



ANNUAL REPORT 2004–2005
THE AUDITOR-GENERAL



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



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

28 September 2005

Dear Mr President

Dear Mr Speaker

In accordance with section 28 of the *Auditor-General Act 1997*, I present to the Parliament my report on the operations of the Australian National Audit Office for the year ended 30 June 2005.

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 dark ink, appearing to read 'Ian McPhee'.

Ian McPhee
Auditor-General



HIGHLIGHTS

Highlights for 2004–05 are set out below.

- The Australian National Audit Office (ANAO) delivered a comprehensive program of financial and performance audits and related products to inform the Parliament and the Government about public sector administration and performance.
- We made 356 recommendations in our performance audit reports to improve agency performance and accountability, of which 335 (94 per cent) were agreed, with the remainder agreed with qualification.
- We responded to the requirement for increased auditing focus, utilising supplementary funding provided by government, on Department of Defence issues including the demerger of the Defence Materiel Organisation.
- The ANAO continued to work closely with Parliamentary committees, particularly the Joint Committee of Public Accounts and Audit, to assist the committees with their inquiries.
- We implemented an approach to auditing financial reports based on the Australian Equivalents to International Financial Reporting Standards (AEIFRS), which will provide agencies with as much assurance as possible prior to the audit of the first full AEIFRS financial reports for 2005–06.
- We continued to invest in resources and tools to enhance the coverage and quality of financial statement audits, including the purchase of a financial management systems security and control assessment tool.
- Our client surveys of Parliament and agencies provided very positive feedback on the work of our Assurance and Performance audit services.
- We continued to host visitors from many countries as part of our commitment to assisting the development of the auditing profession internationally, and this year we also made a senior staff member available to the Papua New Guinea (PNG) Audit Office as our contribution to the PNG Enhanced Cooperation Program.

AREAS OF FOCUS FOR THE COMING YEAR

The major areas of focus for the coming year are:

- delivering a range of timely and relevant products on topics that provide the greatest opportunity for improvement in administration across the Australian Public Service;
- reviewing our product range, our professional capacity and our organisational arrangements to ensure that we have a clear and consistent view about the extent to which legal compliance issues are covered in both financial statement and performance audits;
- better communicating our role to our clients (Parliament, Government and agencies) to address any gaps in expectations about our service;
- enhancing liaison and cooperation with public and private sector auditing organisations, including the accounting and auditing profession;
- ensuring that adequate learning and career development opportunities are provided to staff to aid retention;
- implementing the next Certified Agreement, which will ensure that the ANAO maintains a competitive employment framework and remuneration structure that will, among other things, assist with the attraction and retention of staff;
- continuing to assess our business priorities in light of the rising costs of running our business that increase over the period of the forward estimates; and
- through an appropriate tender process, decide on the best solution for our accommodation when the current lease expires in September 2008.

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FOREWORD BY THE AUDITOR-GENERAL

MAKING A DIFFERENCE

INTRODUCTION BY THE AUDITOR-GENERAL



*Ian McPhee PSM
Auditor-General for Australia*

The Auditor-General's primary role is to report to the Parliament on the performance of public sector agencies through a program of performance and financial statement audits undertaken by the ANAO in a way that improves the quality of public administration. To fulfil its responsibilities effectively, the ANAO is required not only to assess performance objectively, but also to make constructive recommendations for improvements to program or agency performance.

In order to meet the expectations of the Parliament and, more broadly, the Australian public, the ANAO is continually reviewing its audit products and approach to ensure that our audit coverage provides an effective and independent review of the performance and accountability of Australian Government public sector agencies. We seek to ensure that our performance and financial statement audits are well targeted and fully integrated and, in this way, maximise the Office's contribution to improved public administration. In this context we have taken steps during the year to ensure our audits address priority areas which impact on program performance and are giving appropriate coverage to matters of legislative compliance.

The audit independence provided under the *Auditor-General Act 1997* is key to the ANAO's effectiveness. This independent assurance provided to the Parliament, the Government and the public generally on the financial statements, financial administration and accountability of Australian Government public sector entities is critical to fulfilling the ANAO's statutory obligations.

Recent audits have highlighted the importance of governance, the need for well-managed systems to deliver programs, and sound practices to provide assurance in relation to legal compliance. While public sector chief executive officers are commonly required to deal with an array of policy, program and organisational issues, it is also important that ongoing attention is given to measures to reinforce good governance and effective administration. This has been underscored by the recent decision of the Government that chief executive officers of *Financial Management and Accountability Act 1997* entities provide certification relating to the financial management of their organisations, with effect from the 2005–06 financial year.

RATE OF CHANGE IN THE PUBLIC ADMINISTRATION ENVIRONMENT

The rate of change in public administration impacts on agencies' operations and our audit coverage. Our audits have highlighted a number of issues that are worthy of particular attention by entities, for example, the adoption of new technologies and the need to comply with legislative requirements in an increasingly complex administrative environment.

THE EXPANDING USE OF LARGE IT SYSTEMS TO DELIVER GOVERNMENT PROGRAMS

In an ever changing Australian Public Service (APS) environment, the adoption of new technologies, the increasing demand to provide more integrated and interactive information and services to improve the delivery of government programs, and the continued move toward e-Government introduces a new range of risks and opportunities which need to be effectively managed.

The expanding use of large information technology (IT) systems also impacts on IT governance and the reliability of an entity's IT processes. Because the management of IT related risk is a key component of corporate governance, effective IT governance is integral to the success of overall governance by ensuring efficient and effective planning, management and operation of IT processes, IT resources, and information.

As the implementation of new technologies transforms public administration and service delivery, issues of contract management, configuration and storage management, information security and business continuity management become increasingly important. This presents the Office with a particular set of challenges in tailoring our audit coverage to appropriately address these matters.

Given that our audit findings indicate that the effectiveness of the management of key financial IT systems remains uneven and that further attention is required in relation to IT security issues and business continuity, the ANAO will continue to review these aspects because the preservation of an effective security and continuity control framework is a key responsibility for entities.

LEGAL COMPLIANCE

The ANAO continues to be an active participant in the changing APS environment. The audit focus on ensuring compliance with legislation, including parliamentary appropriations is being strengthened as part of a broader approach to assist agencies in improving public sector administration. Recent ANAO audit reports have brought to the attention of the Parliament quite widespread difficulties in implementing and complying with key legislative provisions, particularly in relation to the *Financial Management and Accountability Act 1997*.

