee of Public Accounts and Audit: *Indigenous Law and Justice Inquiry*;
- Joint Committee on ASIO, ASIS and DSD: *Review of the Administration, Expenditure and Financial Statements of ASIO, ASIS and DSD*;
- Mr Phillip Flood AO: *Inquiry into Australian Intelligence Agencies*; and
- Senate Finance and Public Administration Committee: *Report on the Second Year of Operation of the Senate Order for the Production of Lists of Departmental and Agency Contracts*.

### Decisions by courts and tribunals

There have been no relevant decisions by courts or tribunals affecting the ANAO during 2003–04.

### 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 Appendix 1, Tables A1-1, A1-2, A1-3 and A1-5. During the year a number of initiatives dealing with staff retention, a maturing workforce and employment flexibilities were implemented or progressed. These initiatives are designed to further improve the management of our workforce and will benefit staff while meeting the operational requirements of the ANAO.

### Workforce Planning

During the year, work commenced on the development of a comprehensive workforce plan for the ANAO. The plan will build on existing workforce practices and will serve as a vehicle to effectively manage our workforce to help achieve the most effective and efficient business outcomes for the ANAO.

During 2003–04, priority continued to be given to a range of people-linked initiatives. These include an Applicant Tracking System that is linked to the ANAO's employment website to streamline recruitment as part of the ANAO's continuous recruitment process. The ANAO has also developed an enhanced induction and orientation package that is now in use for all new starters and supervisors. The package includes a range of documents setting out ANAO employment conditions and a set of four Business Knowledge Modules described below.

#### *Business knowledge modules*

The ANAO has developed a Business Knowledge Program to assist new staff to assimilate quickly into the ANAO's working environment by gaining a broad understanding of the ANAO's internal and external environment. The program, which commenced in January 2004, consists of four modules:

- ANAO and its strategic directions;
- ANAO and its clients;
- ANAO and its core and supporting work processes; and
- ANAO and its external environment.

The modules are expected to be delivered to new staff on a one-on-one basis by their supervisor, within three weeks of their commencement at the ANAO.

In recognition of the age profile in the ANAO's workforce, attention is now focused on preparing an internal information pack specifically for mature age staff. The pack will complement other externally available information packs, to assist mature age staff to better understand the options available in continuing in employment with the ANAO under various scenarios that can be adjusted to suit individual lifestyles.



### ANAO Certified Agreement 2003–06

The ANAO 2003-06 Certified Agreement, which took effect in May 2003, 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 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.

Negotiations for a new Certified Agreement will begin in mid-2005.

### *Non-salary benefits provided to employees*

The following non-salary benefits are available to staff under the terms of the Certified Agreement:

- Salary packaging—access to in-house salary packaging;
- Wellness program—annual influenza injection and health and fitness assessment;
- Motor vehicle allowance—payment is available when using a private vehicle on official business;
- Eye sight testing—staff may be reimbursed for eye sight testing if corrective action is required to use screen based equipment;
- Spectacle reimbursement—where spectacles are prescribed for use with screen based equipment staff may seek partial reimbursement of spectacle costs;
- Studies assistance—staff may apply for partial reimbursement when undertaking an approved course of study;
- Parking fees—staff may apply for reimbursement of fees if attending client premises on official business; and
- Professional membership fees—payment of professional fees where membership is work related.

### *Performance Assessment Scheme*

As an integral part of the ANAO's 2003-2006 Certified Agreement a new four tier Performance Assessment Scheme was introduced on 1 November 2003 to provide greater flexibility and scope in

rewarding staff who have been identified as attaining high levels of performance. The new Scheme incorporates a mid-cycle review in April 2004, with the allocation of an annual rating to participating staff at the end of the cycle in November 2004.

The ANAO's former Performance Assessment Scheme provided for formal performance assessment to be undertaken each six months. The aggregated results for the performance cycle ending 31 October 2003 are shown in Table 5. With the introduction of the new arrangements described above, there was no April rating this year. Ratings were defined as follows:

Rating 3: *High standard of performance exceeding the expectations of the individual's job, over the assessment period.*

Rating 2: *Level of performance which is valued and is consistent with the normal expectations of the individual's job.*

Rating 1: *Falls below the normal expectations of the individual's job performance.*

**Table 4: Summary of ratings from performance assessment for the period ending 31 October 2003**

Rating	3	2	1	Total
ANAO Bands 3 and 4 (Exec 1 and 2)	49	72	1	111
ANAO Bands 1 and 2 (APS 1 – 6)	38	85	0	123
<b>Total</b>	<b>76 (32%)</b>	<b>157 (67%)</b>	<b>1 (&lt;1%)</b>	<b>234</b>

### Staff Survey

The ANAO conducts a staff survey each year as an integral part of its commitment to assessing the achievement of the 'people' element of our Corporate and Business Plans. The 2003 Staff Survey achieved a 72% response rate, and indicated that generally, overall performance had improved across most areas of the organisation. In particular, staff satisfaction had increased to 74% (up 10% from the previous survey). To assist in responding to the survey results, staff focus groups were held to gain further insight into specific matters highlighted by the survey as requiring attention. As a result, initiatives to improve support in the areas of learning and development, people management and staff retention and motivation have been commenced or are in progress.

### Executive Level Staff Conference

In response to the results in the above mentioned staff survey, in May 2004 a conference for Executive Level (EL) staff was held which attracted 109 attendees from a total of 122 EL staff. The broad aim of the conference was to provide a forum to seek views, encourage knowledge sharing, gain a better understanding of ANAO management requirements, initiate change and continuous improvement, and to facilitate discussion across and between ANAO work areas. An outcome of the conference was the identification of a range of short and long term initiatives to enhance our business operations. These are being progressively addressed and implemented.

### 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 2003–04, the WCF convened on seven occasions to consider the development, implementation and review of a range of employment policies and associated procedures. These included a revised Performance Assessment Scheme Information Kit, revised travel guidelines, recruitment and selection evaluation, upwards appraisal for Executive Level staff, the Executive level conference, the development of recruitment advertisements and a corporate profile brochure.

### Recruitment and selection evaluation

During the year the ANAO conducted a major evaluation of its recruitment and selection practices, with a focus on determining if the ANAO had attracted better quality candidates and whether new recruits fitted well into the ANAO's working environment.

Overall, the evaluation concluded that the ANAO had achieved a high degree of success in achieving its desired outcome of recruiting staff that not only met our capabilities, but had the personal qualities and behaviours to successfully transition into the ANAO.

### Performance pay

In 2003-04, a total of \$345 896 in performance bonuses was paid to eligible ANAO staff (\$280 184 in 2002-03). Aggregated information on performance pay is set out in Appendix 1, Table A1-8.

### Learning and development

Targeted learning and development in the ANAO is articulated through an integrated learning and development program. The key elements are:

- an annual Professional Development Calendar;
- a Personal Development Scheme (PDS); and
- individual and work group professional development opportunities.

The program recognises the importance of highly performing individuals and teams in delivering high quality audit products and services. This requires the acquisition of skills and capabilities, and a commitment to continuous improvement, innovation, learning and knowledge sharing.

### *Professional development program*

The Professional Development Calendar is underpinned by the ANAO Capabilities Framework, and as such is based on the skills and knowledge identified by the ANAO as being critical to ongoing work

efficiency, effectiveness and professional growth. The Calendar provides staff with access to a range of core and non-core learning options that represent the foundation of technical and people management and professional development within the ANAO.

Staff, along with their supervisors, are required to provide an assessment of the level of any on-the-job performance improvements and/or improved work group contributions that may result from attending substantive courses or learning opportunities, such as conferences or professional seminars. The aggregate result of these assessments is included in the ANAO's scorecard.

### *Personal Development Scheme (PDS)*

The PDS provides a structured process for staff and their supervisors to engage in an annual discussion about each staff member's personal development needs. It also provides a structured process for assessment against the ANAO capabilities to determine individual staff development needs, including academic studies, 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.

### *Other professional development opportunities*

Work group professional development opportunities are regularly arranged on a needs basis, and are tailored to meet the team's identified specific skills or technical requirements.

### **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. A total number of eight seminars have been presented in this financial year. This series continues to be well received by staff.

### **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/Ireland**

The ANAO has also established exchange placements with Audit New Zealand, the Office of the Auditor-General of Canada and the Office of the Comptroller and Auditor-General of Ireland. The placements involve two staff from the Assurance Audit Services 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. The placement for Ireland involved one staff member. Karen O'Brien

and Tammy Haines participated in an exchange to New Zealand in September/October 2003. Jocelyn Ashford and Willie Tan travelled to Canada in April and May 2004. These placements are viewed as an important 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 2003–04 are set out below.

Secondments/Exchanges to the ANAO	From
John McCullough	Office of the Auditor-General of Canada
Claude Fortier	Office of the Auditor-General of Canada
Veronique Pilote	Office of the Auditor-General of Canada
Stephen Frame	Audit New Zealand
Lisa Harwood	Audit New Zealand
Nayan Patel	Audit New Zealand
Patricia Sheehan	Office of the Comptroller and Auditor-General of Ireland
Secondments/Exchanges from the ANAO	To
Karen O'Brien	Audit New Zealand
Tammy Haines	Audit New Zealand
Jocelyn Ashford	Office of the Auditor-General of Canada
Willie Tan	Office of the Auditor-General of Canada
Keith Smith	Department of Defence
Amanda Brooks	Australian Taxation Office
Lisa Fellows	Department of Family and Community Services

## Professional qualifications and representation

### *Studies Assistance*

During 2003–04, the ANAO supported 54 staff members with their study programs. Of these, the majority participated in the Chartered Accountant (CA) or CPA Australia programs, while a number of staff undertook programs directly related to information technology, vocational or post-graduate university study.

The ANAO staff who completed their CA and CPA programs in 2003–04 are set out below.

CA Program	CPA Program
Lisa Fellows	Catherine Kattenberg
Sarah Pfeiffer	Serena Buchanan
Simon Potter	Natalie Watt
Yoshna Vital	Darren Watt
Jay Teichert	

### *Representation*

A number of members of ANAO staff have roles outside the organisation that contribute significantly to the auditing and accounting profession. Details of these are as follows:

- The Auditor-General is the Australian Director of the International Federation of Accountants, and is a member of the INTOSAI Auditing Standards Committee and the INTOSAI Privatisation Committee. He is also a Member of the Financial Reporting and Governance Centre of Excellence of CPA Australia Public Sector; gives presentations to a wide range of audiences in Australia and overseas; and prepares numerous articles and papers on audit and related matters for conferences and 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 Fellow of the Australian Institute of Management;
- Richard Rundle is member of the Standards Australia Management and Business Standards Sector Board, and is Deputy Chair of the Canberra Branch of the Institute of Internal Auditors;
- 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;
- Wayne Jones is the Oceania representative on the Governmental and Regulatory Agencies Board for the Information Systems Audit and Control Association (ISACA);
- Jocelyn Ashford is the Director of the Information Systems Audit and Control Association (ISACA) Canberra Board;
- Phillip Hagen is a member of the CPA Australia Public Sector Accountants Committee; and
- Darren Box is a member of the Project Advisory Panel for the Australian Accounting Standards Board (AASB) on GFS/GAAP Harmonisation.

Appendix 5 provides a full list of papers and presentations by the Auditor-General and senior ANAO officers in 2003–04.

### *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 three elective subjects chosen from a wide range of legal, human resource management, accounting and information technology subjects.

One ANAO performance auditor, Belinda Hogarth-Boyd, graduated from the course in 2003-04, and several more are expected to graduate in 2004-05.

### *Senior Women in Management*

Senior Women in Management (SWIM) is a prestigious Australian Public Service senior officer development program managed by the Australian Public Service Commission. The purpose of the program is to provide accomplished and high achieving officers with the opportunity to focus on further development through a program that combines high quality coursework with challenging work placements and learning set group work. The ANAO continues its participation in this program with the selection of Catherine Hughes in the 2004 program.

### Graduates

Twenty-two graduates commenced employment with the ANAO in February 2004. 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 includes technical matters, training in people management, general training and skill development.



The 2004 ANAO graduate intake. Seated left to right: Christine Clark, Craig Sims, Neil Young, Charles Strickland, Rita Vigh, Kate Ellis. Standing left to right: Pamela Foster (Graduate Coordinator), Megan Taylor, Andrea Donaldson, Robert Ford, Jennifer Carter, Janna Gilbert, Tammy Salamon, Josh Peacock, Michelle Crampton, Tim Beslee, Joanne Elkner, Lauren Pickles, Zoe Loughton, Dion Rinaldi, Terena Lepper, Christine Preston, Kris Arnold.

## 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 2004 were awarded to the following members of staff:

- Carla Jago, for her strong commitment to the ANAO and its people, her ability to develop and motivate staff, and her sustained and continued professionalism;
- Rachel Harris, for her significant contribution to the BSP Branch as a manager and team member, and for achieving professional recognition and impact, particularly from her audits of record keeping, financial delegations and superannuation;
- Margaret Larkham, for her invaluable contribution to the Office through her diligence and personality, her corporate knowledge, aplomb and good humour. Margaret is highly effective in her role and well respected by all who are associated with her; and
- Anne Cronin, for high quality audit reports which have resulted in significant improvements in public administration. Anne is an excellent role model for junior staff and is actively involved in the ANAO Mentor Program. She consistently demonstrates commitment to the APS values and our own values and behaviours.



Winners of the Auditor-General's Outstanding Achievement Awards with the Auditor-General, Pat Barrett. From left: Rachel Harris, Margaret Larkham, Carla Jago, Anne Cronin.



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

- Craig Deane, for his contribution to the ANAO through his high quality client service, his proactive management style and his contribution to the training and development of junior staff;
- Rosemary Faddoul, for her exemplary performance over the last 15 years, including excellent client service and consistently high level provision of administrative support to the Sydney staff team;
- Hamish Balfour, for active involvement in the management of the Office through his work on various Workplace Consultative Forums, and his contribution to the development, mentoring and leadership of staff;
- Colin Cronin, for his contribution in producing a large number of technically complex audits that have had a significant positive and long lasting impact on the public service;
- Patricia Wells, for her high quality client service in the provision of building and security services; and
- Denzil Bourne, for his corporate contribution, particularly in ensuring that the Office meets its responsibilities in a range of areas, including the production of our reports and other publications.



Winners of the National Australia Day medallions. From left: Patricia Wells, Rosemary Faddoul, Pat Barrett (Auditor-General), Hamish Balfour, Denzil Bourne, Craig Deane. Absent: Colin Cronin.

### Workplace Diversity

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

The 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 three occasions in 2003–04, is responsible for guiding the ANAO in respect of health and welfare awareness. The Committee also addresses a variety of OH&S issues that arise throughout the year. Minutes of the Committee meetings are communicated to all staff via the intranet.

Health and safety representatives are nominated and elected by ANAO employees in accordance with the *Australian National Audit Office/Community And Public Sector Union Occupational Health And Safety Policy And Agreement 1999*. All health and safety representatives undergo appropriate Comcare accredited training. OH&S training is also an integral part of the induction process for new employees.

The ANAO continued the practice of providing free influenza vaccinations to all staff who wished to participate in this initiative. The ANAO also provides free Health Assessments to interested staff. During the year, considerable work was done in ergonomic and workstation assessment, which ensures that staff have appropriate equipment and knowledge to work safely in an office environment. The ANAO promotes staff knowledge of OH&S issues through the frequent circulation of information bulletins and hazard alerts via email and hard copy. These documents, along with the ANAO's OH&S policies, are also available to all staff through the intranet.

### *Incidents during 2003–04*

During 2003–04, 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), continued to provide access to professional counselling services for its staff and their families during the reporting period. This service is offered to assist staff with any personal or work-related problems.

### Commonwealth Disability Strategy

The 2002–2004 ANAO Workplace Diversity Program, together with the ANAO's OH&S policies, broadly addresses the following performance indicators for an employer as specified in the Commonwealth Disability Strategy:

- *Employment policies, procedures and practices comply with the requirements of the Disability Discrimination Act 1992.* These requirements are incorporated into ANAO policies, procedures and practices across a variety of areas in the organisation, including workplace diversity, OH&S, recruitment and professional development.
- *Recruitment information for potential job applicants is available in accessible formats on request.* All recruitment information is available in a variety of accessible formats on request. For graduate recruitment, the ANAO uses an online application system which incorporates a question on this issue. In future this online system will be used for all potential job applicants.
- *Agency recruiters and managers apply the principle of 'reasonable adjustment'.* This principle is integrated into the ANAO's 2002–2004 Diversity Program and OH&S policies. Under the Workplace Diversity Program, all supervisors/managers are required to support staff who require reasonable adjustment. Selection panel staff are also trained to be sensitive to disability issues.
- *Training and development programs consider the needs of staff with disabilities.* When registering for any training or development program, all staff members are asked if they have any special requirements to enable them to participate in the program.
- *Training and development programs include information on disability issues as they relate to the content of the program.* Training on disability issues is provided on a needs basis. Graduates and other new employees are sensitised to disability and diversity issues during the induction process.
- *Complaints/grievance mechanism, including access to external mechanisms, in place to address issues and concerns raised by staff.* The ANAO has established a number of complaints/grievance mechanisms. These are specified in the ANAO Certified Agreement and the ANAO's internal fair treatment procedures. Alternatives are available to staff, including internal counselling through ANAO Diversity Contact Officers and external counselling through the Employee Assistance Program.

Reporting of disability matters is undertaken as part of our Workplace Diversity Program and under our OH&S policies framework. During 2003–04, there were no matters of this nature that were reported or required attention.

## 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.

### Consultancy services

A total of \$2.068 million<sup>33</sup> was expended on consultancy contracts let or managed by the ANAO during 2003–04 (\$1.710 million in 2002–03). The ANAO let 45 consultancy contracts in 2003–04 to provide a range of professional, independent and expert advice or services. Further details of these consultancies are provided at Table A6–1 in Appendix 6.

### Major competitive tendering and contracting activities—legal services

The ANAO has in place a panel of legal firms for the provision of legal services. The previous panel expired in March 2004 and a request for tender was issued in February 2004 to establish a new panel for an initial three year period. The successful tenderers were the Australian Government Solicitor, Mallesons Stephen Jacques, Minter Ellison and Phillips Fox.

### Publishing services

The ANAO continues a sound working relationship with *Canprint Communications*, the external service provider for all audit report publishing services, which was entered into in December 2001. From March 2004, the ANAO improved the efficiency of its printing system by the introduction of ‘computer-to-plate’ printing, involving the production of pdf files in-house which are then supplied to *Canprint Communications*. This arrangement has streamlined our publications procedures and has reduced our pre-press error rate.

### Advertising and branding market research

During 2003–04, the ANAO spent some \$94 000 on advertising in relation to recruitment and tenders. Details of advertising expenditure are set out in Table 5.

**Table 5: Details of advertising expenditure**

Name of firm	Purpose	\$ 000
Hudson Group (TMP Worldwide) <sup>34</sup>	Recruitment	21
HMA Blaze	Recruitment	40
Nga.net	Recruitment	33
<b>Total</b>		<b>94</b>

<sup>33</sup> This amount paid for consultants contracts let and managed in 2003–04, as distinct from the total value of the contract which may be active for more than one year.

<sup>34</sup> This consultancy is also reported in Table A6–1 in Appendix 6 of this report.

The ANAO also spent some \$30 000 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. All audit reports once tabled, are available to the public through the ANAO's internet home page or in hard copy.

### Environmental protection and biodiversity conservation

Section 516A of the *Environment Protection and Biodiversity Conservation Act 1999* (the EPBC Act) requires Australian Government organisations to include in their annual reports:

- a report on the environmental performance of the organisation; and
- the organisation's contribution to Ecologically Sustainable Development (ESD).

#### *Environmental performance of the ANAO*

The EPBC Act requires agencies to report on: the effect of the organisation's activities on the environment; the measures taken by the organisation to minimise this impact; and the mechanisms for reviewing and increasing the effectiveness of these measures. The ANAO's activities impact on the environment in two ways: firstly, through audits of agencies with environmental responsibilities; and secondly, through the ANAO's administrative operations. The impact of the ANAO's audits is discussed below under the heading 'Contribution to ESD'.

The ANAO's administrative operations include a strategy to achieve energy savings to minimise the ANAO's impact on the environment. This strategy 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. An after hours lighting system has also been installed at Centenary House to reduce energy consumption.

The ANAO continued its support of the Australian Greenhouse Office's (AGO's) Working Energy Program. During the year, the ANAO implemented an Environmental Management System and has set targets designed to reduce energy use and increase recycling of paper and other consumables.

#### *Contribution to ESD*

The EPBC Act requires agencies to report on how their activities and their administration of legislation accord with the principles of ESD. The ANAO does not administer any programs or legislation that explicitly mention ESD. However, the ANAO's audit activities do allow the ANAO to report on those

agencies with a more direct influence on the environment. The ANAO conducted two performance audits that were directly relevant to ESD:

- Audit Report No.8 2003–04 *Commonwealth Management of the Great Barrier Reef Follow-up Audit*; and
- Audit Report No.34 2003–04 *The Administration of Major Programs* (programs administered by the Australian Greenhouse Office to limit greenhouse gas emissions).

A synopsis of each of these audit reports can be found in Appendix 4. The ANAO also presented two papers on sustainable development and biodiversity conservation at the 9th Meeting of the INTOSAI Working Group on Environmental Auditing, demonstrating a commitment to improving better practice in environmental management from a global perspective.

Under the EPBC Act, the ANAO is required to report on how its outcomes specified in the Appropriations Act contribute to ESD. The ANAO's two outcomes are: *Outcome 1, improvement in public administration*; and *Outcome 2, assurance of public sector reporting, administration, control and accountability*. The audits mentioned above contributed to an improvement in the administration of ESD-related programs. At the same time, the ANAO provided valuable assurance to the Parliament of whether these ESD-related programs were being managed efficiently and effectively.

### Service charter

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

### Discretionary grants

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

# Appendices

1. ANAO staffing overview
2. 2003–04 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 2003–04
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 2004

Classification	ACT	NSW	TOTAL	
			2003–04	2002–03
SES Band 3	1	–	1	1
SES Band 2	4	–	4	4
SES Band 1	17	–	17	15
Exec 2	70	2	72	69
Exec 1	50	–	50	47
APS 6	47	7	54	56
APS 5	38	–	38	33
APS 4	30	1	31	27
APS 3	12	–	12	13
APS 2	2	–	2	2
APS 1	1	–	1	1
Graduate	21	–	21	19
Cadet	0	–	0	1
<b>TOTAL</b>	<b>293</b>	<b>10</b>	<b>303</b>	<b>288</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 2003		June 2004	
	Audit	Mgt	Audit	Mgt
ACT	217	42	224	47
NSW	10	1	10	1
<b>Sub-total</b>	<b>227</b>	<b>43</b>	<b>234</b>	<b>48</b>
<b>TOTAL</b>	<b>270</b>		<b>282</b>	

(Note: excludes 21 inoperative staff)



Table A1–3: Paid full-time, part-time and non ongoing staff as at 30 June 2004

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	15	2	-	-	-	-	15	2
Exec 2	42	26	1	3	1	-	44	29
Exec 1	19	25	1	2	1	-	21	27
APS 6	14	33	-	1	-	5	14	39
APS 5	14	23	-	-	-	-	14	23
APS 4	13	14	-	-	-	1	13	15
APS 3	-	10	-	-	-	1	-	11
APS 2	1	1	-	-	-	-	1	1
APS 1	1	-	-	-	-	-	1	-
Graduate	6	15	-	-	-	-	6	15
Cadet	0	0	-	-	-	-	-	-
<b>Sub-total</b>	<b>130</b>	<b>149</b>	<b>2</b>	<b>6</b>	<b>2</b>	<b>7</b>	<b>134</b>	<b>162</b>
<b>TOTAL</b>	<b>279</b>		<b>8</b>		<b>9</b>		<b>296</b>	

(Note: includes paid operative and inoperative staff and excludes seven unpaid staff who were on leave without pay.)

Table A1–4: Analysis of workplace diversity groups within salary levels 2003–04

Salary Range	Total staff	Women	NESB1	NESB2	ATSI	PWD
Below \$37 102 (includes APS 1 and Cadets)	1	-	-	1	-	-
\$37 102 to \$47 936 (includes APS 2–3 and Graduates)	35	28	3	1	-	1
\$48 186 to \$58 921 (includes APS 4–5)	69	40	2	2	-	-
\$58 922 to \$80 980 (includes APS 6–Exec 1)	104	68	6	7	-	2
\$82 518 and above	94	30	3	5	-	1
<b>TOTAL</b>	<b>303</b>	<b>166 (55%)</b>	<b>14 (5%)</b>	<b>16 (5%)</b>	<b>0 (0%)</b>	<b>4 (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.
	ATSI	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	20	32	-	5	57	73
NSW	-	1	-	-	1	-
<b>TOTAL</b>	<b>20</b>	<b>33</b>	<b>-</b>	<b>5</b>	<b>58</b>	<b>73</b>

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

Table A1–6: Expenditure on staff training

Description	2003–04	2002–03	2001–02	2000–01	1999–00
Net eligible training expenditure (excludes salaries)	\$608 791	\$622 967	\$808 418	\$757 336	\$467 190
Total number of person-days spent by staff on eligible training programs	1763	1591	1566	1842	1448
Total number of staff participating in eligible training programs	274	266	246	228	259

Table A1- 7: Basis of Employment of Staff

Level	Basis of Employment of Staff	
	Employed under Certified Agreement	Employed on AWAs
SES	-	22
Non SES staff	234	47
<b>Sub-total</b>	<b>234</b>	<b>69</b>
<b>TOTAL</b>	<b>303</b>	

Table A1-8: Performance Payments

Classification	Number	Total for classification \$	Average Payment \$	Minimum payment \$	Maximum payment \$
SES	17	75 000	4 412	2 500	7 500
EXEC 2	27	101 335	3 753	2 380	6 040
EXEC 1	23	59 170	2 573	2 073	4 560
APS 6	29	71 246	2 457	1 700	4 101
APS 5	9	19 323	2 147	1 596	3 358
APS 4	7	11 392	1 627	1 390	2 780
APS 1–3	4	8 430	2 108	1 330	3 005
<b>TOTAL</b>		<b>\$345 896</b>			

## Appendix 2

### 2003–04 Financial Results Commentary and Financial Statements

#### 2003–04 Financial Results Commentary

#### ANAO 2003–04 Financial Statements

- Statement by Auditor-General
- Independent Auditor's Report
- 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

## 2003–2004 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 2003–04. 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**

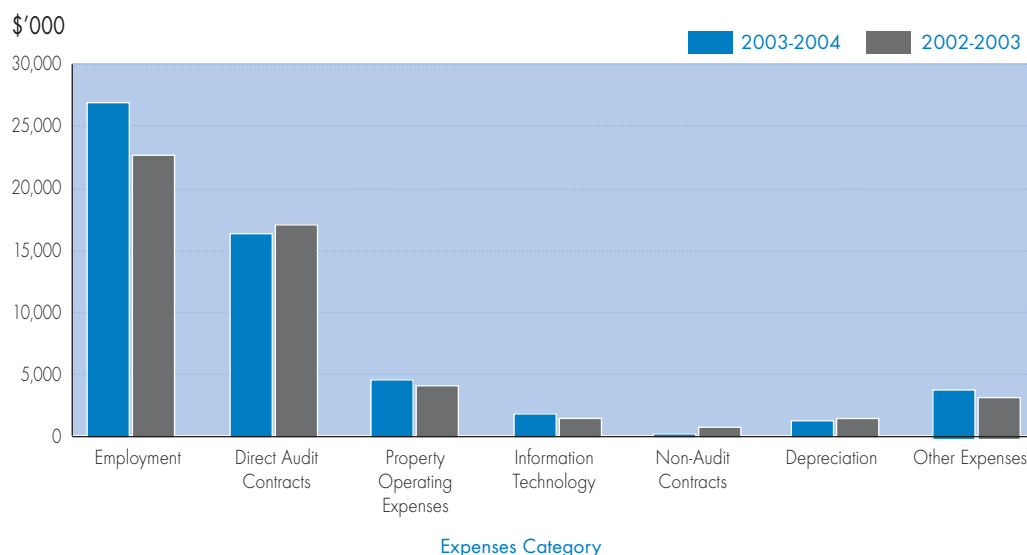
	2003–2004 \$000	2002–2003 \$000	Variance \$000	Variance %
<b>Statement of Financial Performance</b>				
Total operating revenues	56 165	56 920	755	(1.3)
Total operating expenses	56 239	52 344	3 895	7.4
Operating surplus attributable to the Commonwealth	(74)	4 576	4 650	(101.6)
Capital Usage Charge	-	446	(446)	(100.0)
Net Surplus	(74)	4 130	4 204	(101.8)
<b>Statement of Financial Position</b>				
Total assets	21 880	23 714	(1 834)	(7.7)
Total liabilities	12 934	14 924	(1 990)	(13.3)
Net assets	8 946	8 790	156	1.8
Equity	8 946	8 790	156	1.8

## Detailed Analysis

### Operating Expenses

Total operating expenses for the year ended 30 June 2004 were \$3.895 million (7.4%) more than for 2002-03. This increase in expenses reflects a shift in costs, particularly employment costs, which rose by 16.5 per cent and audit related costs, which declined by 8.3 percent. The average staffing level rose to 297 (285 in 2002-03). The increase in employment cost reflects the change in staffing numbers, some staffing classifications and increased remuneration, in part flowing from the current certified agreement. Total property operating expenses have marginally increased after allowing for the annual increase in the lease rate and the off-setting effect of sub leasing part of the leased premises to another organisation. A breakdown of total operating expenses into major expense categories is shown in Figure A2-1.

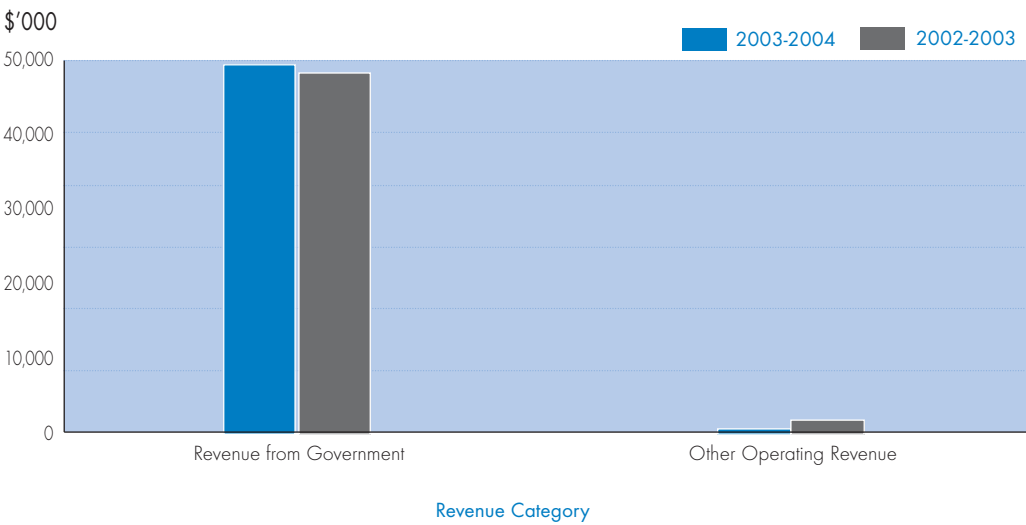
**Figure A2-1: Operating expenses**



### Operating Revenue

The reduction in total operating revenues is due to the decrease in other operating revenues for the financial year of 72.2 per cent, largely due to the sub-lease of part of the leased premises being recognised in the 2002-03 financial year. 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 remained strong over the past year due to tight management of assets and liabilities and the long term sub lease of part of the leased premises. The small operating deficit of \$0.074 million plus tighter management of balance sheet items has resulted in a modest improvement in the equity position of the ANAO, which stands at \$8.946 million (2003: \$8.790m). The capital use charge did not apply in 2003–04 (2003: \$0.446m) and there was no repayment of contributed equity (2003: \$1.114m).

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 reduced due to fewer supplier claims at year end and continued prompt settlement of supplier claims. Employee related liabilities have increased as a result of increased remuneration levels flowing from the current certified agreement, and increased staffing numbers.

*Administered Funds Financial Summary*

Audit fees billed to Commonwealth authorities and companies for non-discretionary audit work is comparable with 2002–03, as reflected in the following table.

Table A2-2: **Administered funds**

	2003-2004 \$000	2002-2003 \$000
<b>Administered Revenue and Expenses</b>		
Sale of goods and services	10 893	11 226
Cash transferred to the Official Public Account	10 223	10 532
<b>Administered Assets and Liabilities</b>		
Financial Assets	2 505	3 153
Equity and liabilities	2 505	3 153

### *Other*

#### *Net Outlays to Government*

In overall terms, the ANAO generated \$11.890 million (2003: \$14.806m) in revenues from audit and related services. Given that the ANAO received appropriations totalling \$55.168 million (2003: \$53.340 m), the net outlay by Government was \$44.275 million (2003: \$38.534m).

#### *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 2003-04, total revenue generated (actual and notional) was \$42 791 million (2003: \$38 668 million) compared with net costs to recover of \$42 965 million (2003: \$38.345m).





# Financial Statements

For the year ended 30 June 2004



## 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 2004 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 Australian 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.



KPMG, an Australian partnership, is a member of KPMG International, a Swiss not-for-profit association.

**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 2004, and its financial performance and its cash flows for the year then ended.

A handwritten signature in black ink, appearing to read 'Michael J Coleman'.

Michael J Coleman  
Independent Auditor

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


Canberra  
11 August 2004

**Australian National Audit Office**

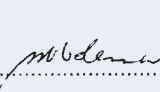
**Statement by the Auditor-General and the Chief Finance Officer**

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In our opinion, the attached financial statements for the year ended 30 June 2004 are based on properly maintained financial records and 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:   
P J Barrett  
Auditor-General

// August 2004

Signed:   
R C Coleman  
Chief Finance Officer

// August 2004

**Australian National Audit Office**  
**STATEMENT OF FINANCIAL PERFORMANCE**  
*For the year ended 30 June 2004*

	Notes	2004 \$'000	2003 \$'000
<b>Revenues from ordinary activities</b>			
Revenues from Government	4A	55 168	53 340
Goods and services	4B	965	3 281
Interest	4C	-	248
Revenue from sale of assets	4D	32	51
<b>Revenues from ordinary activities</b>		<b>56 165</b>	<b>56 920</b>
<b>Expenses from ordinary activities</b>			
Employees	5A	26 906	23 094
Suppliers	5B	27 486	27 392
Depreciation and amortisation	5C	1 404	1 506
Value of assets sold	4D	21	-
Write-down of assets	5D	-	8
Other expenses	6	422	344
<b>Expenses from ordinary activities</b>		<b>56 239</b>	<b>52 344</b>
<b>Net (deficit)/surplus</b>		<b>(74)</b>	<b>4 576</b>
<b>Total changes in equity other than those resulting from transactions with the Australian Government as owner</b>		<b>(74)</b>	<b>4 576</b>

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

**Australian National Audit Office**  
**STATEMENT OF FINANCIAL POSITION**  
*as at 30 June 2004*

	Notes	2004 \$'000	2003 \$'000
<b>ASSETS</b>			
<b>Financial assets</b>			
Cash	7A	906	1 634
Receivables	7B	17 175	17 785
Work in Progress	7C	14	20
<b>Total financial assets</b>		<b>18 095</b>	<b>19 439</b>
<b>Non-financial assets</b>			
Infrastructure, plant and equipment	8A, C	2 937	3 056
Intangibles – computer software	8B, C	246	607
Other non-financial assets	8D	602	612
<b>Total non-financial assets</b>		<b>3 785</b>	<b>4 275</b>
<b>TOTAL ASSETS</b>		<b>21 880</b>	<b>23 714</b>
<b>LIABILITIES</b>			
<b>Interest bearing liabilities</b>			
Other interest bearing liabilities	9A	2 368	3 708
<b>Total interest bearing liabilities</b>		<b>2 368</b>	<b>3 708</b>
<b>Provisions</b>			
Capital use charge	10A	-	-
Employees	10B	8 545	8 488
<b>Total provisions</b>		<b>8 545</b>	<b>8 488</b>
<b>Payables</b>			
Suppliers	11A	1 831	2 538
Other payables	11B	190	190
<b>Total payables</b>		<b>2 021</b>	<b>2 728</b>
<b>TOTAL LIABILITIES</b>		<b>12 934</b>	<b>14 924</b>
<b>NET ASSETS</b>		<b>8 946</b>	<b>8 790</b>
<b>EQUITY</b>			
Contributed equity		4 929	4 929
Reserves		809	579
Accumulated surpluses		3 208	3 282
<b>TOTAL EQUITY</b>	12	<b>8 946</b>	<b>8 790</b>
<b>Current assets</b>		<b>18 697</b>	<b>19 511</b>
<b>Non-current assets</b>		<b>3 183</b>	<b>4 203</b>
<b>Current liabilities</b>		<b>6 080</b>	<b>7 980</b>
<b>Non-current liabilities</b>		<b>6 854</b>	<b>6 944</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 2004*