In this context the ANAO is reviewing the extent to which legal compliance issues are covered in both financial statement and performance audits. This is a key action item in our *'Key Result Area 2—Our Products and Services'*¹ and is designed to articulate the legal compliance considerations that should be covered in our various audits to better inform Parliament of such matters.

MEASURING OUR PERFORMANCE

The ANAO's interaction with both individual parliamentarians and parliamentary committees provides the opportunity to ensure that performance and financial audit products and services are tailored to Parliament's needs. The ANAO's relationship with the Parliament is crucial to our ability to maintain the quality and relevance of the ANAO's audit products. We seek to be of assistance to the Parliament, and its Committees, and responsive to requests for audits that may be made of the Office.

As with other public sector organisations, the ANAO expects to be judged both by its results and the manner in which it achieves those results. The success of our approach to auditing, providing assurance to the Parliament and the Government and assisting government agencies is shown by the ANAO's achievements over time against its key performance indicators, in particular, our clients' satisfaction with the ANAO and its products. From our perspective, an important performance management and assessment mechanism to the Office is the independent surveys undertaken at the Parliamentary and agency level.

At one level is the face-to-face survey of parliamentarians and the Joint Committee of Public Accounts and Audit (JCPAA), undertaken bi-annually, to help ensure that the ANAO's product mix is right. The results of the most recent survey of parliamentarians were very positive with key indices indicating that the Parliament acknowledges the value of the contribution of the Office.

At another level is feedback on the audit process using questionnaires and interviews independently sought from public sector entities after the tabling of each performance audit. This is one of the most direct and credible ways the ANAO has to test that its ongoing commitment to relationship management is achieving required results. The surveys show that agency managers continued to support the ANAO's efforts in moving to a more 'value adding' approach.

Surveys also provide greater assurance that the ANAO continues to be able to respond to the challenges of the future, and that it has a shared understanding of appropriate standards of accountability to lead and guide agencies. The ANAO is also working on areas highlighted in the surveys where we can improve on our performance in terms of processes and presentation of audit findings. Examples include being more engaged with agencies as findings emerge and, from a parliamentarian's perspective, publishing clearer criticisms where performance is poor.

DEALING WITH THE INCREASED COMPLEXITY IN AUDITING FINANCIAL STATEMENTS, THE DEMAND FOR GREATER DISCLOSURE AND TIGHTER TIMEFRAMES

As a result of the introduction of international financial reporting standards, that impact both the public and private sectors, and the reduced financial reporting timeframes, public sector financial reporting is increasing in complexity. Of particular relevance in 2004–05 was the requirement for entities to determine the financial systems and reporting implications of adopting the Australian Equivalents to International Financial Reporting Standards (AEIFRS) in 2005–06. The implementation of AEIFRS is a demanding exercise and we are assisting

¹ Action item from the 2005–06 ANAO Business Plan.

agencies, as appropriate, in this difficult and complex reporting environment. In addition, as auditing standards expand, auditors face greater challenges in providing assurance relating to the true and fair presentations of financial statements.

To meet these increased demands we are continually refining our audit approach which is based on identifying business and financial statement risk, understanding key business processes that generate significant accounts, and testing the controls we consider are important to reduce risk. Our audit methodology adopts a continuous audit approach thereby ensuring we continually reassess and adapt our audit approach to reflect any changes in the environment.

We also play our part in providing our perspective on developments in accounting standards, particularly by commenting on exposure drafts issued by the standard setting boards and through our involvement in Australasian Council of Auditors-General (ACAG). A case in point is the harmonisation of Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP) which is intended to improve the direct comparability of budget statements with reports on the budget outcome, and to allow for better understanding of government finances.

ORGANISATIONAL CHALLENGES WITHIN THE ANAO

The ANAO, with a staff of around 300 officers, is working well in a demanding environment. The staff recognise the importance of the work of the Office and our contribution to improving public administration.

Our staffing profile is a reflection of the APS workplace and the employment demographics in the wider community in that there is a shortage of qualified professional staff, some of whom are young and very mobile. Slightly more than 50 per cent of our staff is female, a proportion which has remained steady over recent years.

In the current climate, retaining professional audit staff continues to be a challenge, particularly as our staff are well regarded and sought after. There is a particular demand for accountants which, in part, is driven by recent changes to the taxation system and the implementation of International Financial Reporting Standards (IFRS) from 1 July. Symptomatic of staff mobility is that 60 per cent of our accounting employees are under 35 years of age and have less than 4 years employment with the ANAO. The Office provides a good opportunity for young accountants to gain experience and broaden their accounting and auditing skills and by providing learning and career development opportunities we plan to improve our ability to attract and retain quality staff.

Additionally, the Office has developed policies and strategies to retain mature age workers. For example, we have arranged in-house information sessions on superannuation and various work options for older workers as a means of retaining mature experienced staff. Work is continuing on refining and shaping the policies to obtain a balance between ANAO requirements and staff needs.

Our annual staff survey indicated a pleasing continuation of high staff support and some marginal improvements in a number of key result areas, such as, adherence to ANAO Values (91 per cent), workgroup members are helpful (95 per cent), the performance assessment scheme is easy to follow (71 per cent), upward appraisal was worthwhile (74 per cent), satisfaction with work/home life balance (70 per cent), staff commitment to the ANAO (94 per cent), and staff desire to produce high quality work (98 per cent).

FUNDING

The ANAO's budget allocation in 2004–05 was \$58.5 million, with a further \$2.34 million provided during additional estimates. In March 2005, the ANAO advised the JCPAA (which has a statutory role to review our budget) that over and above the funds granted during the additional estimates, an additional allocation in 2005–06 of \$4.5 million was required to meet its responsibilities. This additional funding was sought to: meet the increased market pressures on the cost of accountants and auditors to conduct financial statement audits (in particular where the ANAO needs to contract in these services); meet the significantly increased costs of auditing the Department of Defence; provide a greater IT audit capability; produce an annual report on progress in major Defence projects, as requested by the Senate in May 2003; and meet the impact of the increased costs associated with leasing Centenary House.

The ANAO received additional funding of just over \$2.3 million for 2005–06 to cover the additional costs associated with the auditing of the Department of Defence and for contracted out financial statement audits. The difference between the funding sought and the funding received is being absorbed within the ANAO's total budget. I informed the JCPAA that, with some adjustment of priorities, the constraints will be manageable in 2005–06 but will be more challenging in the subsequent years.