	Notes	2004 \$'000	2003 \$'000
<b>OPERATING ACTIVITIES</b>			
<b>Cash received</b>			
Goods and services		1 080	3 350
Appropriations		55 168	53 340
Interest		-	248
Net GST received from Australian Taxation Office		255	1 062
<b>Total cash received</b>		<b>56 503</b>	<b>58 000</b>
<b>Cash used</b>			
Employees		26 808	21 989
Suppliers		29 740	31 766
Cash transferred to the Official Public Account		-	16 734
<b>Total cash used</b>		<b>56 548</b>	<b>70 489</b>
<b>Net cash used by operating activities</b>	13	<b>(45)</b>	<b>(12 489)</b>
<b>INVESTING ACTIVITIES</b>			
<b>Cash received</b>			
Proceeds from sales of infrastructure, plant and equipment		32	51
<b>Total cash received</b>		<b>32</b>	<b>51</b>
<b>Cash used</b>			
Purchase of infrastructure, plant and equipment		715	805
Purchase of intangibles		-	129
<b>Total cash used</b>		<b>715</b>	<b>934</b>
<b>Net cash used by investing activities</b>		<b>(683)</b>	<b>(883)</b>
<b>FINANCING ACTIVITIES</b>			
<b>Cash received</b>		-	-
<b>Cash used</b>			
Capital use charge paid		-	1 153
Return of contributed equity		-	1 114
<b>Total cash used</b>		<b>-</b>	<b>2 267</b>
<b>Net cash used by financing activities</b>		<b>-</b>	<b>(2 267)</b>
<b>Net decrease in cash held</b>		<b>(728)</b>	<b>(15 639)</b>
Cash at the beginning of the reporting period		1 634	17 273
<b>Cash at the end of the reporting period</b>	13	<b>906</b>	<b>1 634</b>

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

**Australian National Audit Office**  
**SCHEDULE OF COMMITMENTS**  
*as at 30 June 2004*

	<b>2004</b>	2003
	<b>\$'000</b>	\$'000
<b>BY TYPE</b>		
Other commitments		
Operating leases <sup>1</sup>	<b>30 767</b>	40 437
Other commitments <sup>2</sup>	<b>16 184</b>	19 265
<b>Total other commitments</b>	<b>46 951</b>	59 702
Commitments receivable	<b>(7 363)</b>	(5 421)
<b>Net commitments</b>	<b>39 588</b>	54 281
<b>BY MATURITY</b>		
<b>Other commitments excluding operating lease commitments</b>		
One year or less	<b>9 969</b>	12 335
From one to five years	<b>6 215</b>	6 912
Over five years	-	18
<b>Total other commitments by maturity</b>	<b>16 184</b>	19 265
<b>Operating lease commitments</b>		
One year or less	<b>6 374</b>	6 483
From one to five years	<b>24 393</b>	31 856
Over five years	-	2 098
<b>Total operating lease commitments by maturity</b>	<b>30 767</b>	40 437
<b>Commitments receivable</b>	<b>(7 363)</b>	(5 421)
<b>Net commitments by maturity</b>	<b>39 588</b>	54 281

*NB: Commitments are GST inclusive where relevant.*

- 1 Operating leases included for 2003-2004 are effectively non-cancellable and comprise:

<i>Nature of lease</i>	General description of leasing arrangements
Leases for office accommodation	In the ACT the terms of the lease arrangement are 15 years expiring on 22 September 2008, with an option to extend for 5 years, and a rent escalation clause of 9% each year. The option to extend has not been exercised. In NSW the terms of the lease arrangement are 5 years, expiring 30 June 2007, with no option for renewal and no increase in rental before July 2005. 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 \$2.806 million (2002-03: \$3.053 million).
Agreements for the provision of motor vehicles to senior executive officers	With the exception of one motor vehicle lease, the ANAO ceased to lease motor vehicles for senior executive officers during the course of the 2003-04 financial year. Under the previous arrangement, motor vehicle lease terms varied between 24 and 36 months with variable interest rates.

- 2 Other commitments comprise: contract audit services \$11.284 million (2002-03: \$12.426 million), information technology contracts \$4.036 million (2002-03: \$5.720 million) and other corporate contracts totalling \$0.864 million (2002-03: \$1.119 million).

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



<b>Australian National Audit Office</b>			
<b>SCHEDULE OF ADMINISTERED ITEMS</b>			
	Notes	<b>2004 \$'000</b>	2003 \$'000
<b><u>Revenues Administered on Behalf of Government</u></b>			
<i>for the year ended 30 June 2004</i>			
<b>Non-taxation revenue</b>			
Goods and services (audit fees)	19	<b>10 893</b>	11 226
<b>Total Revenues Administered on Behalf of Government</b>		<b>10 893</b>	11 226
<b><u>Assets Administered on Behalf of Government</u></b>			
<i>As at 30 June 2004</i>			
<b>Financial Assets</b>			
Cash	20	-	214
Receivables (financial statement audit fees)	20	<b>1 325</b>	1 299
Work in progress	20	<b>1 180</b>	1 640
<b>Total Assets Administered on Behalf of Government</b>		<b>2 505</b>	3 153
<b><u>Liabilities Administered on Behalf of Government</u></b>			
<i>As at 30 June 2004</i>			
<b>Payables</b>			
GST payable	21	<b>164</b>	137
Other payables	21	-	214
<b>Total Liabilities Administered on Behalf of Government</b>		<b>164</b>	351
Current Assets		<b>2 505</b>	3 153
Non-current Assets		-	-
Current Liabilities		<b>164</b>	351
Non-current Liabilities		-	-

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

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

	<b>2004</b>	2003
	<b>\$'000</b>	\$'000
<b><u>Administered Cash Flows</u></b>		
<i>for the year ended 30 June 2004</i>		
<b>Operating Activities</b>		
<b>Cash received</b>		
Rendering of services (audit fees)	<b>11 140</b>	11 826
<b>Total cash received</b>	<b>11 140</b>	11 826
<b>Cash used</b>		
GST paid to the Australian Taxation Office	<b>1 131</b>	1 080
Cash to the Official Public Account	<b>10 223</b>	10 532
<b>Total cash used</b>	<b>11 354</b>	11 612
<b>Net cash (used in) / from operating activities</b>	<b>(214)</b>	214
<b><u>Administered Commitments</u></b>		
<i>As at 30 June 2004</i>		
<b>Net Administered Commitments</b>	<b>-</b>	-

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

The Australian National Audit Office undertakes audits of Australian Government agencies, authorities and companies. 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 authorities and companies. 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 2003-04, which has been tabled in Parliament.

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

**Australian National Audit Office**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
*for the year ended 30 June 2004*

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<b>Note</b>	<b>Description</b>
1	Summary of Significant Accounting Policies
2	Adoption of AASB Equivalents to International Financial Reporting Standards from 2005-2006
3	Events Occurring after Reporting Date
4	Operating Revenues
5	Operating Expenses
6	Other Expenses
7	Financial Assets
8	Non-Financial Assets
9	Interest Bearing Liabilities
10	Provisions
11	Payables
12	Equity
13	Cash Flow Reconciliation
14	Contingent Liabilities and Assets
15	Executive Remuneration
16	Remuneration of Auditors
17	Average Staffing Level
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 Contingent Liabilities
24	Administered Investments
25	Administered Financial Instruments
26	Appropriations
27	Assets Held in Trust
28	Specific Payment Disclosures
29	Reporting of Outcomes

**Australian National Audit Office**  
**Notes to and forming part of the financial statements**  
**For the year ended 30 June 2004**

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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, business support process 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, 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 Commonwealth public sector.

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.

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:

- plant and equipment and software used in providing goods and services;
- liabilities for employee benefits;
- 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 Orders (Financial Statements for reporting periods ending on or after 30 June 2004)*);
- Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board; and
- Consensus Views of the Urgent Issues Group.

**Australian National Audit Office**  
**Notes to and forming part of the financial statements**  
**For the year ended 30 June 2004**

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**1.2 Basis of Accounting (continued)**

The Statements of Financial Performance and Financial Position have been prepared on an accrual basis and are in accordance with historical cost convention, except for certain assets 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.

Assets and liabilities are recognised in the 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 14).

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

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 agency items, except where otherwise stated 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 2002-03.

Infrastructure, plant and equipment assets are being revalued progressively as explained in Note 1.11. Revaluations up to 30 June 2002 were done on a "deprival" basis, since that date, revaluations have been done on a fair value basis. Revaluation increments and decrements in each year of transition to fair value that would otherwise be accounted for as revenue or expenses are taken directly to accumulated results in accordance with transitional provisions of AASB 1041 *Revaluation of Non-current Assets*.

In 2002-03, the Finance Minister's Orders introduced an impairment test for non-current assets that were carried at cost and not subject to AAS10 *Recoverable Amount of Non-current Assets*. In 2003-04, no write-down adjustments were made to software assets under this policy.

In 2003-04, the impairment test provisions of the FMOs have been extended to cover non-current assets carried at deprival values. There were no indications of impairment for these assets.

**1.4 Revenue**

*Revenues from Government*

Amounts appropriated for the year for departmental outputs 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.

Revenue from 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 and gains from the sale of Australian National Audit Office assets. Revenue amounts are disclosed in Note 4.

**Australian National Audit Office**  
**Notes to and forming part of the financial statements**  
**For the year ended 30 June 2004**

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**1.5 Transactions with the Government as Owner**

*Equity Injections*

No equity injections were received by the Australian National Audit Office in the 2003-04 financial year.

*Capital Use Charge*

A Capital Use Charge was imposed on net departmental assets of the Australian National Audit Office. In 2002-03, the operation of the Capital Use Charge was reviewed as part of the Budget Estimates and Framework Review. In accordance with the recommendations of the Budget Estimates and Framework Review, the Government discontinued operation of the Capital Use Charge effective from 1 July 2003.

*Other distributions to owners*

The FMOs require distributions to owners to be debited to contributed equity unless in the nature of a dividend. In 2002-03, by agreement with Finance, the ANAO relinquished control of surplus output appropriation funding of \$1,114,000 to the Official Public Account. There were no distributions to owners during the 2003-04 financial year.

**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) and annual 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.

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's 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 as the present value of the estimated future cash flows to be made in respect of all employees at 30 June 2004. 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 \$3 444 million in 2003-04 (\$2.536 million in 2002-03) have been expensed in these financial statements.

The ANAO makes employer contributions to the Australian Government at rates determined by an actuary to be sufficient to meet the cost to the Australian Government of the superannuation entitlements of the ANAO's employees. No liability for superannuation contribution is recognised at 30 June 2004 as the employer contributions fully extinguish the accruing liability.

Employer Superannuation Productivity Benefit contributions totalled \$0.475 million (2002-03: \$0.431 million).

The liability for superannuation recognised as at 30 June 2004 represents outstanding contributions for the final fortnight of the year.

**Australian National Audit Office**  
**Notes to and forming part of the financial statements**  
**For the year ended 30 June 2004**

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**1.7 Leases**

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

The ANAO did not have any finance leases as at 30 June 2004.

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 the 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 expense and reduction of the lease liability.

**1.8 Cash**

Cash includes notes and coins held and any deposits held at call with a bank or financial institution. Cash is recognised at its nominal amount.

As a result of changes to the Government's cash management arrangements in 2002-03, 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 continues to be shown as a receivable in the Statement of Financial Position.

**1.9 Other Financial Instruments**

*Trade Creditors*

Trade 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).

*Contingent Liabilities and Contingent Assets*

Contingent Liabilities and Contingent Assets are not recognised in the Statement of Financial Position but are discussed in the relevant schedules and notes. They may arise from uncertainty as to the existence of a liability or an asset or represent an existing liability or an asset in respect of which settlement is not probable or the amount cannot be reliably measured. Remote contingencies are part of this disclosure. Where settlement becomes probable, the existence of a liability or an asset is recognised. A liability or an asset is recognised when its existence is confirmed by a future event, settlement becomes probable or reliable measurement becomes possible.

*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.

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**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*

*Basis*

Infrastructure, plant and equipment are carried at valuation. Revaluations undertaken up to 30 June 2002 were done on a deprival basis; revaluations since that date are at fair value. This change in accounting policy is required by Accounting Standard AASB 1041 *Revaluation of Non-current Assets*. Valuations undertaken in any year are as at 30 June.

Fair and deprival values for each class of asset are determined as shown below.

Asset class	Fair value	Deprival value measured at:
Leasehold improvements	Depreciated replacement cost	Depreciated replacement cost
Plant and equipment	Market selling price	Depreciated replacement cost

The financial effect of this change in policy relates to those assets recognised at fair value for the first time in the current period where the measurement basis for fair value is different to that previously used for deprival value. The financial effect of the change is given by the difference between the fair values obtained for these assets in the current period and the deprival-based values recognised at the end of the previous period. The financial effect by class is as follows:

Asset class	Increment/(decrement) to asset class	Contra Account:
Leasehold improvements	2004: \$498,000 2003: Nil	Revaluation Reserve
Plant and equipment	2004: (\$268,000) 2003: \$Nil	Revaluation Reserve

Total financial effect was to decrease the carrying amount of infrastructure, plant and equipment by \$230,000 (2003: \$Nil) and increase revaluation reserves by \$230,000 (2003: \$Nil).

Under both deprival and fair value, assets that are surplus to requirements are measured at their net realisable value. There are no assets that are surplus to requirements at 30 June 2004.

*Frequency*

Infrastructure, plant and equipment assets are revalued every three years. The Australian National Audit Office last revalued these assets as at 30 June 2004 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.

*Depreciation*

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 depreciated on a straight-line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

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



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

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

	<b>2004</b>	2003
Leasehold improvements	<b>Lease term</b>	Lease term
Plant and equipment	<b>3 – 15 years</b>	3 – 15 years

Non-current assets carried at up-to-date fair value at the reporting date are not subject to impairment testing.

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in Note 8.

**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:

	<b>2004</b>	2003
Internally Developed Software	<b>3 years</b>	3 years
Financial & Human Resources Systems	<b>5 years</b>	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.

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 2003 and 30 June 2004. No assets were found to be impaired.

**1.13 Inventories**

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.

**Australian National Audit Office**  
**Notes to and forming part of the financial statements**  
*For the year ended 30 June 2004*

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**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 Government's insurable risk managed fund, called 'Comcover'. Worker's compensation is insured through the Government's 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 2002-03 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 4C.

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 2002-03 financial year and is disclosed in Note 12 as a repayment of Contributed Equity.

Following a review of the Agency Banking Incentive Scheme during the 2002-03 financial year, the Australian National Audit Office transferred cash in excess of immediate working capital requirements to the Official Public Account at 30 June 2003. Under the revised cash management arrangements the Australian National Audit Office does not hold surplus cash and will not earn interest.

**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 financial statements. 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 2002-03, being the rental income to be derived during the period of the sub-lease. No further adjustments were required during 2003-04.

**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.

**Australian National Audit Office**  
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**For the year ended 30 June 2004**

**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 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 – Adoption of AASB Equivalents to International Financial Reporting Standards from 2005-2006**

The Australian Accounting Standards Board has issued replacement Australian Accounting Standards to apply from 2005-06. The new standards are the AASB Equivalents to International Financial Reporting Standards (IFRSs) that are issued by the International Accounting Standards Board. The new standards cannot be adopted early. The standards being replaced are to be withdrawn with effect from 2005-06, but continue to apply in the meantime.

It is expected that the Finance Minister will continue to require compliance with the Accounting Standards issued by the AASB, including the AASB Equivalents to IFRSs, in his Orders for the Preparation of Agency financial statements for 2005-06 and beyond.

The AASB Equivalents contain certain additional provisions that will apply to not-for-profit entities, including Australian Government agencies. Some of these provisions are in conflict with the IFRSs and therefore the Australian National Audit Office will only be able to assert compliance with the AASB Equivalents to the IFRSs.

Existing AASB standards that have no IFRS equivalent will continue to apply, including in particular AAS 29 *Financial Reporting by Government Departments*.

Accounting Standard AASB 1047 *Disclosing the impact of Adopting Australian Equivalents to IFRSs* requires that the financial statements for 2003-04 disclose:

- An explanation of how the transition to the AASB Equivalents is being managed, and
- A narrative explanation of the key differences in accounting policies arising from the transition.

The purpose of this Note is to make these disclosures.

**Australian National Audit Office**  
**Notes to and forming part of the financial statements**  
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**Note 2 – Adoption of AASB Equivalents to International Financial Reporting Standards from 2005-2006 (continued)**

*Management of the transition to AASB Equivalents to IFRSs*

The Australian National Audit Office (ANAO) has taken the following steps for the preparation towards the implementation of AASB Equivalents:

- The ANAO's Audit Committee is tasked with oversight of the transition to and implementation of the AASB Equivalents to IFRSs. The Chief Finance Officer is formally responsible for the project and to report progress to the Audit Committee.
- The ANAO is, well advanced in:
  - identifying all major accounting policy differences between current AASB standards and the AASB Equivalents to IFRSs;
  - identifying measures necessary to be able to report under the AASB Equivalents, including those necessary to enable capture of data under both sets of rules for 2004-05, and the testing and implementation of those measures; and
  - preparing an AASB Equivalent balance sheet at the same time as the 30 June 2005 statements are prepared.
- These measures will ensure the ANAO meets reporting deadlines set by Finance for the 2005-06 balance sheet under AASB Equivalent Standards.
- It is expected there will not be any substantial system changes to meet the requirements of the new Standards framework.

*Major changes in accounting policy*

Changes in accounting policies under AASB Equivalents are applied retrospectively i.e. as if the new policy had always applied. This rule means that a balance sheet prepared under the AASB Equivalents must be made as at 1 July 2004, except as permitted in particular circumstances by AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. This will enable the 2005-06 financial statements to report comparatives under the AASB Equivalents.

Changes to major accounting policies are discussed in the following paragraphs.

*Infrastructure, plant and equipment*

It is expected that the Finance Minister's Orders will require infrastructure, plant and equipment assets carried at valuation in 2003-04 to be measured at up-to-date fair value from 2005-06. This differs from the accounting policies currently in place for these assets, which, up to and including 2003-04, have been re-valued progressively over a 3-year cycle.

However, it is important to note that the Finance Minister requires these assets to be measured at up-to-date fair values as at 30 June 2005. Further, the transitional provisions in AASB 1 will mean that the values at which assets are carried as at 30 June 2004 under existing standards will stand in the transitional balance sheet as at 1 July 2004.