The JCPAA concluded that the ANAO's budgeted allocation for this financial year is sufficient to enable the Auditor-General to properly exercise his functions and powers under *the Auditor-General Act 1997*. However, the Committee had some concerns beyond the 2005–06 financial year. The Committee has indicated that it would closely monitor the situation beyond 2005–06 to make sure that our wider program of performance audits and other activities is not compromised.

We will assess the avenues for addressing our budget priorities and the implications of AEIFRS on our budget presentation during the course of 2005–06.

NATIONAL AND INTERNATIONAL REPRESENTATION

An important professional role the Office plays both nationally and internationally is contributing to the development of auditing standards, professional practices and exchanges of experience through participation in the following organisations:

- 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 Auditing and Assurance Standards Board (IAASB).

At the national level, the ANAO, as a member of the ACAG, aims to promote public sector auditing in the Australasian region through an exchange of experiences, ideas, training initiatives and cooperation. This group comprises the Auditors-General of each Australian State and Territory, Fiji, New Zealand and Papua New Guinea and myself.

It is important that the ANAO continues to contribute its experiences and expertise to developments in auditing nationally and internationally to enhance the quality of auditing and strengthen relationships.

On 5 January 2005, the Prime Minister and Indonesian President announced the formation of a five-year, \$1 billion Australian-Indonesian Partnership for Reconstruction and Development (AIRPD). The objective of this partnership is to support Indonesia's reconstruction and development efforts both in, and beyond, tsunami affected areas through sustained co-operation focussed on the Indonesian Government's programs of reform, with an emphasis on social and economic developments.

In April 2005, a senior ANAO officer attended the *International Conference on Promoting Financial Accountability in Managing Funds Related to Tsunami, Conflict and Other Disasters* held in Jakarta. The objectives of this conference were to enhance financial accountability and transparency in managing funds related to tsunami and other disasters.

In addition, the ANAO has been working with the AIRPD and a number of government agencies to identify the most appropriate form of future involvement in the program.

The ANAO continues to host visitors from overseas as part of our commitment to assisting the development of the auditing profession internationally. Parties were hosted from many countries including Azerbaijan, Bangladesh, and South Africa. From our own region, we hosted an Indonesian Parliamentary delegation, groups from Thailand and Vietnam and a number of delegations from China. The ANAO provided the delegates with an insight into public sector administration in the Australian federal government sphere and a brief on financial and performance auditing methodology in the ANAO.

TO CONCLUDE

The Office is well placed to meet the challenges that flow from an ever-changing and more complex APS environment through our integrated audit approach, our client focus, and a very professional audit and support team. The ANAO is committed to making a difference through assisting the Parliament, the Government and public sector agencies in enhancing public sector administration.

This position is due, in no small part, to my predecessor, Mr Pat Barrett AO, who retired in March 2005 after 10 years as Auditor-General and 48 years in the APS. Pat made an outstanding contribution to improving public sector administration and governance arrangements over a long and distinguished public service career. His legacy is an organisation that is well respected by Parliament, the JCPAA and public sector entities, and a public sector that benefited from his broad perspective and wise counsel. Pat was ably supported by Oliver Winder, the Deputy Auditor-General, who retired in February 2005 after 30 years in the APS, the last two of which were in the ANAO.

Finally, I would like to acknowledge the professionalism and commitment of my staff for their efforts in contributing to our achievements over this reporting year.



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).

VISION

The ANAO vision is to be *an international leader in the provision of independent public sector audit and related services*.

The two ANAO outcomes described below are directly related to our role and vision.

Improvement in public administration—independent assessment of the performance of selected Commonwealth public sector activities including the scope for improving efficiency and administrative effectiveness.

Assurance—independent assurance of Australian Government public sector financial reporting, administration, control and accountability.

These outcomes will be met through the achievement and implementation of the objectives and strategies in four key result areas:

- our clients;
- our products and services;
- our people; and
- our business performance.

ORGANISATION

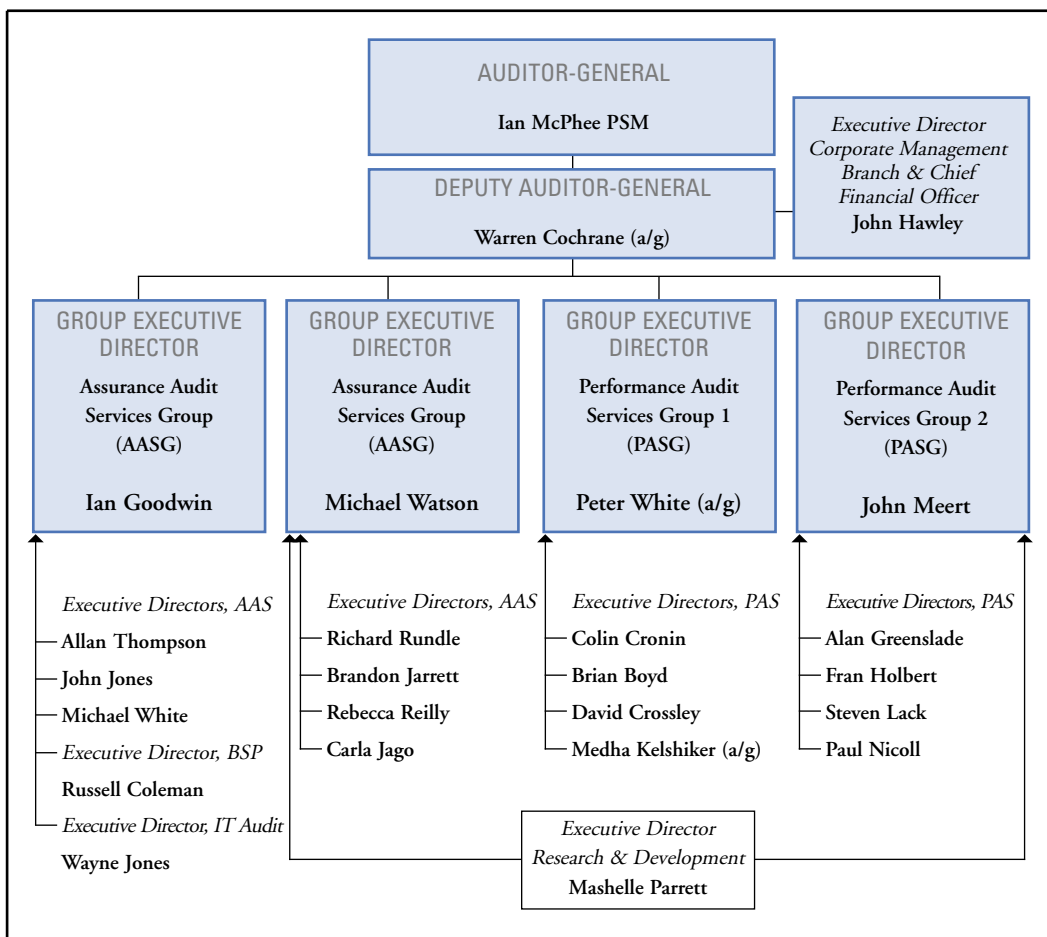
The ANAO is organised internally into two services groups supported by a Corporate Management Branch and a Research and Development Branch. The Assurance Audit Services Group (AASG) provides independent assurance on the financial statements and financial administration of Australian Government public 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 assurance 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 2005, is shown in Figure 1.



The Auditor-General, Ian McPhee, with Steve Chapman who commenced as Deputy Auditor-General on 11 July 2005.

FIGURE 1: ORGANISATION AND SENIOR MANAGEMENT STRUCTURE AS AT 30 JUNE 2005²



² Steve Chapman commenced his appointment as Deputy Auditor-General on 11 July 2005. On this day, Warren Cochrane resumed his position as a Group Executive Director in PASG and Peter White resumed his position as Executive Director in PASG.

FOR MORE INFORMATION

The ANAO website <<http://www.anao.gov.au>> provides extensive information on the ANAO and its reports, and also provides links to audit offices in other jurisdictions in Australia and internationally.



The ANAO's homepage.

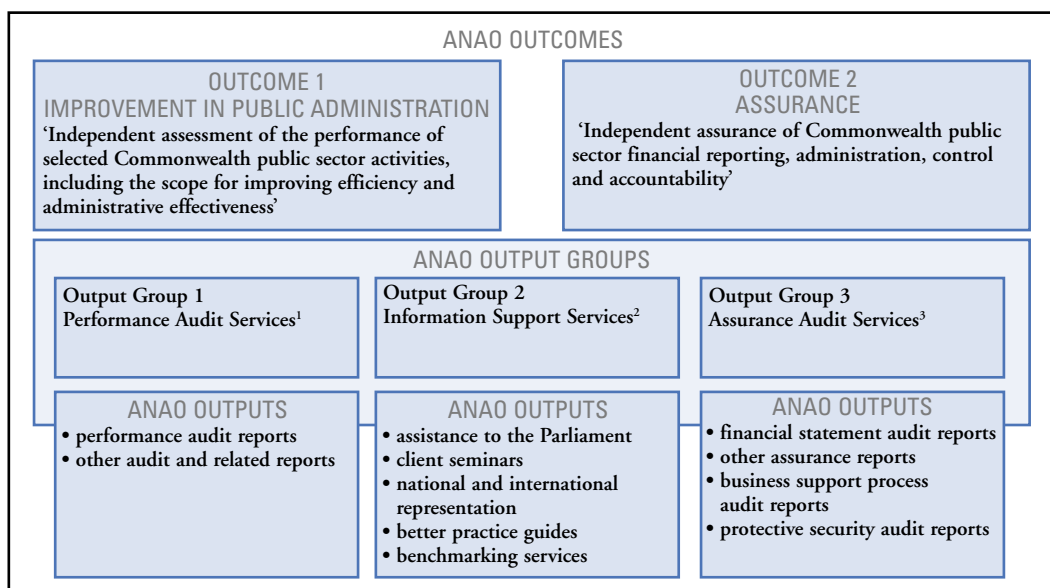
THE ANAO'S OUTCOME-OUTPUT FRAMEWORK

The following explanation relates the Outcome-Output framework, as set out in the ANAO 2004–05 Portfolio Budget Statements (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.

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 2004–05, 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 2004–05 are set out at Appendix 2, which also includes a commentary on the ANAO's financial performance for the financial year.

FIGURE 2: THE ANAO'S OUTCOME–OUTPUT FRAMEWORK



Notes: 1 100% to Outcome 1
 2 50% to Outcome 1, 50% to Outcome 2
 3 100% to Outcome 2

FINANCIAL SUMMARY

The ANAO's overall financial position remained strong during 2004–05 as a result of continued prudent management. During this time, the ANAO has met its primary business targets, including the production of 61 performance audits and audit related products² 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 2004–05 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 2004–05 compared with last year are due primarily to:

- increases in employee expenses flowing from the current certified agreement;
- an increase in direct audit costs due to rising costs within the accounting labour market, additional financial statement auditing within the Department of Defence and the auditing of the adoption of the Australian equivalents to International Financial Reporting Standards (AEIFRS) by the Australian Government; and
- increases in information technology (IT) and administrative expenses and lease costs.

² Comprising 48 performance audits, seven business support process audits, one protective security report, two financial statement related reports, one activity report and two better practice guides.

RESOURCES FOR OUTCOMES

TABLE 1: FINANCIAL RESOURCES SUMMARY

Summary—by Outcome	\$'000 Actual 2004–05
Outcome 1	22 137
Outcome 2	39 762
Subtotal Outcomes	61 899
Revenue from other sources	(1 468)
TOTAL PRICE FOR OUTCOMES	60 431
Revenue from Government (Appropriation) for Departmental Outputs	(60 810)
Operating Surplus	379

Summary—by Output Group	\$'000 Actual 2004–05
Output Group 1 (Performance Audit Services)	21 470
Output Group 2 (Information Support Services)	1 284
Output Group 3 (Assurance Audit Services)	39 145
Subtotal Outcomes	61 899
Revenue from other sources	(1 468)
TOTAL PRICE FOR OUTCOMES	60 431
Revenue from Government (Appropriation) for Departmental Outputs	(60 810)
Operating Surplus	379
Average Staffing Level	305

TABLE 2: RESOURCES FOR OUTCOME 1

OUTCOME 1—IMPROVEMENT IN PUBLIC ADMINISTRATION

	\$'000 Budget 2004–05	\$'000 Actual 2004–05	\$'000 Variance	\$'000 Budget 2005–06
Price of Departmental Outputs				
Output Group 1 (Performance Audit Services)				
Output 1.1 Performance Audit Reports	21 849	21 465	384	20 887
Output 1.2 Other Audit and Related Reports	-	5	(5)	-
Subtotal Output Group 1	21 849	21 470	379	20 887
Output Group 2 (Information Support Services)				
Output 2.1 Assistance to the Parliament	238	278	(40)	303
Output 2.2 National and International Representation	238	346	(108)	454
Output 2.3 Client Seminars	-	-	-	-
Output 2.4 Benchmarking Services	-	-	-	-
Output 2.5 Better Practice Guides	10	43	(33)	302
Subtotal Output Group 2	486	667	(181)	1 059
Output Group 3 (Assurance Audit Services)				
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	-	-	-	-
Subtotal Output Groups	22 335	22 137	198	21 946
Revenue from other sources	(321)	(318)	3	(327)
TOTAL PRICE FOR OUTCOME 1	22 656	22 455	201	22 273
Revenue from Government (Appropriation) for Outputs	22 013	21 748	266	21 619