*Intangible assets*

The ANAO currently recognises internally developed software assets on the cost basis. The carrying amounts include amounts that were originally measured at deprival valuation and subsequently deemed to be cost under the transitional provisions available on the introduction of AAS 38 *Revaluation of Non-current Assets* in 2000-01 and AASB 1041 of the same title in 2001-02.

**Australian National Audit Office**  
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**Note 2 – Adoption of AASB Equivalents to International Financial Reporting Standards from 2005-2006 (continued)**

The AASB Equivalent on Intangibles does not permit intangibles to be measured at valuation unless there is an active market for the intangible. The ANAO's internally developed software is specific to the needs of the ANAO and is not traded. Accordingly, the ANAO will de-recognise the internally generated component of the carrying amount of these assets on adoption of the AASB Equivalent.

*Impairment of non-current assets*

The ANAO's policy on impairment of non-current assets is at Note 1.11.

Under the new AASB Equivalent Standard, these assets will be subject to assessment for impairment and, if there are indications of impairment, measurement of any impairment. (Impairment measurement must also be done, irrespective of any indications of impairment, for intangible assets not yet available for use). The impairment test is that the carrying amount of an asset must not exceed the greater of (a) its fair value less costs to sell and (b) its value in use. 'Value in use' is the depreciated replacement cost for other assets that would be replaced if the ANAO was deprived of them.

*Employee Benefits*

The provision for long service leave is measured at the present value of estimated future cash outflows using market yields as at the reporting date on national government bonds.

Under the new AASB Equivalent standard, the same discount rate will be used unless there is a deep market in high quality corporate bonds, in which case the market yield on such bonds must be used.

**Note 3 – Events Occurring after Reporting Date**

No events have occurred after balance date that should be brought to account or noted in the 2003-04 financial statements.

**Australian National Audit Office**  
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	2004 \$'000	2003 \$'000
<b>Note 4 – Operating Revenues</b>		
<u>Note 4A – Revenues from Government</u>		
Appropriations for outputs	<u>55 168</u>	<u>53 340</u>
<u>Note 4B – Goods and Services</u>		
Audit related services	627	561
Rental income	331	2 720
Other	7	-
<b>Total sales of goods and services</b>	<u>965</u>	<u>3 281</u>
Rendering of services to:		
Related entities	627	699
External entities	338	2 582
<b>Total rendering of services</b>	<u>965</u>	<u>3 281</u>
<u>Note 4C – Interest Revenue</u>		
Interest on deposits	<u>-</u>	<u>248</u>
<u>Note 4D – Net Gains from Sale of Assets</u>		
Infrastructure, plant and equipment:		
Proceeds from disposal	32	51
Net book value of assets disposed	(21)	-
<b>Net gain / (loss) from disposal of infrastructure, plant and equipment</b>	<u>11</u>	<u>51</u>
<b>Note 5 – Operating Expenses</b>		
<u>Note 5A – Employee Expenses</u>		
Salaries and wages	19 511	17 047
Superannuation	3 918	2 967
Leave and other entitlements	3 200	2 907
Separation and redundancies	90	28
Other employee expenses	37	40
<b>Total employee benefits expense</b>	<u>26 756</u>	<u>22 989</u>
Worker compensation premiums	150	105
<b>Total employee expenses</b>	<u>26 906</u>	<u>23 094</u>

**Australian National Audit Office**  
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	<b>2004</b>	2003
	<b>\$'000</b>	\$'000

**Note 5 – Operating Expenses (cont'd)**

Note 5B – Supplier Expenses

Services from external entities	<b>22 060</b>	22 024
Operating lease rentals <sup>1</sup>	<b>5 426</b>	5 368
<b>Total supplier expenses</b>	<b>27 486</b>	27 392

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

Note 5C – Depreciation and Amortisation

The aggregate amounts of depreciation or amortisation expensed during the reporting period for each class of depreciable asset are as follows:

<i>Depreciation</i>		
Infrastructure, plant and equipment	<b>795</b>	791
<b>Total Depreciation</b>	<b>795</b>	791
<i>Amortisation</i>		
Intangible - computer software	<b>361</b>	487
Leasehold improvements	<b>248</b>	228
<b>Total Amortisation</b>	<b>609</b>	715
<b>Total depreciation and amortisation</b>	<b>1 404</b>	1 506

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

Note 5D – Write Down of Assets

**Non-financial assets**

Infrastructure, plant and equipment – write-off	<b>-</b>	8
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**Australian National Audit Office**  
**Notes to and forming part of the financial statements**  
**For the year ended 30 June 2004**

	Notes	2004 \$'000	2003 \$'000
<b>Note 6 – Other Expenses</b>			
Surplus space liability interest		<u>422</u>	<u>344</u>
<b>Note 7 – Financial Assets</b>			
<u>Note 7A – Cash</u>			
Cash on hand		<u>1</u>	<u>1</u>
Cash at bank		<u>905</u>	<u>1 633</u>
<b>Total cash</b>	13	<u><b>906</b></u>	<u><b>1 634</b></u>

All cash recognised is a current asset.

Under banking arrangements in place up to 1 July 2003, monies in the ANAO's bank accounts were swept into the Official Public Account nightly and earned interest on the daily balance at rates based on money market call rates. Since 1 July 2003, no interest is earned on the ANAO's bank balances.

Note 7B – Receivables

Goods and services	<b>90</b>	208
Less: Provision for doubtful debts	<u>-</u>	<u>-</u>
	<b>90</b>	208
GST receivable from the Australian Taxation Office	<b>351</b>	831
Interest receivable	-	12
Cash held in the Official Public Account	<b>16 734</b>	16 734
Other	<u>-</u>	<u>-</u>
<b>Total receivables</b>	<u><b>17 175</b></u>	<u><b>17 785</b></u>
Receivables is represented by:		
Current	<b>17 175</b>	17 245
Non Current	<u>-</u>	<u>540</u>
<b>Total receivables</b>	<u><b>17 175</b></u>	<u><b>17 785</b></u>

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

Not Overdue		
• Less than 30 days	<b>68</b>	146
Overdue by:		
• 30 to 60 days	<b>11</b>	57
• 60 to 90 days	-	1
• More than 90 days	<u><b>11</b></u>	<u>4</u>
	<u><b>90</b></u>	<u><b>208</b></u>

Note 7C – Other

Work in progress – audit related services	<u><b>14</b></u>	<u><b>20</b></u>
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All work in progress is recognised as a current asset.



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	<b>2004</b>	2003
	<b>\$'000</b>	\$'000
<b>Note 8 – Non-Financial Assets</b>		
<b>8A – Infrastructure, Plant and Equipment</b>		
Leasehold improvements – at cost	-	214
Accumulated amortisation	-	(31)
	<u>-</u>	<u>183</u>
Leasehold improvements – at valuation	<b>1 761</b>	1 681
Accumulated amortisation	-	(454)
	<u><b>1 761</b></u>	<u>1 227</u>
Plant and equipment – at cost	-	2 160
Accumulated depreciation	-	(919)
	<u>-</u>	<u>1 241</u>
Plant and equipment – at valuation	<b>1 176</b>	1 286
Accumulated depreciation	-	(881)
	<u><b>1 176</b></u>	<u>405</u>
<b>Total Infrastructure, Plant &amp; Equipment (non-current)</b>	<u><b>2 937</b></u>	<u>3 056</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 as at 30 June 2004. No assets have been acquired after the revaluation.

Revaluation increment of \$498,000 for leasehold improvements (2003: \$Nil) and a decrement of \$268,000 for plant and equipment (2003: \$Nil) were made to the asset revaluation reserve.

**8B – Intangibles**

Computer software – at cost (non-current)	<b>2 428</b>	2 428
Accumulated amortisation	<b>(2 182)</b>	(1 821)
<b>Total intangibles</b>	<u><b>246</b></u>	<u>607</u>

**Australian National Audit Office**  
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**Note 8 – Non-Financial Assets (cont.)**

**8C – 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>
<b>As at 1 July 2003</b>				
Gross book value	1 895	3 446	2 428	<b>7 769</b>
Accumulated depreciation / amortisation	(485)	(1 800)	(1 821)	<b>(4 106)</b>
<b>Net book value</b>	<b>1 410</b>	<b>1 646</b>	<b>607</b>	<b>3 663</b>
<b>Additions by purchase</b>	<b>101</b>	<b>614</b>	<b>-</b>	<b>715</b>
<b>Net revaluation increment/(decrement)</b>	<b>498</b>	<b>(268)</b>	<b>-</b>	<b>230</b>
<b>Depreciation/amortisation expense</b>	<b>(248)</b>	<b>(795)</b>	<b>(361)</b>	<b>(1 404)</b>
<b>Disposals</b>	<b>-</b>	<b>(21)</b>	<b>-</b>	<b>(21)</b>
<b>As at 30 June 2004</b>				
Gross book value	1 761	1 176	2 428	<b>5 365</b>
Accumulated depreciation / amortisation	-	-	2 182	<b>2 182</b>
<b>Net book value</b>	<b>1 761</b>	<b>1 176</b>	<b>246</b>	<b>3 183</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 2004</b>				
Gross value	1 761	1 176	-	<b>2 937</b>
Accumulated depreciation / amortisation	-	-	-	<b>-</b>
<b>Net book value</b>	<b>1 761</b>	<b>1 176</b>	<b>-</b>	<b>2 937</b>
<b>As at 30 June 2003</b>				
Gross value	1 681	1 286	-	<b>2 967</b>
Accumulated depreciation / amortisation	(454)	(881)	-	<b>(1 335)</b>
<b>Net book value</b>	<b>1 227</b>	<b>405</b>	<b>-</b>	<b>1 632</b>

**Australian National Audit Office**  
**Notes to and forming part of the financial statements**  
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	2004 \$'000	2003 \$'000
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Note 8D – Other Non-Financial Assets Notes

Prepayments	<u>602</u>	<u>612</u>
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All prepayments are recognised as current assets.

**Note 9 – Interest Bearing Liabilities**

9A – Other Interest Bearing Liabilities

Surplus lease space	<u>2 368</u>	<u>3 708</u>
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Other interest bearing liabilities are represented by:

Current	487	799
Non Current	<u>1 881</u>	<u>2 909</u>
<b>Total other interest bearing liabilities</b>	<u><b>2 368</b></u>	<u><b>3 708</b></u>

**Note 10 – Provisions**

Note 10A – Capital Use Charge Provision

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

The capital use charge ceased from 1 July 2003.

Note 10B – Employee Provisions

Salaries and wages	121	782
Annual leave	2 452	2 307
Long service leave	5 187	4 661
Superannuation	<u>697</u>	<u>684</u>
<b>Aggregate employee entitlement liability</b>	<u><b>8 457</b></u>	<u><b>8 434</b></u>
Workers' compensation	88	54
<b>Aggregate employee benefit liability and related on-costs</b>	<u><b>8 545</b></u>	<u><b>8 488</b></u>
Current	3 762	4 643
Non Current	<u>4 783</u>	<u>3 845</u>

**Note 11 – Payables**

Note 11A – Supplier Payables

Trade creditors	841	541
Other	<u>990</u>	<u>1 997</u>
<b>Total supplier payables</b>	<u><b>1 831</b></u>	<u><b>2 538</b></u>

All supplier payables recognised are current liabilities.

Note 11B – Other Payables

Advance rental payment	<u>190</u>	<u>190</u>
------------------------	------------	------------

The advance rental payment is recognised as a non-current liability.

**Australian National Audit Office**  
**Notes to and forming part of the financial statements**  
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Note 12 – Equity

Note 12A – Analysis of Equity

Item	Accumulated Results		Asset Revaluation Reserves		Contributed Equity		TOTAL EQUITY	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Opening balance as at 1 July	3 282	(848)	579	579	4 929	6 043	8 790	5 774
Net (deficit)/surplus	(74)	4 576	-	-	-	-	(74)	4 576
Net revaluation increment	-	-	230	-	-	-	230	-
Transactions with owner:								
Distributions to owner:								
Returns on Capital								
Capital Use Charge	-	(446)	-	-	-	-	-	(446)
Returns of Capital								
Returns of contributed equity	-	-	-	-	-	(1 114)	-	(1 114)
Closing balance as at 30 June	3 208	3 282	809	579	4 929	4 929	8 946	8 790

2004  
\$'000

2003  
\$'000

Note 13 – Cash Flow Reconciliation

Reconciliation of cash per Statement of Financial Position to  
Statement of Cash Flows

Cash at year end per Statement of Cash Flows	906	1 634
Statement of Financial Position items comprising above cash: 'Financial Asset – Cash'	906	1 634

Reconciliation of net (deficit)/surplus to net cash from  
operating activities:

Net (deficit)/surplus	(74)	4 576
Amortisation – computer software and leasehold improvements	609	715
Depreciation	795	791
(Profit)/loss on sale of non-current assets	(11)	(51)
Write down of assets	-	8
Decrease / (increase) in receivables	610	(16 663)
Decrease / (increase) in other non-financial assets	10	(90)
Decrease / (increase) in other financial assets	6	100
Increase / (decrease) in employee provisions	57	1 148
(Decrease) / increase in supplier payables	(707)	174
(Decrease) / increase in other liabilities	(1 340)	(3 197)
<b>Net cash used by operating activities</b>	<b>(45)</b>	<b>(12 489)</b>

Note 14 – Contingent Liabilities and Assets

There were no quantifiable, unquantifiable or remote contingencies at 30 June 2004 (2003: \$Nil).

**Australian National Audit Office**  
**Notes to and forming part of the financial statements**  
**For the year ended 30 June 2004**

**Note 15 – Executive Remuneration**

	2004	2003
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
\$140 000 to \$149 999	-	3
\$150 000 to \$159 999	1	2
\$160 000 to \$169 999	1	5
\$170 000 to \$179 999	3	5
\$180 000 to \$189 999	5	2
\$190 000 to \$199 999	2	1
\$200 000 to \$209 999	3	1
\$210 000 to \$219 999	1	-
\$220 000 to \$229 999	1	-
\$230 000 to \$239 999	2	1
\$240 000 to \$249 999	1	-
\$250 000 to \$259 999	1	-
\$280 000 to \$289 999	1	-
\$350 000 to \$359 999	1	-
\$380 000 to \$389 999	-	1
\$490 000 to \$499 999	1	-
	<u>24</u>	<u>22</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.

Remuneration in 2003-04 has been calculated on 27 pay periods, compared to 26 pay periods in the previous financial year.

	\$	\$
The aggregate amount of total remuneration of executives shown above.	<u>5 328 304</u>	<u>3,939,139</u>
The aggregate amount of separation and redundancy/termination benefit payments made during the year to executives shown above.	<u>-</u>	<u>-</u>

**Note 16 – Remuneration of Auditors**

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

Financial statement audit	53,696	54 357
Performance audit	38,000	39 980
	<u>91,696</u>	<u>94 337</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 17 – Average Staffing Level**

The average staffing level for the ANAO during the year was 297 (2002-03: 285).

**Australian National Audit Office**  
**Notes to and forming part of the financial statements**  
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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	7A	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's operational bank accounts are held with Westpac Banking Corporation. Under revised cash management arrangements, monies in the ANAO's bank accounts are swept into the Official Public Account nightly and interest is earned by the Commonwealth on the daily balance at rates based on money market call rates. The ANAO does not invest monies and does not earn interest on cash held in operational accounts. The previous policy changed from 1 July 2003.
Receivables	7B	Audit fee receivables accrue and are recognised at the time the service is performed. Other receivables are recognised at the nominal amounts due, less any provision for bad and doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collection of the debt is judged to be less rather than more likely.	Generally, receivables includes i) monies held in the Official Public Account and ii) audit related fees receivable from certain Commonwealth authorities and companies. Monies were not held in the Official Public Account in 2002-2003. The audit related fees are payable by Commonwealth entities. Credit terms are net 30 days (2002-2003; 30 days).
Work in progress	7C	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	11A	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	11B	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 Instruments	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							
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 %	2003 %
Financial Assets															
Cash at bank	7A	-	1 633	-	-	-	-	-	-	906	1	906	1 634	-	2
Receivables	7B	-	-	-	-	-	-	-	-	17 175	17 785	17 175	17 785	-	-
Work in progress	7C	-	-	-	-	-	-	-	-	14	20	14	20	-	-
<b>Total</b>		-	1 633	-	-	-	-	-	-	18 095	17 806	18 095	19 439	-	2
<b>Total Assets</b>												21 880	23 714	-	-
Financial Liabilities															
Supplier payables	11A	-	-	-	-	-	-	-	-	1 831	2 538	1 831	2 538	-	-
Other payables	11B	-	-	-	-	-	-	-	-	190	190	190	190	-	-
<b>Total</b>		-	-	-	-	-	-	-	-	2 021	2 728	2 021	2 728	-	-
<b>Total Liabilities</b>												12 834	14 924	-	-

**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

		2004		2003	
	Notes	Total carrying amount \$'000	Aggregate net fair value \$'000	Total carrying amount \$'000	Aggregate net fair value \$'000
<b>Departmental Financial Assets</b>					
Cash at bank	7A	906	906	1 634	1 634
Receivables	7B	17 175	17 175	17 785	17 785
Work in progress	7C	14	14	20	20
<i>Total Financial Assets</i>		<u>18 095</u>	<u>18 095</u>	<u>19 439</u>	<u>19 439</u>
<b>Financial Liabilities (Recognised)</b>					
Supplier payables	11A	1 831	1 831	2 538	2 538
Other payables	11B	190	190	190	190
<i>Total Financial Liabilities (Recognised)</i>		<u>2 021</u>	<u>2 021</u>	<u>2 728</u>	<u>2 728</u>

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 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 agencies and entities 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**  
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	2004 \$'000	2003 \$'000
<b>Note 19 – Revenues Administered on Behalf of Government</b>		
<b>Goods and services</b>		
Rendering of services – Financial statement audit fees	10 893	11 226
<b>Total Revenues Administered on Behalf of Government</b>	<b>10 893</b>	<b>11 226</b>

<b>Note 20 – Assets Administered on Behalf of Government</b>		
<b>Cash</b>		
Administered bank account – Australian National Audit Office	-	214
<b>Receivables</b>		
Receivables – Financial statement audit fees	1 325	1 299
Receivables (gross) are aged as follows		
Not overdue		
Less than 30 days	1 252	926
Overdue by		
30 to 60 days	57	359
60 to 90 days	-	-
More than 90 days	16	14
<b>Total receivables (gross)</b>	<b>1 325</b>	<b>1 299</b>
<b>Work In Progress</b>		
Financial Statement Audits	1 180	1 640
<b>Total Assets Administered of Behalf of Government</b>	<b>2 505</b>	<b>3 153</b>

<b>Note 21 – Liabilities Administered on Behalf of Government</b>		
<b>Payables</b>		
GST Payable to Australian Taxation Office	164	137
Other payables	-	214
<b>Total payables</b>	<b>164</b>	<b>351</b>
<b>Total Liabilities Administered of Behalf of Government</b>	<b>164</b>	<b>351</b>

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

<b>Note 22 – Administered Reconciliation Table</b>		
<i>Administered assets less administered liabilities as at 1 July</i>	<b>2 802</b>	2 108
<i>Plus Administered revenues</i>	<b>10 893</b>	11 226
<i>Transfers to the Official Public Account</i>	<b>(11 354)</b>	(10 532)
<b>Administered assets less administered liabilities as at 30 June</b>	<b>2 341</b>	<b>2 802</b>

**Australian National Audit Office**  
**Notes to and forming part of the financial statements**  
***For the year ended 30 June 2004***

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**Note 23 – Administered Contingent Liabilities**

*Quantifiable Administered Contingencies*

There were no quantifiable Administered Contingent Liabilities as at 30 June 2004 (2003: Nil).