TABLE 3: RESOURCES FOR OUTCOME 2

OUTCOME 2—ASSURANCE

	\$'000 Budget 2004–05	\$'000 Actual 2004–05	\$'000 Variance	\$'000 Budget 2005–06
Price of Departmental Outputs				
Output Group 1 (Performance Audit Services)				
Output 1.1 Performance Audit Reports	-	-	-	-
Output 1.2 Other Audit and Related Reports	-	-	-	-
Subtotal Output Group 1	-	-	-	-
Output Group 2 (Information Support Services)				
Output 2.1 Assistance to the Parliament	85	55	30	121
Output 2.2 National and International Representation	333	241	92	351
Output 2.3 Client Seminars	10	15	(5)	15
Output 2.4 Benchmarking Services	-	-	-	-
Output 2.5 Better Practice Guides	217	306	(89)	58
Subtotal Output Group 2	645	617	28	545
Output Group 3 (Assurance Audit Services)				
Output 3.1 Financial Statement Audit Reports	33 850	35 616	(766)	36 026
Output 3.2 Business Support Process Audit Reports	2 744	1 507	1 237	2 669
Output 3.3 Protective Security Reports	934	397	537	433
Output 3.4 Other Attest Reports	1 636	1 625	11	1 636
Subtotal Output Group 3	39 164	39 145	19	40 764
Subtotal Output Groups	39 809	39 762	47	41 309
Revenue from other sources	(1 048)	(1 150)	(102)	(1 049)
TOTAL PRICE FOR OUTCOME 2	40 857	40 912	(55)	42 358
Revenue from Government (Appropriation) for Outputs	38 761	39 062	(301)	40 260



AUSTRALIAN NATIONAL AUDIT OFFICE

The ANAO's Scorecard provides an overview of ANAO performance based on the performance information contained in the 2004–05 Portfolio Budget Statements (PBS), which is structured in accordance with the ANAO's Outcome-Output framework.

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 an overview and report on the ANAO's internal management, called 'Management and Accountability'.

PORTFOLIO BUDGET STATEMENTS 2004–05—SCORECARD

Effectiveness – Overall Achievement of Outcomes 1 and 2		
	Target	Actual
Parliament acknowledges the value of the ANAO contribution.	90% value role of ANAO.	93% of parliamentarians surveyed ¹ expressed satisfaction with ANAO products and services.
Public sector entities acknowledge the value added by ANAO products and services.	90% value role of ANAO.	91% AASG. ² 86% PASG. ³
The JCPAA's general satisfaction with the overall quality, timeliness and coverage of our products and services.	High standard of satisfaction.	JCPAA survey responses indicate a very high level of satisfaction with ANAO's work. ¹
Performance information by output component		
Output group 1: Performance audit services	Target	Actual
Number of performance audit reports to be produced.	47	48
Ratio of estimated financial benefits to the total cost of performance audit outputs.	2:1	No specific savings. However, an estimated \$360 million to \$750 million in uncollected revenue was identified. ⁴
Percentage of audit recommendations supported by the JCPAA and other Parliamentary Committees.	90%	100%. The JCPAA agreed with all recommendations examined.
Percentage of audits where public sector entities acknowledge the value added by the audit.	90%	94% (335) of all 356 recommendations were 'agreed', and the remainder 'agreed with qualification'. No recommendations were disagreed.
Quality assurance results indicate all reviewed audits meet ANAO Auditing Standards.	100% of audits reviewed.	100% of audits reviewed. The organisation and indexing of working papers was identified as an area for improvement in the performance auditing process.
Full costs are allocated to audit products and services.	100%	100%

Output Group 2 : Information support services	Target	Actual
Number of audit products to be produced.	6	3 (2 better practice guides ⁵ and 1 activity report).
Number of client seminar series.	2	2
Percentage completed in accordance with budgeted timeframe.	100%	100%. Noting that all time and cost variations were approved.
Seminar topics meet the needs of participants.	75% satisfaction level.	95% ⁶
Output Group 3: Assurance audit services	Target	Actual
Number of financial statement audit opinions to be issued.	260 ⁷	240 (this is lower than expected as a result of combinations of entities and entities no longer in existence).
Number of audit products produced.	10	10 (7 business support process audit reports, 1 protective security report and 2 financial statement related reports).
Number of other audit opinions.	2	2 ⁸
Timeliness of issuing financial statement audit opinions.	100%	81% issued on, or within two days of the signing of the financial statements.
Percentage completed in accordance with agreed timeframes (financial statements).	100%	73%
Quality assurance results indicate all reviewed audits meet ANAO Auditing Standards.	100%	100% of audits reviewed. Documentation and integration of IT work were identified as areas for improvement in our audit processes.
Full costs are recovered either notionally or actually.	100%	100%

2004–05 BUSINESS PLAN SCORECARD

As well as the targets set in the Portfolio Budget Statements, our 2004–05 Business Plan included a number of additional targets, which are set out below.

Activity	Target	Actual
Staff satisfaction is at an acceptable level.	> 70%	76% ⁹
Staff turnover is at an agreed level.	<18% turnover. ¹⁰	23% (a highly competitive market for accounting skills – under regular review).
Public sector organisations acknowledge understanding and skills of ANAO staff through client satisfaction surveys.	90% of agencies rate ANAO staff skills as ‘4’ ¹¹ or above.	PASG 88% (66% of respondents agreed-‘4’ rating, and 22% strongly agreed-‘5’ rating). ^{3,11} AASG 85% (57% of respondents agreed-‘4’ rating, and 28% strongly agreed-‘5’ rating). ^{2,11}
Professional development programs 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.	There is a general level of satisfaction with professional development. ⁹
Staff acknowledge ANAO Values and Behaviours are exhibited in the workplace.	85%	91% ⁹
Implementation of Business Plan initiatives within agreed timeframes and standards.	100%	13 of the 18 initiatives have been completed; the remainder are being progressed as part of other activities.

Notes: 1. Parliamentary Survey, May 2005.

2. AASG Client Survey, May 2005.

3. PASG Client Survey, October 2004.

4. Audit Report No 39, *Administration of the Superannuation Contributions Surcharge*. Subsequent to the audit, as part of the 2005 Budget, the government announced that the surcharge would be abolished from 1 July 2005.

5. Four better practice guides were planned and two completed as a result of a change in priorities.

6. Seminar feedback forms from November/December 2004 seminars.

7. Subject to Government determinations.

8. Triple bottom line reports for the Department of Family and Community Services and the Department of Environment and Heritage.

9. ANAO Staff Survey, April 2005.

10. This is an ANAO wide target, which measures the number of staff leaving as a percentage of total ANAO staff.

11. A rating of ‘4’ means respondents agree, a rating of ‘5’ means they strongly agree.

OUTPUT GROUP 1

PERFORMANCE AUDIT SERVICES

The outputs that comprise Output Group 1 in 2004–05 are:

- performance audit reports; and
- other audit and related products, such as the audit activity report.

The following summarises the ANAO's performance against these outputs. Details of the financial resources for performance audit services are set out 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 Joint Committee of Public Accounts and Audit (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. 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.



*From left:
John Reid,
Kraig Lowes
and Simone
Hopper from
Performance
Audit Services
Group.*

AUDIT WORK PROGRAMME

The ANAO's Audit Work Programme is developed annually 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 Programme. This process is to ensure that the ANAO audit products and outputs meet the needs of the Parliament and public sector bodies, and are in tune with the key risks and challenges facing the Australian Government in a rapidly changing world. These risks and challenges are taken into account in identifying the key areas of focus in developing the annual performance audit work programme and in evaluating and assessing potential financial statement issues to be addressed during the course of financial statement audits.

In addition to business risks, audit activity is planned with regard to other considerations including: financial materiality; programme significance; audit impact; visibility of the program; the extent of recent audit coverage; and audit themes derived from the Audit Work Planning process.

The audit themes identified in the 2004–05 Audit Work Programme are set out below.

- security;
- economic management;
- ageing population;
- growing demand for a better quality of life;
- growing interconnectivity and changing service delivery through information technology and telecommunications; and
- evolving governance structures, including higher community expectations for strong management and appropriate governance.

SUMMARY OF PROGRESS AGAINST AUDIT THEMES

A selection of examples of progress against these themes is highlighted below. The main issues raised in the audit reports are summarised by themes in Appendix 4.

SECURITY

Security is an area of increasing concern and sensitivity. Three audits in particular focussed on this theme. The examination of the physical security of Australian overseas missions and staff was a notable example, which identified a number of areas in need of strengthening. Our review of container examination facilities provided useful information on how to improve the administration and operational effectiveness of this vital facility for preventing illegal and harmful goods from entering Australia. We also reviewed the administration of immigration onshore compliance activities, which addressed visa overstayers and non citizens working illegally in Australia. Findings to improve the quality and use of data added value to the administration of this activity.

ECONOMIC MANAGEMENT

Building on previous work in the general area of economic management, our audit on the investment of public funds was a wide ranging review. The audit addressed matters of compliance, delegations and value for money strategies. A number of shortcomings were identified including plans to purchase unauthorised investments and inadequate oversight of investment activities which should lead to improvements in an area of some \$566 million of authorised investments. The review of payment of goods and services tax to the states resulted in significant findings, which have focussed attention on the methodology and risk management relating to the payment of large amounts of public money. Other audits of Defence property sales and leases have resulted in findings to improve the management of property sale and leaseback processes.

AGEING POPULATION

The ageing population is a significant area of public interest and three audits were conducted of relevance to this area. Our audit on veteran's home care provided assurance that, while there was room for improvement, positive steps had been taken to develop and implement a new approach to delivering services to veterans. The review of the National Respite for Carers Program confirmed that the core elements of the program were delivered, but found opportunities to improve the effectiveness of the associated administrative practices. We also looked at workforce planning (which includes examining the consequences of an ageing workforce) in the Australian Public Service (APS) and informed Parliament that the implementation of the concept fell well short of being part of normal business processes in any widespread or meaningful way.

DEMAND FOR BETTER QUALITY OF LIFE

Centrelink has a great influence on the lives of many Australians and a series of six audit reports examined the effectiveness of Centrelink's major customer feedback systems. The audit found that, while there is a range of systems for gathering, reporting and responding to customer feedback, there was no overarching system to effectively bring all the information together. It was encouraging that Centrelink agreed with all recommendations to improve the system. Other audit work in Centrelink included a review of the management of customer debt. The audit exposed a number of opportunities for improvement, particularly in the areas of communications and performance measurement.

GROWING INTERCONNECTIVITY AND CHANGING SERVICE DELIVERY THROUGH INFORMATION TECHNOLOGY AND TELECOMMUNICATIONS

Information technology and telecommunications are an increasingly influential element of modern life. Seven audits of direct relevance to this theme were conducted this year. Of particular interest was the review of the integrity of Medicare enrolment data. The audit provided an assurance that the Medicare enrolment database was sufficiently secure, complete, accurate and current to support the effective administration of the Medicare programme. The audit findings were useful in enhancing the establishment of a new system being introduced at the time. The review of the delivery of services through the internet by a selection of agencies was a revealing study which established that service delivery was meeting government aims. However, it exposed inadequacies in the ability of agencies to determine whether their investments in e-government were delivering tangible returns, such as in cost reductions or increased efficiency.

EVOLVING GOVERNANCE STRUCTURES, INCLUDING HIGHER COMMUNITY EXPECTATIONS FOR STRONG MANAGEMENT AND APPROPRIATE GOVERNANCE

Governance has been a central theme in our audit work for some time and over the past year a number of audits covering a very wide range of topics were conducted in relation to this theme. The ANAO was able to make recommendations and add value on matters as diverse as performance management in the APS, the administration of healthcare cards, the safety and accessibility of national collections, legal services arrangements in the APS and the regulation of Commonwealth radiation and nuclear activities. Of particular interest was the review of the taxpayer's charter. The audit found that the Australian Taxation Office was managing its responsibilities under the charter and showing a strong commitment to the charter principles at the strategic level, and was working towards fully integrating these principles into its business processes.

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. Consequently, for each report tabled in 2004–05, agency comments were included in full in the final report.

SECTION 37 OF THE AUDITOR-GENERAL ACT 1997

Section 18(2) of the Act, requires that the Auditor-General, as soon as practicable after completing the report on an audit, must cause a copy to be tabled in the Parliament. However, Section 37(1)(a) of the Act provides that sensitive information must not be included in public reports.