*Unquantifiable Administered Contingencies*

There were no unquantifiable Administered Contingent Liabilities as at 30 June 2004 (2003: Nil).

*Remote Administered Contingencies*

There were no remote Administered Contingent Liabilities as at 30 June 2004 (2003: Nil).

**Note 24 – Administered Investments**

There were no Administered Investments as at 30 June 2004 (2003: Nil).

**Australian National Audit Office**  
**Notes to and forming part of the financial statements**  
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Note 25 – Administered Financial Instruments															
Note 25(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								
Note 25(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 to 2 Years		2 to 5 Years		> 5 Years							
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 %	2003 %
Financial Assets															
Cash	20	-	-	-	-	-	-	-	-	-	-	214	-	-	
Receivables	20	-	-	-	-	-	-	-	-	-	1 325	1 299	-	-	
Work in progress	20	-	-	-	-	-	-	-	-	-	1 180	1 640	-	-	
Total		-	-	-	-	-	-	-	-	-	2 505	3 153	-	-	
Total Assets											2 505	3 153			
Financial Liabilities															
GST payable	21	-	-	-	-	-	-	-	-	-	164	137	-	-	
Other payables	21	-	-	-	-	-	-	-	-	-	-	214	-	-	
Total		-	-	-	-	-	-	-	-	-	164	351	-	-	
Total Liabilities											164	351			

**Australian National Audit Office**  
**Notes to and forming part of the financial statements**  
**For the year ended 30 June 2004**

<b>Note 25(c) Net Fair Values of Administered Financial Assets and Liabilities</b>			
	<b>2004</b>	<b>2003</b>	
	<b>Total carrying amount \$'000</b>	<b>Aggregate net fair value \$'000</b>	<b>Total Aggregate carrying amount net fair value \$'000</b>
<b>Administered Financial Assets</b>			
Cash	20	-	214
Receivables	20	1 326	1 299
Work in progress	20	1 180	1 640
<b>Total Financial Assets</b>	<b>2 505</b>	<b>2 505</b>	<b>3 153</b>
<b>Administered Financial Liabilities (Recognised)</b>			
GST payable	21	164	137
Other payables	21	-	214
<b>Total Financial Liabilities (Recognised)</b>	<b>164</b>	<b>164</b>	<b>351</b>
<b>Financial Assets</b>			
The net fair values of cash and non-interest-bearing monetary financial assets approximate their carrying amount.			
<b>Financial Liabilities</b>			
The net fair values for trade creditors are short-term in nature, and are approximated by their carrying amount.			

**Note 25 (d) 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 authorities and companies. The ANAO has no significant exposure to any concentrations of credit risk.

Australian National Audit Office  
Notes to and forming part of the financial statements  
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Note 26 – Appropriations

Note 26A: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (Appropriations) from Acts 1 and 3

Particulars	Administered Expenses Outcome 1	Outcome 2	Departmental Outputs	Total
	\$	\$	\$	\$
Year ended 30 June 2004				
Balance carried from previous year	-	-	18 385 555	18 385 555
Add: estimated administered appropriation lapsed 02-03 <sup>1</sup>	-	-	-	-
<b>Adjusted Balance carried for previous period</b>	-	-	18 385 555	18 385 555
Appropriation Act (No.1) 2003-2004 - departmental appropriation	-	-	54 567 000	54 567 000
Appropriation Act (No.3) 2003-2004 - departmental appropriation	-	-	245 000	245 000
Departmental Adjustments by the Finance Minister	-	-	-	-
Advance to the Finance Minister	-	-	-	-
Refunds credited (FMAA s30)	-	-	-	-
Appropriations to take account of recoverable GST (FMAA s30A)	-	-	1 030 372	1 030 372
Annotations to 'net appropriations' (FMAA s31)	-	-	981 793	981 793
Adjustment of appropriations on change of entity function (FMAA s32)	-	-	-	-
Appropriation lapsed or reduced <sup>12</sup>	-	-	-	-
Total Appropriations available for payments	-	-	75 209 720	75 209 720
Payments made (GST inclusive)	-	-	(57 263 064)	(57 263 064)
Appropriations credited to Special Accounts	-	-	-	-
<b>Balance carried to next year</b>	-	-	17 946 656	17 946 656

Australian National Audit Office  
Notes to and forming part of the financial statements  
For the year ended 30 June 2004

**Note 26 – Appropriations**

Note 26A (continued): Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (Appropriations) from Acts 1 and 3

<i>Represented by:</i>	Outcome 1	Outcome 2	Departmental Outputs	Total
Cash at bank and on hand	-	-	906 186	906 186
Add: Appropriations not drawn from the OPA	-	-	-	-
Add: Receivables – Goods and Services – GST receivable from customers	-	-	17 054 394	17 054 394
Add: Return of contributed equity	-	-	-	-
Less: Other payables – Net GST payable to the ATO	-	-	-	-
Less: Payable – Suppliers – GST portion	-	-	(13 924)	(13 924)
<b>Total</b>			<b>17 946 656</b>	<b>17 946 656</b>
<i>Reconciliation for Appropriation Acts (Nos. 1 and 3)</i>				
Paid to the entity from the OPA	-	-	54 812 000	54 812 000
Add: Finance Minister reduction of Appropriations in current year	-	-	-	-
Add: Administered Appropriation lapsed in current year	-	-	-	-
Not drawn from the OPA	-	-	-	-
<b>Total Appropriation Acts</b>			<b>54 812 000</b>	<b>54 812 000</b>

<sup>1</sup> The Finance Minister may determine amounts of administered appropriations to be lapsed, having regard to expenses incurred. In prior years, ANAO has estimated the amount of current year appropriations to be lapsed based on expenses incurred. From 2003-04, the Finance Minister's Orders require the reporting of amounts actually lapsed during the financial year. No determination to lapse administered appropriations for 2003-04 had been made by the time of completion of the 2003-04 financial statements.

Australian National Audit Office  
Notes to and forming part of the financial statements  
For the year ended 30 June 2004

**Note 26 – Appropriations**

Note 26A (continued): Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (Appropriations) from Acts 1 and 3

Particulars	Administered Expenses Outcome 1	Administered Expenses Outcome 2	Departmental Outputs	Total
<b>Year ended 30 June 2003</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance carried from previous year	-	-	17 300 702	17 300 702
Total annual appropriation - departmental appropriation	-	-	52 997 000	52 997 000
Adjustments and annotations to appropriations	-	-	4 606 886	4 606 886
Transfers to/from other agencies (FMAA s32)	-	-	-	-
Estimated Administered Appropriation to be lapsed	-	-	-	-
Available for payments	-	-	74 904 588	74 904 588
Payments made during the year	-	-	(56 519 033)	(56 519 033)
Appropriations credited to special accounts	-	-	-	-
Balance carried to the next year	-	-	18 385 555	18 385 555
<i>Represented by:</i>				
Cash	-	-	1 634 396	1 634 396
Add: Appropriations not drawn from the OPA	-	-	-	-
Add: Receivables - Goods and Services - GST receivable from customers	-	-	17 766 617	17 766 617
Add: Return of Contributed Equity	-	-	1 114 000	1 114 000
Add: Receivables - Net GST receivable from the ATO	-	-	831 000	831 000
Less: Payable - Suppliers - GST portion	-	-	(2 960 458)	(2 960 458)
<b>Total</b>	-	-	<b>18 385 555</b>	<b>18 385 555</b>

Australian National Audit Office  
Notes to and forming part of the financial statements  
For the year ended 30 June 2004

Note 26 - Appropriations

Note 26B - Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (Appropriations) from Acts 2 and 4

Particulars	Administered			Non-operating				Total
	Outcome 1	Outcome 2		Equity	Loans	Previous years' outputs	Admin assets and liabilities	
	SPP's	NAE	SPP's	NAE				
Year ended 30 June 2004	\$	\$	\$	\$	\$	\$	\$	\$
Balance carried from previous year	-	-	-	-	-	-	-	-
Appropriation Act (No.2) 2003-2004	-	-	-	-	-	-	-	-
Appropriation Act (No.4) 2003-2004	-	-	-	-	-	-	-	-
Adjustments determined by the Finance Minister	-	-	-	-	-	-	-	-
Advance to the Finance Minister	-	-	-	-	-	-	-	-
Refunds credited (FMAA s30)	-	-	-	-	-	-	-	-
GST credits (FMAA s30A)	-	-	-	-	-	-	-	-
Transfer to/from other agencies (FMAA s32)	-	-	-	-	-	-	-	-
Administered appropriation lapsed or reduced	-	-	-	-	-	-	-	-
Available for payments	-	-	-	-	-	-	-	-
Payments made (GST inclusive)	-	-	-	-	-	-	-	-
Appropriations credited to Special Accounts	-	-	-	-	-	-	-	-
<b>Balance carried to next year</b>	-	-	-	-	-	-	-	-
<i>Represented by:</i>								
Cash	-	-	-	-	-	-	-	-
Appropriations not drawn from OPA	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-	-	-



Australian National Audit Office  
Notes to and forming part of the financial statements  
For the year ended 30 June 2004

**Note 26 - Appropriations**

Note 26 B (continued): Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (Appropriations) from Acts 2 and 4

Particulars	Administered			Non-operating				Total
	Outcome 1		Outcome 2	Equity	Loans	Previous years' outputs	Admin assets and liabilities	
	SPPs	NAE	SPPs	NAE				
Reconciliation for Appropriation Acts (Nos.2 and 4)								
Paid to the entity from the OPA	-	-	-	-	-	-	-	
Not drawn from the OPA	-	-	-	-	-	-	-	
Total Appropriation Acts	-	-	-	-	-	-	-	

<sup>1</sup> The Finance Minister may determine amounts of administered appropriations to be lapsed, having regard to expenses incurred. In prior years, The ANAO has estimated the amount of current year appropriations to be lapsed based on expenses incurred. From 2003-04, the Finance Minister's Orders require the reporting of amounts actually lapsed during the financial year. No determination to lapse administered appropriations for 2003-04 had been made by the time of completion of the 2003-04 financial statements.

Australian National Audit Office  
Notes to and forming part of the financial statements  
For the year ended 30 June 2004

**Note 26 – Appropriations**

Note 26B (continued): Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund from Acts 2 and 4

Particulars	Administered			Non-operating				Total
	Outcome 1		Outcome 2		Loans	Previous years' outputs	Admin assets and liabilities	
	SPPs	NAE	SPPs	NAE	Equity			
Year ended 30 June 2003	\$	\$	\$	\$	\$	\$	\$	\$
Balance carried from previous year	-	-	-	-	-	-	-	-
Total annual appropriations - departmental	-	-	-	-	-	-	-	-
Adjustments and annotations to appropriations	-	-	-	-	-	-	-	-
Transfers to/from other agencies (FMAA s32)	-	-	-	-	-	-	-	-
Administered appropriation lapsed	-	-	-	-	-	-	-	-
Available for payments	-	-	-	-	-	-	-	-
Payments made during the year	-	-	-	-	-	-	-	-
Appropriations credited to Special Accounts	-	-	-	-	-	-	-	-
Balance carried to the next year	-	-	-	-	-	-	-	-
<i>Represented by:</i>								
Appropriations not drawn from the OPA	-	-	-	-	-	-	-	-
<b>Total</b>	-	-	-	-	-	-	-	-

**Australian National Audit Office**  
**Notes to and forming part of the financial statements**  
**For the year ended 30 June 2004**

**Note 26 – Appropriations**

**Note 26C – Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund – Special Appropriation (Unlimited Amount)**

	2004	2003
Schedule 1 to the <i>Auditor-General Act 1997 - sections 3 and 7</i>		
<i>Purpose:</i> Remuneration expenses and allowances of the office of the Auditor-General		
	\$	\$
Budget estimate	356 000	343 000
Payments made	(356 000)	(343 000)
Total charged to appropriation	(356 000)	(343 000)

**Note 26D – Special Accounts**

The Special Accounts administered by the Australian National Audit Office are i) Services for Other Governments & Non-Agency Bodies Special Account and ii) Other Trust Monies Special Account.

**Note 26D.1**

Services for Other Government and Non-agency Bodies Special Account (Special Public Money)

*Legal Authority:* Financial Management and Accountability Act 1997 - section 20

*Appropriation:* Financial Management and Accountability Act 1997; sub-section 20(4)

*Purpose:* For expenditure in connection with services performed on behalf of other Governments and bodies that are not Agencies under the Financial Management and Accountability Act 1997.

*This account is non-interest bearing.*

This account holds monies advanced to the ANAO by Comcare for the purpose of distributing compensation payments made in accordance with the *Safety Rehabilitation and Compensation Act 1998*. Where the ANAO makes payments against accrued sick leave entitlements pending determination of an employee's claim, permission is obtained in writing from each individual to allow the ANAO to recover the payments from the monies in the account.

	2004	2003
	\$	\$
Balance carried forward from previous year	74 275	43 329
Receipts during the year	114 744	54 994
Available for payments	189 019	98 233
Payments made	100 568	(24 048)
Balance carried forward to next year held by the entity	88 451	74 275

**Australian National Audit Office**  
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**Note 26D – Special accounts (cont.)**

**Note 26D.2**

Other Trust Moneys Special Account (Special Public Money)

*Legal Authority: Financial Management and Accountability Act 1997 – section 20*

*Appropriation: Financial Management and Accountability Act 1997; sub-section 20(4)*

*Purpose: For expenditure of monies temporarily held on trust or otherwise for the benefit of a person other than the Commonwealth.*

*This account is non-interest bearing.*

This Special Account provides the authority to spend moneys in the ANAO's salary packaging account. Account details are given in Note 27; Assets Held in Trust.

**Note 27 – Assets Held in Trust**

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

	<b>2004</b>	2003
	<b>\$</b>	\$
Balance carried forward from previous period	<b>6 458</b>	146 858
Receipts during the year	<b>32 121</b>	187 760
Available for payments	<b>38 579</b>	334 618
Payments made	<b>(32 819)</b>	(328 160)
Balance carried forward to next year	<b>5 760</b>	6 458

**Note 28 – Specific Payment Disclosures**

	<b>2004</b>	2003
	<b>\$'000</b>	\$'000

*Administered*

No 'Act of Grace' Payments were made during the year (2003: No payments made)

<b>Nil</b>	Nil
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No waivers of amounts owing to the Commonwealth pursuant to sub section 34 (1) of the *Financial Management and Accountability Act 1997* (2003: No waivers made)

<b>Nil</b>	Nil
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No ex-gratia payments were made during the year (2003: No payments made)

<b>Nil</b>	Nil
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*Departmental*

No payments were made under section 73 of the Public Service Act 1999 (2003: No payments made)

<b>Nil</b>	Nil
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Australian National Audit Office  
Notes to and forming part of the financial statements  
For the year ended 30 June 2004

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 2003-04 Budget.

Note 29A – Reporting of Outcomes

	Outcome 1 Improvement in Public Administration		Outcome 2 Assurance		Total	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Administered expenses	-	-	-	-	-	-
Departmental expenses	24 597	21 370	31 621	30 974	56 218	52 344
<b>Total expenses</b>	<b>24 597</b>	<b>21 370</b>	<b>31 621</b>	<b>30 974</b>	<b>56 218</b>	<b>52 344</b>
<i>Costs recovered from provision of goods and services to the non-government sector</i>						
Administered	-	-	-	-	-	-
Departmental	134	1 291	204	1 291	338	2 582
<b>Total costs recovered</b>	<b>134</b>	<b>1 291</b>	<b>204</b>	<b>1 291</b>	<b>338</b>	<b>2 582</b>
<i>Other External Revenues</i>						
Administered	-	-	-	-	-	-
<b>Total Administered</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Departmental						
Interest on cash deposits	-	124	-	124	-	248
Revenue from disposal of assets	5	25	6	26	11	51
Goods and services revenue from related entities	-	350	627	349	627	699
<b>Total Departmental</b>	<b>5</b>	<b>499</b>	<b>633</b>	<b>499</b>	<b>638</b>	<b>998</b>
<b>Total other external revenues</b>	<b>5</b>	<b>499</b>	<b>633</b>	<b>499</b>	<b>638</b>	<b>998</b>
<b>Net Cost/(Contribution) to Outcome</b>	<b>24 458</b>	<b>19 580</b>	<b>30 784</b>	<b>29 184</b>	<b>55 242</b>	<b>48 764</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.

Australian National Audit Office  
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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	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>Departmental expenses</b>						
Employees	12 472	9 791	513	699	12 985	10 490
Suppliers	10 539	9 429	350	759	10 889	10 188
Depreciation and amortisation	538	518	18	42	556	560
Other expenses	162	120	5	10	167	130
<b>Total departmental expenses</b>	<b>23 711</b>	<b>19 858</b>	<b>886</b>	<b>1 510</b>	<b>24 597</b>	<b>21 368</b>
<b>Funded by:</b>						
Revenues from government	21 153	18 355	703	1 477	21 856	19 832
Sale of goods and services	133	953	5	78	138	1 031
Other non-taxation revenues	-	85	-	7	-	92
<b>Total departmental revenues</b>	<b>21 286</b>	<b>19 393</b>	<b>708</b>	<b>1 562</b>	<b>21 994</b>	<b>20 955</b>

Outcome 2	Output Group 3 Assurance Audit Services		Output Group 2 Information Support Services		Outcome 2 Assurance	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>Departmental expenses</b>						
Employees	13 670	11 904	250	700	13 920	12 604
Suppliers	16 246	16 445	351	759	16 597	17 204
Depreciation and amortisation	830	905	18	41	848	946
Other expenses	250	212	6	10	256	222
<b>Total departmental expenses</b>	<b>30 996</b>	<b>29 466</b>	<b>625</b>	<b>1 510</b>	<b>31 621</b>	<b>30 976</b>
<b>Funded by:</b>						
Revenues from government	32 608	32 031	704	1 477	33 312	33 508
Sale of goods and services	834	2 222	4	79	838	2 301
Other non-taxation revenues	-	149	-	7	-	156
<b>Total departmental revenues</b>	<b>33 442</b>	<b>34 402</b>	<b>708</b>	<b>1 563</b>	<b>34 150</b>	<b>35 965</b>

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.