During the year, the Auditor-General, in accordance with Section 37(1)(a), decided to omit particular information from Audit Report No.28 2004–05 *Protecting Australian Missions and Staff Overseas*. The reason for this was that the information would prejudice the security, defence or international relations of the Commonwealth (Section 37(2)(a)). A separate report, including the omitted information, was prepared and a copy provided to the Prime Minister, the Finance Minister and the Ministers for Foreign Affairs and Trade, in accordance with Section 37(5) of the Act.

PERFORMANCE

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

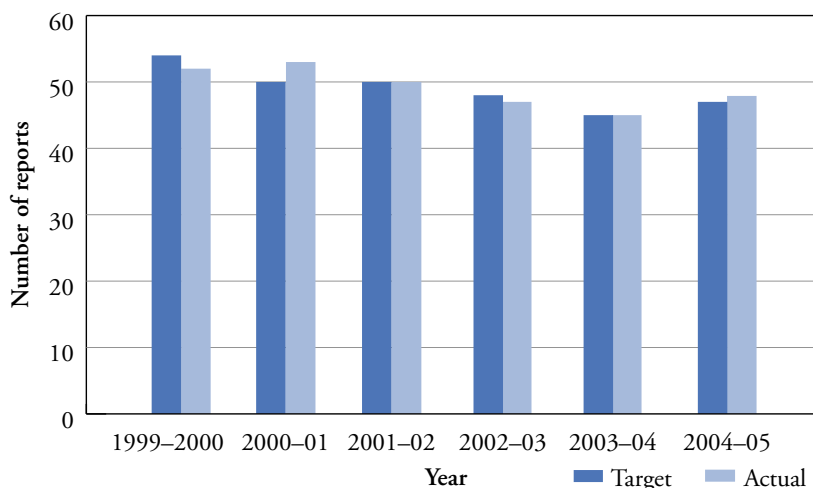
AUDIT METHODOLOGY

Investment in the development of a computerised working paper system for the performance audits was deferred in 2004–05 due to the need to reallocate funds to higher audit priorities associated with our financial statement responsibilities.

NUMBER OF REPORTS

During the year 48 performance audit reports were produced against a target of 47. For 2003–04 the comparable figures were 45 and 45. Figure 3 shows the number of reports produced under this output over the past six years.

FIGURE 3: NUMBER OF PERFORMANCE AUDIT REPORTS



AVERAGE TIMEFRAMES AND COSTS

The average time taken to complete a performance audit report was 11 months, with a range from 7 to 18 months. The average cost was \$0.302 million with a range from \$0.121 million to \$0.998 million (including overhead allocation).

COST OF PERFORMANCE AUDIT SERVICES

The performance audit reports output (Output Group 1) consumed \$21.470 million in 2004–05 (\$21.907 million in 2003–04).

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 PROGRAMME

During the latter half of 2003–04 the *Audit Work Programme 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 programme. The programme 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 programme also sets out in summary form the work programmes intended to be undertaken by the other ANAO Output Groups, namely Assurance Audit Services and Information Support Services, which are discussed later in this report.

AUDIT ACTIVITY REPORT—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 2004–05 one Audit Activity Report was produced to cover the period July–December. The information covering the period January–June is included in this 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.

For 2005–06, it is proposed to replace the Audit Activity Report with a newsletter which will draw together the ANAO's experience from audits over a specified period. This will be reported in more detail next year.



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 measured through targets and survey results designed to provide an overall picture of the contribution that our products and services make to the Parliament and public sector entities. Key performance information is presented in our scorecard in the previous section. The scorecard result is supported by other performance information discussed below. The final section outlines the impact of the outputs in potential annual recurring financial benefits to the Commonwealth.

CLIENT SURVEY

An independent survey was completed in October 2004 to gain feedback from entities about the quality of performance audit processes and outcomes from senior public entity managers responsible for the audited activities. Forty-one of the 50 public entity areas selected in the survey sample participated in the survey. This represents a response rate of 82 per cent. In terms of overall performance agencies rated the ANAO's conduct of performance audits positively. Some key results are set out below:

- 89 per cent of respondents considered that the audit team demonstrated that they had the professional knowledge and audit skills required to conduct the audit;
- 94 per cent of respondents considered that the audit teams conduct was characterised by integrity, and an ethical approach to their task; and
- 97 per cent of respondents valued the independent opinion expressed by the ANAO.

The results of the survey are an important guide to the effectiveness of existing practice and also in the development of new initiatives. The survey is therefore an important business tool for improving the quality and effectiveness of performance audit products and services.

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.

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 Report 402 *Review of Auditor-General's Reports 2003–04: First and Second Quarters* in August 2004. This Report reviewed audit reports on the administration of the Agriculture Advancing Australia Package, the management and review of the Plasma Fractionation Agreement, APRA's supervision of superannuation entities, annual performance reporting, the special employee entitlements scheme for Ansett group employees and agency management of special accounts.

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.

In June 2003 the JCPAA announced that it would expand its enquiry into Audit Report No.13, 2003–04, *ATSIS Law and Justice Programme*. The terms of reference for the inquiry included the four components of the audit: Legal Aid; Law and Justice Advocacy; Family Violence Prevention; and Prevention, Diversion and Rehabilitation. The ANAO gave evidence at the public hearing in June 2004. JCPAA Report 403 *Access of Indigenous Australians to Law and Justice Services* was tabled in June 2005 and built upon the ANAO's findings by focusing on the adequacy of legal services delivered to indigenous Australians.

The JCPAA also held hearings into a number of ANAO audits. The relevant JCPAA reports had not been completed by the end of June 2005. The reports examined by the JCPAA are listed below:

- Audit Report No.25 2003–04 *Intellectual Property Policies and Practices in Commonwealth Agencies*;
- Audit Report No.34 2003–04 *The Administration of Major Programmes, Australian Greenhouse Office*;
- Audit Report No.36 2003–04 *The Commonwealth's Administration of the Dairy Industry Adjustment Authority*;
- Audit Report No.46 2003–04 *Client Service in the Family Court of Australia and the Federal Magistrate's Court*;
- Audit Report No.50 2003–04 *Management of Federal Airport Leases*;
- Audit Report No.4 2004–05 *Management of Customer Debt (Centrelink)*;
- Audit Report No.5 2003–04 *Management of Standard Defence Supply System Upgrade*;
- Audit Report No.21 2004–05 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2004*;
- Audit Report No.15 2004–05 *Financial Management of Special Appropriations*;
- Audit Report No.16 2004–05 *Container Examination Facilities (Australian Customs Service)*; and
- Audit Report No.18 2004–05 *Regulation of Non-prescription Medicinal Products (Therapeutic Goods Administration)*.