Australian National Audit Office  
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For the year ended 30 June 2004

Note 29C - Major Classes of Administered Revenues and Expenses by Outcome

	Outcome 1 Improvement in Public Administration		Outcome 2 Assurance		Total	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>Administered Revenues</b>						
Revenue from the sale of goods and services (audit fees)	-	-	10 893	11 226	10 893	11 226
<b>Total Administered Revenues</b>	-	-	10 893	11 226	10 893	11 226
<b>Administered Expenses</b>						
Total Administered Expenses	-	-	-	-	-	-
<b>Net Administered Revenues and Expenses</b>	-	-	10 893	11 226	10 893	11 226

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.

## Appendix 3

### Audit and other publications

Report title	Tabled	Cost
Audit Report No.1 Performance Audit <i>Administration of Three Key Components of the Agriculture–Advancing Australia (AAA) Package</i>	31/7/2003	\$450 000
Audit Report No.2 Activity Report <i>Audit Activity Report: January to June 2003</i>	13/8/2003	\$73 600
Audit Report No.3 Business Support Process Audit <i>Management of Risk and Insurance</i>	27/8/2003	\$615 000
Audit Report No.4 Performance Audit <i>Management of the Extension Option Review–Plasma Fractionation Agreement</i>	28/8/2003	\$398 000
Audit Report No.5 Business Support Process Audit <i>The Senate Order for Departmental and Agency Contracts (Autumn 2003)</i>	11/9/2003	\$270 000
Audit Report No.6 Performance Audit <i>APRA's Prudential Supervision of Superannuation Entities</i>	15/9/2003	\$315 000
Audit Report No.7 Business Support Process Audit <i>Recordkeeping in Large Commonwealth Organisations</i>	24/9/2003	\$417 000
Audit Report No.8 Performance Audit <i>Commonwealth Management of the Great Barrier Reef Follow-up Audit</i>	20/10/2003	\$180 000
Audit Report No.9 Performance Audit <i>Business Continuity Management and Emergency Management in Centrelink</i>	22/10/2003	\$445 000
Audit Report No.10 Performance Audit <i>Australian Defence Force Recruiting Contract</i>	27/10/2003	\$160 000
Audit Report No.11 Performance Audit <i>Annual Performance Reporting</i>	4/11/2003	\$560 000
Audit Report No.12 Performance Audit <i>The Administration of Telecommunications Grants</i>	5/11/2003	\$395 000
Audit Report No.13 Performance Audit <i>ATSIS Law and Justice Program</i>	7/11/2003	\$384 000
Audit Report No.14 Performance Audit <i>Survey of Fraud Control Arrangements in APS Agencies</i>	28/11/2003	\$181 000
Audit Report No.15 Performance Audit <i>Administration of Staff Employed Under the Members of Parliament (Staff) Act 1984</i>	1/12/2003	\$465 000



Report title	Tabled	Cost
Audit Report No.16 Performance Audit <i>Administration of Consular Services Follow-up Audit</i>	4/12/2003	\$378 880
Audit Report No.17 Performance Audit <i>AQIS Cost-recovery Systems Follow-up Audit</i>	4/12/2003	\$271 000
Audit Report No.18 Performance Audit <i>The Australian Taxation Office's use of AUSTRAC Data Follow-up Audit</i>	10/12/2003	\$96 576
Audit Report No.19 Business Support Process Audit <i>Property Management</i>	17/12/2003	\$275 000
Audit Report No.20 Performance Audit <i>Aid to East Timor</i>	19/12/2003	\$510 000
Audit Report No.21 Performance Audit <i>Special Employees Entitlements Scheme for Ansett Group Employees</i>	22/12/2003	\$413 000
Audit Report No.22 Financial Statement Audit <i>Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2003</i>	9/1/2004	\$165 619
Audit Report No.23 Performance Audit <i>The Australian Taxation Office's Management of Aggressive Tax Planning</i>	29/1/2004	\$347 000
Audit Report No.24 Performance Audit <i>Agency Management of Special Accounts</i>	30/1/2004	\$366 000
Audit Report No.25 Performance Audit <i>Intellectual Property Policies and Practices in Commonwealth Agencies</i>	5/2/2004	\$330 000
Audit Report No.26 Performance Audit <i>Supporting Managers—Financial Management in the Health Insurance Commission</i>	6/2/2004	\$375 000
Audit Report No.27 Performance Audit <i>Management of Internet Portals at the Department of Family and Community Services</i>	10/2/2004	\$280 000
Audit Report No.28 Activity Report <i>Audit Activity Report: July to December 2003</i>	12/2/2004	\$41 920
Audit Report No.29 Performance Audit <i>Governance of the National Health and Medical Research Council</i>	20/2/2004	\$360 000
Audit Report No.30 Performance Audit <i>Quality Internet Service for Government Clients Monitoring by Government Agencies</i>	20/4/2004	\$421 600
Audit Report No.31 Business Support Process Audit <i>The Senate Order for Departmental and Agency Contracts (Financial Year 2002–2003 Compliance)</i>	25/2/2004	\$195 000

Report title	Tabled	Cost
Audit Report No.32 Performance Audit <i>'Wedgetail' Airborne Early Warning and Control Aircraft: Project Management</i>	2/3/2004	\$292 000
Audit Report No.33 Performance Audit <i>The Australian Taxation Office's Collection and Management of Activity Statement Information</i>	3/3/2004	\$447 000
Audit Report No.34 Performance Audit <i>The Administration of Major Programs</i>	5/3/2004	\$272 000
Audit Report No.35 Business Support Process Audit <i>Compensation Payments and Debt Relief in Special Circumstances</i>	24/3/2004	\$342 000
Audit Report No.36 Performance Audit <i>The Commonwealth's Administration of the Dairy Industry Adjustment Package</i>	25/3/2004	\$540 000
Audit Report No.37 Performance Audit <i>National Marine Unit</i>	30/3/2004	\$342 611
Audit Report No.38 Performance Audit <i>Corporate Governance in the Australian Broadcasting Corporation—Follow-up Audit</i>	31/3/2004	\$160 000
Audit Report No.39 Performance Audit <i>Integrity of the Electoral Roll—Follow-up Audit</i>	6/4/2004	\$138 000
Audit Report No.40 Performance Audit <i>Department of Health and Ageing's Management of the Multipurpose Services Program and the Regional Health Services Program</i>	13/4/2004	\$340 000
Audit Report No.41 Performance Audit <i>Management of Repatriation Health Cards</i>	15/4/2004	\$290 000
Audit Report No.42 Business Support Process Audit <i>Financial Delegations for the Expenditure of Public Monies in FMA Agencies</i>	16/4/2004	\$280 000
Audit Report No.43 Performance Audit <i>Defence Force Preparedness Management Systems</i>	23/4/2004	\$435 000
Audit Report No.44 Performance Audit <i>National Aboriginal Health Strategy Delivery of Housing and Infrastructure to Aboriginal and Torres Strait Islander Communities Follow-up Audit</i>	27/4/2004	\$169 000
Audit Report No.45 Performance Audit <i>Army Individual Readiness Notice Follow-up Audit</i>	29/4/2004	\$149 000
Audit Report No.46 Performance Audit <i>Client Service in the Family Court of Australia and the Federal Magistrates Court</i>	20/5/2004	\$340 000

Report title	Tabled	Cost
Audit Report No.47 Performance Audit <i>Developing Air Force's Combat Aircrew</i>	25/5/2004	\$395 000
Audit Report No.48 Performance Audit <i>The Australian Taxation Office's Management and Use of Annual Investment Income Reports</i>	27/5/2004	\$360 000
Audit Report No.49 Business Support Process Audit <i>The Use and Management of HRIS in the Australian Public Service</i>	31/5/2004	\$425 000
Audit Report No.50 Performance Audit <i>Management of Federal Airport Leases</i>	4/6/2004	\$297 000
Audit Report No.51 Performance Audit <i>HIH Claims Support Scheme—Governance Arrangements</i>	10/6/2004	\$307 000
Audit Report No.52 Performance Audit <i>Information Technology in the Department of Veterans' Affairs—Follow-up Audit</i>	15/6/2004	\$98 500
Audit Report No.53 Performance Audit <i>The Implementation of CrimTrac</i>	17/6/2004	\$305 000
Audit Report No.54 Performance Audit <i>Management of the Detention Centre Contracts—Part A</i>	18/6/2004	\$536 000
Audit Report No.55 Protective Security Audit <i>Management of Protective Security</i>	23/6/2004	\$225 000
Audit Report No.56 Performance Audit <i>Management of the Processing of Asylum Seekers</i>	23/6/2004	\$414 000
Audit Report No.57 Business Support Process Audit <i>Administration of Freedom of Information Requests</i>	24/6/2004	\$306 000
Audit Report No.58 Financial Statement Audit <i>Control Structures as part of the Audit of Financial Statements of Major Australian Government Entities for the year Ending 30 June 2004</i>	30/6/2004	\$492 014
Audit Report No.59 Performance Audit <i>Defence's Project Bushranger: Acquisition of Infantry Mobility Vehicles</i>	30/6/2004	\$380 000

## Appendix 4

### Main issues raised in performance audit, business support process (BSP) audit and protective security audit reports tabled in 2003–04

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

The main ANAO outputs are performance audit services and assurance audit services. The ANAO aims to achieve these by focusing on four key result areas, 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 2003–2004*.

This appendix indicates the main issues raised in performance audit, BSP audit and protective security audit reports tabled during the year.<sup>35</sup> The summaries are grouped according to the audit theme.

#### Governance following the Australian and international experiences of corporate failures

*Audit Report No.3 2003–04 Management of Risk and Insurance (BSP audit report)*. The audit assessed systems and frameworks used to manage risk and insurance in five Australian Government organisations. A survey was also undertaken of risk management and insurance practices across 50 Australian Government organisations. The audit and survey found that risk management and insurance practices generally needed to be improved. Overall, from the five organisations audited, the ANAO concluded that general insurance frameworks and practices had the greatest potential to be improved. Risk management practices tended to be better than general insurance practices but were often not as sound, or as well supported, as occupational health and safety and workers' compensation frameworks.

*Audit Report No.6 2003–04 APRA's Prudential Supervision of Superannuation Entities*. The audit assessed supervision of superannuation entities by the Australian Prudential Regulation Authority (APRA). At June 2003 APRA supervised 12 429 registered superannuation funds, including 1934 lost funds. Funds had over \$328 billion in assets, of which the bulk are managed by a few approved trustees and large corporate or industry funds. APRA's review of superannuation funds and approved trustees has been impacted by its re-organisation and relocation, and changes to case selection and auditing methodologies. Some two-thirds of the funds were not allocated a risk rating. Although most were small funds, ANAO could find no evidence of APRA risk-rating large public-offer superannuation funds managed by approved trustees.

<sup>35</sup> All reports referred to in this appendix are performance audit reports except those identified as BSP or protective security audit reports.

*Audit Report No.7 2003-04 Recordkeeping in Large Commonwealth Organisations (BSP audit report).* The audit examined whether recordkeeping policies, systems and procedures were in accordance with relevant Government policies, legislation, accepted standards, recordkeeping principles and organisational controls. It concluded that the audited organisations met Government policies, legislation, accepted standards and principles to varying degrees. Although all organisations had taken active steps to improve their recordkeeping frameworks and practices, their recordkeeping frameworks, policies, systems and procedures were at different stages of development. The ANAO also concluded that there was a significant risk of the non-capture and unauthorised disposal of records.

*Audit Report No.14 2003-04 Survey of Fraud Control Arrangements in APS Agencies.* The audit survey was conducted to identify improvements made by agencies since the 1999 survey, and in response to the revised Commonwealth Fraud Control Guidelines released in May 2002. The objective was to assess the key aspects of fraud control arrangements in place across the Australian Public Service (APS) against the Commonwealth Fraud Control Guidelines 2002. Compared with the results from the previous survey, the ANAO concluded that more APS agencies had established suitable fraud control arrangements in line with the Commonwealth Guidelines. However, a number of agencies still required improvement in fraud risk assessments, fraud control plans and fraud control management information systems.

*Audit Report No.17 2003-04 Australian Quarantine and Inspection Service Cost-recovery Systems Follow-up Audit.* The audit sought to assess whether the Australian Quarantine and Inspection Service (AQIS) had implemented recommendations of Audit Report No.10 2000-01 and recommendations from a subsequent JCPAA review of that audit report. The follow-up audit found that AQIS is continuing to enhance its cost-recovery management pursuant to the recommendations of the original audit report. AQIS has made substantial progress towards implementing one of the ANAO's previous recommendations, and has implemented all the remaining recommendations.

*Audit Report No.19 2003-04 Property Management (BSP audit report).* The audit evaluated selected agencies' property management policies and practices across the following dimensions: planning and control arrangements; management of information and performance; and delivery of selected business processes, including management of service providers. It found that property management services were generally efficient in providing adequate support for the delivery of the agencies business or services. There were, however, some shortcomings in management and service-delivery practices that detracted from the agencies capacity to provide high-quality, and fully effective, property management services.

*Audit Report No.21 2003-04 Special Employee Entitlements Scheme for Ansett Group Employees (SEESA).* The audit examined management of the mechanism for making SEESA payments and the associated Air Passenger Ticket Levy. It showed that SEESA had been effective at timely delivery of some \$336.1 million in employee entitlements to former Ansett group employees. However, management could have been more efficient in relation to tax consequences of the scheme, repayment of the SEESA

loan and interaction between SEESA and other Australian Government payments. The audit also identified an absence of key documentation on the choice of financier and found that specification of contract performance standards could have been clearer. The system for managing the collection of the Air Passenger Ticket Levy was effective.

*Audit Report No.25 2003–04 Intellectual Property Policies and Practices in Commonwealth Agencies.*

The Australian Government, due to the breadth and diversity of its activities, is a major generator, procurer and user of intellectual property. Intellectual property issues are increasingly common in contract management as agencies outsource, consult and contract with third parties to provide services and produce intellectual property for government use. The audit examined agency approaches to managing intellectual property and identified themes common to management of all types of intellectual property. It found that, overall, only 30 per cent of agencies have developed specific policies or procedures for managing intellectual property.

*Audit Reports No.5 and No.31 2003–04 The Senate Order for Departmental and Agency Contracts (BSP audit reports).*

These were the fourth and fifth audit reports conducted as a result of the Senate Order for Departmental and Agency Contracts. The Senate Order requires all agencies subject to the *Financial Management and Accountability Act 1997* to place, on the internet, lists of contracts of \$100 000 or more. The ANAO desktop reviewed all agencies' internet lists and reviewed six selected agencies' policies and practices for determining confidentiality provisions in contracts. The ANAO considered most contracts examined in both audits had been inappropriately listed on the Internet as including confidentiality provisions. Processes for compiling the Internet lists were generally satisfactory in that lists were complete in terms of number of contracts and details provided.

*Audit Report No.51 2003–04 HIH Claims Support Scheme—Governance Arrangements.*

The audit examined the governance and accountability framework for the Scheme and its implementation by the Department of the Treasury. It found that, although much remains to be done (given the 'long-tail' nature of the bulk of outstanding claims for eligible applicants), the Scheme has achieved the Government's objective of assisting HIH policyholders experiencing financial hardship. This has been done at appropriate standards of public sector governance and stewardship for the significant amount of funds involved. The experience has provided lessons that would benefit agencies responsible for implementing any future Australian Government financial assistance schemes.

**Programs to meet the needs of communities in rural Australia following the drought**

*Audit Report No.1 2003–04 Administration of Three Key Components of the Agriculture—Advancing*

*Australia (AAA) Package.* The audit assessed the adequacy of the Australian Government's administration of three key components of the AAA Package: the FarmBis II program, the Farm Help program and the Farm Management Deposits scheme. It concluded that the programs have been successful in addressing desired outcomes and that most service delivery standards are being met. Some administration, most notably relating to strategic and performance management and compliance arrangements, requires strengthening for more effective outcomes.

*Audit Report No.12 2003–04 The Administration of Telecommunication Grants.* The audit examined administration of telecommunications grant programs valued at \$494 million by the Department of Communications, Information Technology and the Arts (DCITA) and the Department of Transport and Regional Services. It also examined DCITA's implementation of recommendations in Audit Report No.43 1998–99 *Networking the Nation–The Regional Telecommunications Infrastructure Fund* (the 1999 audit). It found that, although both departments demonstrated elements of better administrative practice, there was scope to improve the administration of both Networking the Nation and, more particularly, the Rural Transaction Centres program.

*Audit Report No.13 2003–04 ATSI Law and Justice Program.* The ANAO concluded that there is a need for considerable improvement in management of the Aboriginal and Torres Strait Islander Services (ATSI) Law and Justice Program. Oversight of grant allocations, commitments and actual expenditure were effective, but there were weaknesses in Program planning, communication of roles and responsibilities between the National Office and Regional Offices, and monitoring of Program performance. Aboriginal and Torres Strait Islander Legal Services was delivering a growing volume of services because of efforts by individuals in those organisations but, from an overall Program perspective, ATSI had little information or assurance on service quality.

*Audit Report No.36 2003–04 The Commonwealth's Administration of the Dairy Industry Adjustment Package.* Administered by the Department of Agriculture, Fisheries and Forestry (DAFF), the Package was established to assist dairy farmers transition to a deregulated environment. The experience reinforced the value in focusing on service delivery challenges in large initiatives, to complement the necessary attention to policy development and stakeholder relationship management. The importance of this was emphasised recently by the Department of the Prime Minister and Cabinet.<sup>36</sup> The audit found that compared to some other programs, overall there was less oversight and accountability in the arrangements for achieving value for money for expenses incurred in administering the Package.

*Audit Report No.44 2003–04 National Aboriginal Health Strategy–Delivery of Housing and Infrastructure to Aboriginal and Torres Strait Islander Communities–Follow-up Audit.* The audit examined implementation of recommendations from Audit Report No.39 1998–99 *National Aboriginal Health Strategy–Delivery of Housing and Infrastructure to Aboriginal and Torres Strait Islander Communities*. It concluded that four of the seven recommendations have been implemented and that two have been partly implemented. The audit also examined performance reporting of the National Aboriginal Health Strategy program. The audit concluded that the present level of aggregation of performance reporting makes it difficult to identify the particular contribution that the program makes in improving services to Indigenous communities.

<sup>36</sup> Dr. Peter Shergold, Secretary of the Department of Prime Minister and Cabinet, 'The Foundation of Ruined Hopes? Delivering Government Policy', Address to the Public Service Commission, 15 October 2003.

### Defence preparedness and security in the context of the heightened threat environment

*Audit Report No.10 2003–04 Australian Defence Force Recruitment Contract.* In response to comments by the Senate Foreign Affairs, Defence and Trade References Committee, the audit examined Defence's management of its contractual arrangements with Manpower Services (Australia) Pty Ltd for the provision of recruiting services to the Australian Defence Force (ADF). In particular, it examined evaluations conducted at the end of each contractual phase; roles and responsibilities associated with ADF recruiting; and Defence's monitoring of contractual performance and management of risks associated with ADF recruiting.

*Audit Report No.20 2003–04 Aid to East Timor.* The audit addressed the Australian Agency for International Development's (AusAID's) planning for, and management of, the delivery of aid to East Timor. The ANAO found that AusAID has planned and managed most aspects of aid to East Timor well. However, there were some administrative shortcomings in risk analysis and review, and limitations in performance management at the country program level. The quality of performance indicators for individual aid activities can also be improved to better monitor performance. AusAID's risk management and performance management in relation to the East Timor country program could be strengthened.

*Audit Report No.32 2003–04 'Wedgetail' Airborne Early Warning and Control Aircraft: Project Management.* The audit assessed Defence Materiel Organisation's management of the \$3.43 billion 'Wedgetail' Airborne Early Warning and Control (AEW&C) project. The project is to provide the Australian Defence Force with an AEW&C capability based on Boeing 737 AEW&C aircraft and associated supplies and logistic support. By November 2003, Defence had spent \$1.107 billion on the project. The audit concerned management of the AEW&C acquisition since the December 2000 contract signature. It examined the project from the project management perspective, including the link between the requirements, acquisition and in-service support phases.

*Audit Report No.37 2003–04 National Marine Unit.* The audit reviewed the financial management framework of the Unit, which contributes to Australian Customs Service's maritime surveillance. A lack of financial awareness, expenditure monitoring and financial data analysis has reduced the Unit's ability to manage its financial resources effectively. For example, it does not analyse trends over time or variances between estimated costs and actuals. The Unit is unable to report specific costs associated with training or operating individual Australian Customs Vessels without significant assistance from Customs' Business Support Group and Financial Services Branch. The ANAO considers that Section Managers should be responsible for monitoring and analysing costs associated with their particular area.

*Audit Report No.43 2003–04 Defence Force Preparedness Management Systems.* Audit coverage included Defence preparedness systems architecture; control and direction of preparedness; coordination among contributors to preparedness; and performance management of preparedness. The audit focused on systems and processes that Defence uses to manage Defence Force preparedness but it did not review preparedness levels of specific capabilities. It found that the Preparedness



Management System provides a sound framework for preparedness planning down to the unit level. Linkages between Government strategic guidance, Defence operational planning and Service outputs could be strengthened and made more effective by means of system design improvements, which should result in better outcomes.

*Audit Report No.45 2003–04 Army Individual Readiness Notice Follow-up Audit.* The audit assessed the implementation status of recommendations made in Audit Report No.26 1999–2000 *Army Individual Readiness Notice* (AIRN). Army has made significant progress in implementing the recommendations but there are still data integrity issues in individual readiness reporting produced by the personnel system, PMKeyS. For example, the audit revealed substantial data inaccuracies that understate the level of individual readiness by half. This lack of data integrity compromises AIRN's usefulness as a reporting tool across Army and will require ongoing monitoring. Improved functionality of PMKeyS and a revised training program have eased some of the administrative burden of recording AIRN data.

*Audit Report No.47 2003–04 Developing Air Force's Combat Aircrew.* This audit on development of Air Force's combat aircrew was undertaken in response to a request from the parliamentary Joint Committee of Public Accounts and Audit (JCPAA). It examined Defence recruitment and training of combat aircrew and the extent to which they met military preparedness requirements. It reviewed the situation faced by Air Force in managing its combat aircrew workforce, including measures to help ensure that Defence's requirements for combat aircrew are met. The audit also reviewed the deployment of Air Force fighter aircraft to the Middle East early in 2003, including issues related to the support of that deployment.

*Audit Report No.53 2003–04 The Implementation of CrimTrac.* Established through a Commonwealth Inter-Governmental Agreement with the States and Territories, the CrimTrac agency helps to combat crime in Australia with a national crime information system. The audit examined CrimTrac's progress in achieving key deliverables under the Agreement. These include a replacement fingerprint system, a DNA<sup>37</sup> database, a child sex offender system and rapid access to nation-wide policing information through the CrimTrac Police Reference System. The audit found that, although progress in achieving these deliverables has been variable, CrimTrac has made a significant effort to initiate them and appears to have successfully replaced its predecessor, the National Exchange of Police Information Agreement.

*Audit Report No.54 2003–04 Management of the Detention Centre Contracts–Part A.* The audit examined the Department of Immigration and Multicultural and Indigenous Affairs' management of its detention centre contract with the service provider. Although the Department has met program objectives, there were significant shortcomings in its contract management. A key issue was the lack of

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<sup>37</sup> DNA: deoxyribonucleic acid.

a documented assessment of the risks involved in contracting out the provision of detention services to inform contract management. Other issues needing attention were monitoring of contractor performance and financial monitoring and reporting. The ANAO acknowledged significant pressures in the operating environment between 1999–2001 but considered that fundamental failures in contract management made contract administration difficult over the life of the contract.

*Audit Report No.55 2003–04 Management of Protective Security (protective security audit report).* This was the latest in a series of ANAO reports on protective security arrangements in Australian Government organisations. The audit was designed to evaluate broader management associated with protective security across three broad dimensions. These were: the security environment in a formal and coordinated planning and control structure; risk management to regularly identify, assess and monitor security-related risks and threats; and monitoring and review of information readily available to assist in managing protective security activities.

*Audit Report No.56 2003–04 Management of the Processing of Asylum Seekers.* The audit examined departmental processing of protection visa applications in Australia and risk monitoring of the decisions made in the processing of onshore asylum seekers. It found that onshore processing of asylum seekers is managed well. The overall standard of record keeping, including documentation of reasons for decisions, was high. The Department demonstrated better practice by specifying quantity indicators for the Refugee and Humanitarian (Onshore) Program. These are good workload indicators that provide targets to work towards and assist in assessing outputs. However, indicators of timeliness of processing for detention and community cases do not provide a complete indicator of the quality of the decision.

*Audit Report No.59 2003–04 Defence's Project Bushranger: Acquisition of Infantry Mobility Vehicles.* The audit examined Defence's development and management of the project and prime contract to acquire infantry mobility vehicles for the Australian Defence Force. The project has experienced a range of problems with cost, design enhancements and schedule slippage, leading to renegotiation of the contract in 2002. Much administrative effort had been spent throughout this legacy project to fix problems that might not have occurred with better management of the planning and implementation phases of the project.

### **The health and wellbeing of Australians through effective health, education and employment programs**

*Audit Report No.4 2003–04 Management of the Extension Option Review–Plasma Fractionation Agreement.* The audit examined the Department of Health and Ageing's review of the Plasma Fractionation Agreement (PFA) with CSL Limited. The Department undertook the review in order to provide a recommendation to the Government on whether the Commonwealth should exercise the extension option available under the PFA. The ANAO audit was undertaken in response to a recommendation of the JCPAA. It examined the Department's planning and conduct of the review. It found that the information available to the Department's Steering Committee was insufficient for the Committee to form an objective view on the financial merit of the advice it provided to the Minister. The ANAO expressed no opinion on whether the decision not to extend the PFA was correct.

*Audit Report No.9 2003–04 Business Continuity Management and Emergency Management in Centrelink.* The audit concerned key business processes used by Centrelink to deliver and maintain continuity of services. The audit objectives were to assess whether Centrelink has effective business continuity management (BCM) in place that minimises the likelihood of a significant business outage and, in the event of such an outage, minimises disruption of critical services to customers. The audit also assessed whether Centrelink services satisfy special demands in times of emergency. The audit's examination of Centrelink risk management focused on its alignment with BCM, mainly to ensure that critical business processes had appropriate controls as well as business continuity treatments.

*Audit Report No.26 2003–04 Supporting Managers—Financial Management in the Health Insurance Commission.* The audit had a particular emphasis on the financial framework and systems and their ability to assist managers to make informed decisions on resource use. The audit team developed a methodology that combined the perspectives, skills and knowledge of performance and financial statement auditors. This approach created a more comprehensive analysis of key issues in financial management. The focus on financial management is significant owing to stronger interest in accountability, and particularly in the role of auditors in both the private and public sectors, because of CLERP 9.<sup>38</sup>

*Audit Report No.27 2003–04 Management of Internet Portals at the Department of Family and Community Services.* The objectives of the audit were to determine whether the Department: had an appropriate governance structure for its portals; had measures in place to determine the efficiency and effectiveness of the portals; and effectively managed content and changes to the portals. It also considered whether the portals met applicable standards and guidelines. The ANAO concluded that, in response to the Government's directive, the Department had developed basic portals. However, at the time of the audit, the portals were in a static phase with no further development planned and no funding available for such development.

*Audit Report No.29 2003–04 Governance of the National Health and Medical Research Council.* The audit examined the Council's governance and administrative systems. In 2002–03 administered expenditure on medical research awards was \$266 million. In the ANAO's opinion, the legislative framework and resulting administrative arrangements under which the Council operated did not facilitate sound administration. The framework required administrative arrangements that were cumbersome and included multiple lines of accountability, as well as unclear roles and responsibilities. Although the legislative framework was beyond the control of the Council and the Department of Health and Ageing, the ANAO made recommendations for improvements in a number of administrative areas.

*Audit Report No.38 2003–04 Corporate Governance in the Australian Broadcasting Corporation—Follow-up Audit.* The audit examined the Australian Broadcasting Corporation's (ABC's) implementation

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<sup>38</sup> CLERP 9: Corporate Law Economic Reform Program, Chapter 9.

of recommendations from Audit Report No.40 2001–02 *Corporate Governance in the Australian Broadcasting Corporation* and JCPAA Report 393, which reviewed that audit report. The ABC has made considerable progress in addressing recommendations from the previous audit report and the JCPAA report. Nine of the ANAO's 14 recommendations have been fully implemented or are expected to be in the near future. Parts of the five remaining recommendations have been fully implemented and the other parts are partly implemented. The ABC has fully implemented one of the JCPAA recommendations, substantially implemented another and partly implemented the third.

*Audit Report No.40 2003–04 Department of Health and Ageing's Management of the Multipurpose Services Program and the Regional Health Services Program.* The ANAO concluded that the Department's management of these programs was generally effective. Program objectives and performance indicators were consistent but departmental staff did not have confidence in data on the central rural health database and did not use program information effectively. Their approaches to selecting and assessing potential service sites were consistent with program objectives and effective. However, as a third of Multipurpose Service (MPS) funding agreements had been extended, MPSs may have been implementing out-of-date service delivery plans. Controls over the accuracy of payments were effective but underspent funding was a significant issue.

*Audit Report No.41 2003–04 Management of Repatriation Health Cards.* The audit examined the Department of Veterans' Affairs' administration of the Repatriation health card system and arrangements for veterans to access primary health care services. It also examined the accuracy and integrity of extensive electronic data holdings that support the Department's management of the card system. The ANAO found that the Department's administration of the Repatriation health card system is generally sound, but that controls should be strengthened in a number of areas. It also revealed scope to improve the accuracy and integrity of electronic data holdings.

*Audit Report No.49 2003–04 The Use and Management of HRIS in the Australian Public Service (BSP audit report).* The audit examined human resource information systems to meet reporting requirements and provide information to management. Most agencies examined had significant gaps in human resource (HR) reports for management, including occupational health and safety (OH&S) incident numbers and trends; workers' compensation case management performance indicators; performance management and recruitment information; learning and development information; and HR key performance indicators of the success of HR initiatives. The gaps arose from not identifying these information needs or not capturing the required information. Similarly, half of the agencies did not have workforce planning strategies.

*Audit Report No.52 2003–04 Information Technology in the Department of Veterans' Affairs—Follow-up audit.* The audit followed up Audit Report No.44 2000–01 *Information Technology in the Department of Veterans' Affairs*. The primary issue raised in the previous report was the Department's monitoring of time taken to implement IT changes. Since then, the Department has introduced arrangements that track each change with CROSSVIEW, a computer-based project management

system. The follow-up audit underlined the importance of appropriate performance indicators to assess the extent to which agency strategies are being achieved. It found that the Department's IT balanced scorecard indicators were insufficient to assess whether IT strategies were appropriate.

### Environmental issues including community concerns and expectations about the management of the environment.

#### *Audit Report No.8 2003–04 Commonwealth Management of the Great Barrier Reef Follow-up Audit.*

The audit assessed implementation by the Great Barrier Reef Marine Park Authority (GBRMPA) of the seven recommendations in *Audit Report No.33 1997–98 Commonwealth Management of the Great Barrier Reef*. Most of the recommendations related to improving and reporting information on program effectiveness. The ANAO found that GBRMPA had implemented six of the recommendations and had made good progress towards implementing the seventh. The ANAO made a further recommendation: that GBRMPA include an estimate of total Australian Government and State Government expenditure on managing the Great Barrier Reef in its reporting to the Parliament.

*Audit Report No.34 2003–04 The Administration of Major Programs.* The audit examined service delivery by major programs in the Australian Greenhouse Office. It concluded that, on the basis of the seven programs examined, there were substantial challenges in the administration of greenhouse programs that focused on abatement or renewable energy. Administrative processes could have been better focused on comprehensive risk assessment at the planning stage, and on designing programs with more measurable objectives and targets. The absence of these factors has made it difficult to measure results against program objectives and has exposed some programs to risks that could have been better identified and treated in the early stages of the programs.

### Economic management, through our audit process, supporting public sector initiatives to achieve good performance by improving public sector administration and accountability (including audits to provide assurance of financial reporting, administration, control and accountability).

*Audit Report No.11 2003–04 Annual Performance Reporting.* The audit reviewed the 2001–02 annual reports of the Australian Customs Service and the Departments of Communications, Technology and the Arts; Education, Science and Training; Employment and Workplace Relations; and Immigration and Multicultural and Indigenous Affairs. It sought to determine whether agencies had: established a sound annual reporting performance information framework; developed arrangements to ensure that performance information was accurate and coherent; and appropriately analysed performance information in their annual reports. The audit found, on the basis of the sections of the five 2001–02 annual reports reviewed, that outcomes, agency outputs and administered item outputs were well specified in most instances but that annual reporting frameworks needed to be improved.

*Audit Report No.15 2003–04 Administration of Staff Employed Under the Members of Parliament (Staff) Act 1984.* The audit examined the administration by the Department of Finance and Administration (Finance) of payments and services to MOP(S) Act staff. In 2001–02 direct payments

made by Finance to, or on behalf of, such staff amounted to \$101.4 million. The ANAO concluded that Finance improved the control framework applying to the administration of payments to MOP(S) Act staff over the four-year period examined, but that it could initiate further administrative improvements to strengthen its management of employment-related payments and services for such staff.

*Audit Report No.16 2003–04 Administration of Consular Services—Follow-up Audit.* The follow-up audit assessed the Department of Foreign Affairs and Trade's implementation of the six recommendations in Audit Report No.31 2000–01 *Administration of Consular Services*. The ANAO concluded that the Department had substantially implemented four of the recommendations, with key components of the other two recommendations still to be addressed. The audit also found that some aspects of project management, and documentation of key consular processes and decisions, could be strengthened for greater efficiency and effectiveness. The ANAO made two recommendations to improve Consular Management Information System (CMIS) project management and contingency planning.

*Audit Report No.18 2003–04 The Australian Taxation Office's Use of AUSTRAC Data Follow-up Audit.* The audit assessed the ATO's progress in implementing the recommendations of Audit Report No.7 2000–01 *The Australian Taxation Office's Use of AUSTRAC Data*. The ATO uses financial transaction report (FTR) information provided by the Australian Transaction Reports and Analysis Centre (AUSTRAC) in its administration of the taxation system. The use and management of FTR data are an important source of financial intelligence for the ATO. The audit found that the ATO had implemented, or made significant progress in implementing, recommendations from the original audit.

*Audit Report No.23 2003–04 The Australian Taxation Office's Management of Aggressive Tax Planning.* The management of aggressive tax planning bears on the integrity, efficiency and effectiveness of the operations of the tax system. Aggressive tax planning poses a risk to a significant amount of revenue and it can affect community confidence in the tax system. The audit explored the nature of Australian Taxation Office (ATO) aggressive tax planning and the ATO's approach to its management. Overall, the ANAO concluded that the ATO had developed the necessary strategies, structures and processes to permit the effective management of aggressive tax planning.

*Audit Report No.24 2003–04 Agency Management of Special Accounts.* The audit examined all 297 Special Accounts (and their predecessors) that have existed. The audit demonstrated significant scope for agencies to improve financial management and reporting in respect of their Special Accounts. Recent improvements to Special Account disclosure requirements and the publication in October 2003 of Special Account Guidelines by Finance have provided a stronger platform for the financial management, reporting and transparency of Special Accounts. Further improvement in administration must also come from greater understanding of, and increased attention to, legislative requirements and appropriation management practices by agencies responsible for managing individual Special Accounts.

*Audit Report No.30 2003–04 Quality Internet Services for Government Clients—Monitoring and Evaluation by Government Agencies.* The audit examined selected agencies' approaches to monitoring

and evaluating internet-delivered government programs and services. It concluded that, in relation to websites and portals, in most instances objectives were unclear and there had been little user research. The situation was more positive at the individual internet-delivered service or program level, where information is routinely used to improve service delivery. Overall, agencies' approaches to monitoring and evaluating internet services were inadequate but this was not unexpected, given the short period that internet services have been a key feature of service delivery. There was evidence that agencies are endeavouring to improve their monitoring and evaluation.

*Audit Report No.33 2003–04 The Australian Taxation Office's Collection and Management of Activity Statement Information.* Effective management of activity statement information is important for the ATO as approximately 65 per cent (\$120 billion) of Australian Government revenue is collected through activity statements. A failure of the ATO's systems, processes and controls for managing activity statements could undermine its reputation in the community, with a potential to impact significantly on tax revenue. The audit examined the systems, processes and controls that the ATO uses to capture and process activity statement information. Although there is still progress to be made in implementing 'ideal' activity statement systems, the ANAO found that current systems, processes and controls provided a sound basis for the efficient and effective administration of activity statements. The ANAO also identified areas that could be improved to enhance administrative practices relating to activity statements.

*Audit Report No.35 2003–04 Compensation Payments and Debt Relief in Special Circumstances (BSP audit report).* This audit covered discretionary compensation and debt relief mechanisms available to Australian Government agencies where individuals or entities have been disadvantaged by legislation, or actions by agencies or staff, or some other negative circumstances. Although the audit found that management was generally in accordance with requirements, there were opportunities for increasing accountability. The audit resulted in a change to reporting requirements such that all compensatory mechanisms now need to be separately disclosed in the annual financial statements. There were also opportunities to improve processes for dealing with claims through implementation of appropriate internal controls and performance measures.

*Audit Report No.39 2003–04 Integrity of the Electoral Roll–Follow-up Audit.* The audit followed up Audit Report No.42 2001–02 *Integrity of the Electoral Roll*, which found that the Australian Electoral Commission (AEC) did not have a systematic performance measurement framework for reporting performance of electoral roll management. The AEC has developed draft performance indicators to address previous concerns, but advised that measuring and reporting on some of these indicators must await development of its new management information system. The ANAO acknowledged AEC's advice but considered that it should begin reporting against the indicators that can be measured now and those for which intermediate measures might be currently available.

*Audit Report No.42 2003–04 Financial Delegations for the Expenditure of Public Monies in FMA Agencies (BSP audit report).* The audit focused on financial delegations for the expenditure of public monies. It assessed relevant aspects of the audited agencies' control structures and sample tested individual expenditure transactions. It concluded that, generally, agencies had adequate controls for

applying financial delegations for expenditure of public monies. However, financial delegations were not always managed in accordance with relevant legislation. In particular, the requirement to document the approval of a spending proposal was not being adhered to in most instances. As well, the statutory power for entering into contracts, agreements and arrangements was incorrectly referenced in some organisations.

*Audit Report No.46 2003–04 Client Service in the Family Court of Australia and the Federal Magistrates Court.* The audit examined client service arrangements for family law clients of the Family Court of Australia and the Federal Magistrates Court. It also assessed coordination between the two courts and administration of Primary Dispute Resolution (PDR) services for their clients. It focused on services provided to regional and rural Australians and to clients who are culturally and linguistically diverse. It found that the courts could improve their client service arrangements by working more closely together on a range of client service issues. It also found shortcomings in data collected by the courts on the outcomes of their PDR services.

*Audit Report No.48 2003–04 The Australian Taxation Office's Management and Use of Annual Investment Income Reports.* The audit considered four key areas: ATO governance arrangements concerning Annual Investment Income Reports (AIIR) data; collection of complete and valid AIIR data from investment bodies; management and use of the data in conjunction with ATO client identification master files; and systematic use of the data to inform active compliance activities. The ANAO found that the ATO needs to improve management and use of AIIR data. The data matching program is an effective compliance tool but a more strategic approach is now warranted. Relatively low cost initiatives at the data receipt stage would be beneficial for compliance and assist the ATO in tax collection.

*Audit Report No.50 2003–04 Management of Federal Airport Leases.* The audit examined the Department of Transport and Regional Services' management of contracts entered into as part of the 1997 and 1998 leasehold sales of 17 Federal airports. The Department took some time to develop procedures to administer important aspects of lessees' contractual obligations, but has taken steps to improve its contract management approach. However, further attention is required in a number of areas, including: cost recovery for lease administration from lessees; regular annual lease reviews for all airports, including an assessment of lessee contractual compliance; and monitoring and assessment of lessee development commitments, using monitoring provisions provided by the contracts.

*Audit Report No.57 2003–04 Administration of Freedom of Information Requests (BSP audit report).* This was the first ANAO audit on this topic. It examined agencies' processing of Freedom of Information (FOI) requests and whether they met obligations under the *Freedom of Information Act 1982* (the FOI Act). It focused on areas not considered through the formal appeal and complaint processes provided in that Act. The audit found that staff with specific responsibility for FOI processing had a sound understanding of the requirements of the FOI Act. The effectiveness of FOI administration was strongly influenced by agencies' ability to identify records within the range of requests and the agency staff's broad understanding of the FOI Act. The audit also found scope to improve the way FOI activity across the Australian Government is reported.



## Appendix 5

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

#### **Mr Oliver Winder PSM**

*Auditor's Perspective: Best Practice Corporate Governance*  
IIR Conference on Corporate Governance in the Public Sector  
Canberra, 28 July 2003

#### **Mr Pat Barrett AO**

*Innovative People Management and Systems in the Australian Public Sector*  
InfoHRM Conference  
Gold Coast, 6 August 2003

#### **Mr Pat Barrett AO**

*Better Practice Public Sector Governance*  
National Institute for Governance  
Canberra, 21 August 2003

#### **Mr Andrew Morris**

*Better Practice Public Sector Governance*  
CPA Australian Northern Territory Branch  
Darwin, 12 September 2003

#### **Mr Andrew Morris**

*Better Practice Public Sector Governance*  
Australasian Council of Auditors-General Performance Audit Workshop  
New Zealand, 18–20 September 2003

#### **Mr Pat Barrett AO**

*An Auditor's View of Commonwealth Property Management*  
Australian Government Solicitor's Property Seminar  
Sydney, 23 September 2003

#### **Mr Pat Barrett AO**

*Lessons From 50 Years of Public Administration*  
Institute of Public Administration Australia (ACT Division)  
Canberra, 24 September 2003

#### **Mr Richard Rundle**

*Creative Cost Cutting Strategies*  
Australian Business Travellers Association Conference  
Melbourne, 29 September 2003

**Mr Pat Barrett AO**

*Some Issues in Relation to Sound Organisational Governance and Audit*  
Committee for Economic Development of Australia (CEDA)  
Sydney, 30 September 2003

**Mr Pat Barrett AO**

*Launch of Triple Bottom Line Report*  
Department of Family and Community Services  
Canberra, 30 October 2003

**Mr Pat Barrett AO**

*Accountability Issues in the Australian Public Service*  
2003 Program for Officials of South East Asian Parliaments, Australian National University  
Canberra, 6 November 2003

**Mr Pat Barrett AO**

*An Auditor's View of Commonwealth Asset, Including Property, Management*  
Occasional Paper  
7 November 2003

**Mr Pat Barrett AO**

*Implications of Harmonisation of Proposed International Standards for the Public Sector, Including an Audit Perspective*  
CPA Australia National Public Sector Convention  
Perth, 19 November 2003

**Mr Pat Barrett AO**

*Outsourcing and Partnerships in the Public Sector—Driving a Generic Brand Approach*  
CPA Australia National Public Sector Convention  
Perth, 20 November 2003

**Mr Richard Rundle**

*Risk Management in Contracts*  
Comcover Risk Management Workshop  
Canberra, 26 November 2003

**Mr Pat Barrett AO**

*Governance and Auditing in a Changing Environment in the Public Sector*  
Chartered Secretaries Australia Discussion Luncheon  
Canberra, 4 December 2003

### **Mr Peter White**

*Development of Audit Methodology and Improvements in Performance Audit Reporting Processes*  
8th Tokyo Audit Forum  
Japan, 3–9 February 2004

### **Mr Pat Barrett AO**

*Corporate Governance—A More Private Public Sector?*  
Macquarie University Graduate School of Management  
Sydney, 29 February 2004

### **Mr Pat Barrett AO**

*Developments in Government Accounting and Auditing in Australia*  
International Conference organised by the Institute of Chartered Accountants of India  
India, 12 March 2004

### **Mr Oliver Winder PSM**

*Who's Watching You? New Accountability in the Commonwealth Public Sector*  
Australian Corporate Lawyers Association  
Canberra, 17 March 2004

### **Mr Wayne Jones**

*Assessing CobiT Maturity*  
Information Systems Audit and Control Association—Canberra Chapter  
Canberra, 23 March 2004

### **Mr Pat Barrett AO**

*Performance Auditing in a Changing APS Environment*  
Address to students participating in the Graduate Certificate in Performance Auditing,  
University of Canberra  
Canberra, 1 April 2004

### **Mr Steven Lack**

*Performance Audit Work Program*  
ATSIC Office of Evaluation and Audit  
Canberra, 7 April 2004

### **Mr Phillip Hagen**

*Preparing for International Harmonisation of Accounting Standards: Key Implications for the Public Sector*  
Public Sector Performance and Reporting Conference  
Sydney, 20 April 2004

**Mr Steven Lack**

*Job Network Audits*

National Employment Services Association CEOs Forum

Sydney, 20 April 2004

**Ms Ann Thurley**

*Annual Performance Reporting*

Canberra Evaluation Forum

Canberra, 21 May 2004

**Mr Peter McVay**

*Auditing and Sustainable Development in Australia*

International Conference on Environmental Auditing

Brasilia, 30 May – 4 June 2004

**Mr Pat Barrett AO**

*Considerations of Risk and Insurance in the Public Sector*

Comcover's *Getting Wired for Risk Management* Seminar

Canberra, 10 June 2004

**Dr Paul Nicoll**

*What Practical Advice Can Auditors Give Evaluators?*

Canberra Evaluation Forum

Canberra, 17 June 2004

**Mr Bill Bonney**

*Results of ANAO Audit Report No.19 2003-04 'Property Management'*

Government Property Forum

Canberra, 18 June 2004

**Mr Pat Barrett AO**

*Assurance Auditing in a Changing APS Environment*

Occasional Paper

26 June 2004

## Appendix 6

### Procurement activities

The Commonwealth purchasing policy framework is outlined in the *Commonwealth Procurement Guidelines—Core Policies and Principles* (the Guidelines).<sup>39</sup> The Guidelines set out a series of core principles.

#### ANAO performance against core purchasing policies

The ANAO's purchasing activities in 2003–04 have again focused on adhering to the objectives set out in the Guidelines, particularly in the contracting out of its financial statement audits and its internal administration. Open tender processes were conducted that sought high quality services that provided value for money for the Commonwealth. In its performance audit work, the ANAO, where appropriate, also considered the implementation of the Guidelines and adoption of the core principles in other agencies. ANAO reports that have dealt with these matters are outlined in Appendix 4.

To ensure that 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 the 'Management and Accountability' section of this report.

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 of 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 that 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>40</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

<sup>39</sup> Department of Finance and Administration *Commonwealth Procurement Guidelines—Core Policies and Principles*: <[http://www.finance.gov.au/ctc/publications/purchasing/cpg/commonwealth\\_procurement\\_guide.html](http://www.finance.gov.au/ctc/publications/purchasing/cpg/commonwealth_procurement_guide.html)>.

<sup>40</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.

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

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

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 1997*, 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

A total of \$2.068 million was expended for consultancy contracts let or managed by the ANAO during 2003–04. This figure represents the amount actually paid for consultancy services contracts in 2003–04, as distinct from the total value of the contract, which may be active for more than one year.

Table A6-1 lists the consultancies valued at \$10 000 or more that were let in 2003–04. 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.

**Table A6–1: List of consultancy contracts let in 2003–04 valued at \$10 000 or more**

Consultancy	Purpose	Contract Amount	Procurement Method	Reason
Acumen Alliance (ACT) Pty Ltd	Management consultants	\$21 038	2	C
Apozema Pty Ltd	Audit assistance	\$18 700	2	A
Applied Financial Diagnostics Pty Ltd	Audit assistance	\$25 000	2	C
Ascent Accounting & IT Solutions Pty Ltd	Audit assistance	\$23 650	2	A
Ascent Governance Pty Ltd	Audit assistance	\$14 927	2	C
Ascent Governance Pty Ltd	Audit assistance	\$45 430	3	C
Australian Government Solicitor	Legal services	\$45 000	1	C
Australian National University	Audit assistance	\$25 000	2	A
Candle ICT Talent Specialists	Management consultants	\$12 000	2	A
Convergent Consulting Pty Ltd	IT assistance	\$16 000	2	C
Corrs Chambers Westgarth	Legal services	\$20 000	2	C
Corrs Chambers Westgarth	Legal services	\$45 000	1	C
Dale R Boucher	Legal services	\$50 000	2	C
DIALOG Pty Ltd	Management consultants	\$18 700	2	C
Ernst & Young	Audit assistance	\$167 427	2	A
Forum Corporation Pty Ltd	Audit assistance	\$48 400	2	A
Hibis Corporation Pty Ltd	Audit assistance	\$40 360	2	C
Hugh Watson Consulting	Management consultants	\$81 800	2	B
Hugh Watson Consulting	Management consultants	\$14 100	2	C
KPMG	Audit assistance	\$88 000	2	A

Consultancy	Purpose	Contract Amount	Procurement Method	Reason
KPMG	Audit assistance	\$208 200	2	C
KPMG	Independent Auditor of the ANAO	\$309 000	2	B
KPMG, ACT	Audit assistance	\$189 200	2	A
Mallesons Stephen Jaques	Legal services	\$90 000	2	C
MGI Wamstekers	Audit assistance	\$16 000	2	C
MGI Wamstekers	Audit assistance	\$15 400	2	C
Mike Garrett	Management consultants	\$25 000	2	C
Minter Ellison	Legal services	\$120 000	1	C
MKL Consulting Pty Ltd	Audit assistance	\$14 000	2	A
MKL Consulting Pty Ltd	Training course management	\$38 000	4	C
Monash University	Research assistance	\$132 886	2	C
Orima Research	Management consultants	\$10 600	2	A
Orima Research	Management consultants	\$31 450	2	A
Orima Research	Audit assistance	\$12 500	2	F
Phillips Fox	Legal services	\$10 000	2	C
PricewaterhouseCoopers	Benchmarking and reporting	\$59 400	2	D
PriceWaterhouseCoopers	Audit assistance	\$27 115	2	C
Professor Ian McAllister	Audit assistance	\$15 000	2	A
Resolution Consulting Services	Audit assistance	\$12 100	2	C
Resolution Consulting Services	Audit assistance	\$20 000	2	A
TMP Worldwide Pty Ltd <sup>41</sup>	Advertising and marketing services	\$50 000	2	C
Towers Perrin	Audit assistance	\$27 500	2	A
Walter & Turnbull	Audit assistance	\$41 000	2	F
Walter & Turnbull	Management consultants	\$37 000	2	A
XTEK Consulting	Audit assistance	\$11,000	2	B
<b>TOTAL (45)</b>		<b>\$ 2 142 220</b>		

### Procurement Method

1. Publicly advertised through either Commonwealth Gazette or media.
2. Not publicly advertised. Firms may be approached through a selective tender process, selected from an existing panel arrangement, or receive an extension of an existing contract.
3. Sole supplier.
4. Other method.

### Reason for Contract

- A. Lack of in-house resources and/or specialist skills.
- B. Need for an independent study.
- C. Need for rapid access to latest technology and application expertise.
- D. Benchmarking.
- E. In preparation for privatisation.
- F. More cost effective.

<sup>41</sup> This consultancy is also reported under 'Advertising and market research' in the 'Management and Accountability' section of this report.

## Appendix 7

### Contact directory

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

AAA	Agriculture—Advancing Australia Package
AASB	Australian Accounting Standards Board
AASG	Assurance Audit Services Group
ABC	Australian Broadcasting Corporation
ACAG	Australasian Council of Auditors-General
ADF	Australian Defence Force
AEC	Australian Electoral Commission
AEW&C	‘Wedgetail’ Airborne Early Warning and Control
AGO	Australian Greenhouse Office
AIIR	Annual Investment Income Report
AIRN	Army Individual Readiness Notice
ANAO	Australian National Audit Office
APRA	Australian Prudential Regulation Authority
APS	Australian Public Service
AQIS	Australian Quarantine and Inspection Service
ARPANSA	Australian Radiation Protection and Nuclear Safety Agency
ASIO	Australian Security Intelligence Organisation
ASIS	Australian Secret Intelligence Service
ASOSAI	Asian Organisation of Supreme Audit Institutions
ATO	Australian Taxation Office
ATSIS	Aboriginal and Torres Strait Islander Services
AusAID	Australian Agency for International Development
AUSTRAC	Australian Transaction Reports and Analysis Centre
AWP	Audit Work Program
BCM	Business Continuity Management
BPG	Better Practice Guide
BSP	Business Support Process

CA	Chartered Accountant
CAC Act	<i>Commonwealth Authorities and Companies Act 1997</i>
CFCG	<i>Commonwealth Fraud Control Guidelines</i>
CLERP	Corporate Law Economic Reform Program
CMB	Corporate Management Branch
CMIS	Consular Management Information System
CSIRO	Commonwealth Scientific and Industrial Research Organisation
DAFF	Department of Agriculture, Fisheries and Forestry
DCITA	Department of Communications, Information Technology and the Arts
DNA	Deoxyribonucleic Acid
DOTARS	Department of Transport and Regional Services
DSD	Defence Signals Directorate
EAP	Employee Assistance Program
EBOM	Executive Board of Management
ECP	Enhanced Cooperation Program (administered by AusAID)
ESD	Ecologically Sustainable Development
FaCS	Department of Family and Community Services
FMA Act	<i>Financial Management and Accountability Act 1997</i>
FMIS	Financial Management Information System
FOI	Freedom of Information
FTR	Financial Transaction Report
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office (United States)
GBE	Government Business Enterprise
GBRMPA	Great Barrier Reef Marine Park Authority
GFS	Government Finance Statistics
HR	Human Resource
HRIS	Human Resource Information System
HVAC	Heating, Ventilation and Air Conditioning
ICT	Information and Communications Technology
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards

INTOSAI	International Organisation of Supreme Audit Institutions
ISACA	Information Systems Audit and Control Association
ISS	Information Support Services
IT	Information Technology
JCPAA	Joint Committee of Public Accounts and Audit
JSCEM	Joint Standing Committee on Electoral Matters
KRA	Key Result Area
MOP(S) Act	<i>Members of Parliament (Staff) Act 1984</i>
MPS	Multipurpose Service
OAG	Office of the Controller and Auditor-General (New Zealand)
OH&S	Occupational Health and Safety
PASG	Performance Audit Services Group
PBS	Portfolio Budget Statement
PDR	Primary Dispute Resolution
PDS	Personal Development Scheme
R&D	Research and development
SEESA	Special Employee Entitlements Scheme for Ansett Group Employees
SES	Senior Executive Service
SWIM	Senior Women in Management
TBL	Triple Bottom Line
WCF	Workplace Consultative Forum



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