ANAO AUDITS UNDERTAKEN AT THE REQUEST OF THE PARLIAMENT

Audit Report No.9 2004–05 *Assistance Provided to Personnel Leaving the ADF* was undertaken in response to a recommendation from the Joint Standing Committee on Foreign Affairs, Defence and Trade, in their report *Review of Foreign Affairs, Trade and Defence Annual Reports 2000–01*. The report recommended that a performance audit be conducted on the transition assistance programmes made available by Defence.

Audit Report No.18 2004–05 *Regulation of Non-Prescription Medicinal Products* was undertaken in response to a recommendation by the JCPAA to audit the Therapeutic Goods Administration's regulation of non-prescription medicines.

Audit Report No.27 2004–05 *Management of the Conversion to Digital Broadcasting* was undertaken substantially to address the request from a former Minister for Communication Information Technology and the Arts for an audit of the actual costs of digital conversion, the sources of the funds applied and the efficiency of funds utilisation.



Audit Report No.30 2004–05 *Regulation of Commonwealth Radiation and Nuclear Activities (ARPANSA)* was undertaken in response to an Order of the Senate requesting that the ANAO investigate aspects of ARPANSA's licensing processes.

Audit Report No.40 2004–05 *The Edge Project* was undertaken following a suggestion from the JCPAA that it would be a suitable topic for audit.

OTHER ANAO UNDERTAKINGS AT THE REQUEST OF THE PARLIAMENT

The Environment, Communications, Information Technology and the Arts Legislation and Reference Committees proposed that the ANAO consider the costs of agency websites in its audit program. In response, Audit Report No.26 2004–05 *Measuring the Efficiency and Effectiveness of E-Government* included an assessment of whether the selected agencies could identify the current costs of their websites.

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 programmes 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.

Performance audit reports also provide significant assurance to the Parliament about how the administration of an area of public administration is being conducted.

Some reports tabled during the year were particularly noteworthy. These reports are summarised below.

Audit Report No.5 2004–05 *Management of the Standard Defence Supply System (SDSS) Upgrade*.

The SDSS system manages Defence's inventory valued in excess of \$2 billion. The system operates with more than 14 000 users over 135 separate geographically diverse business units utilising 1162 warehouses. The ANAO found that the project to upgrade the system has not delivered value for money to Defence despite costing some \$50 million. By November 2003, the project had already exceeded its initial approved budget by more than 200 per cent and had not achieved the desired performance outcomes. The project is subject to a *Get Well Plan* developed by Defence, that will be subject to a further audit in 2006.

Audit Report No.7 2004–05 *The Australian Taxation Office's Administration of Taxation Rulings Follow-up Audit*.

This audit assessed how well the ATO had implemented the 12 recommendations of Audit Report No.3 of 2001–02 *The Australian Taxation Office's Administration of Taxation Rulings*. Overall, the ANAO concluded that the ATO had fully implemented the recommendations of Audit Report No.3 of 2001–02 noting that, since the previous audit, the ATO had also undertaken a number of initiatives to improve its rulings systems. The ATO advised that gains made as a result of the recommendations have enhanced Australia's public and private rulings systems, which are world's best in design and application. The ATO also advised that the gains have provided a sound basis for the initiatives it is pursuing to make further improvements.

Audit Report No.15 2004–05 Financial Management of Special Appropriations.

The primary objective of this audit was to assess entities' financial management and reporting of Special Appropriations against the Commonwealth's financial management and reporting frameworks. Overall, it was concluded that there have been widespread and significant shortcomings in the financial management of Special Appropriations. Given the fundamental importance of appropriations to Parliamentary control over expenditure, it was found that changes needed to be made to secure proper appropriation management in the Commonwealth. In particular, there has been inadequate attention by a number of entities to their responsibility to ensure that a correct, valid appropriation to support a particular payment has been identified before spending funds from the Consolidated Revenue Fund, and to accurately disclose their use of Special Appropriations.

Audit Report No.18 2004–05 Regulation of Non-prescription Medicinal Products.

This audit assessed the Therapeutic Goods Administration (TGA's) regulation of non-prescription medicinal products. The audit made 26 recommendations designed to improve the transparency, quality and reliability of TGA's regulatory decisions, and to improve its accountability mechanisms by enhancing its management information systems.

In particular, limitations were identified in the management of information used to inform the TGA in its regulation of non-prescription medicines. More structured documentation was required to record decisions made, including reasons for particular action and enforcement. Also, key information obtained through the TGA's regulatory functions was often not captured, or not utilised for the purposes of monitoring and analysis of trends. Information that was recorded was often unreliable, limiting its value for management purposes.

Audit Report No.24 2004–05 Integrity of Medicare Enrolment Data.

This audit considered the integrity of data in a major Australian Government database called the Medicare Enrolment database. This database contains information on over 24 million individuals. The audit examined the quality of the data in this database, and how the Health Insurance Commission (HIC) managed this information. The audit noted that the information must be of high integrity if HIC was to ensure that the 226 million Medicare claims submitted annually were paid to eligible people. While the report highlighted a number of opportunities for HIC to improve data integrity, it was concluded that the database was sufficiently complete, accurate and current to support the effective administration of medicare.

Audit Reports Nos 31–36 2004–05 Centrelink's Customer Feedback Systems Series.

The ANAO has previously conducted an extensive series of audits involving Centrelink. These audits have primarily investigated the efficiency and effectiveness of the payment and administration of various types of social security payments. However, quality service delivery involves more than this.

Centrelink, with some 6.5 million customers, provides services to almost a third of the Australian population, covering people from all walks of life. Included among its customers are some of the most vulnerable in our society, who have a heavy dependence on Centrelink. Centrelink has invested significant resources in a range of customer feedback systems, and gathers large amounts of information regarding customer experience. Customer feedback systems are an important element in obtaining, analysing and reporting on customer views and experiences. The use of such information has the potential to improve an organisations' service delivery, and consequently improve customers' willingness to engage with the organisation. Using customer feedback may also assist in the identification of systemic problems with agency practices and procedures, which could result in cost savings from the development of better processes.



Accordingly, the ANAO considered it timely to review Centrelink's processes for promoting the rights of its customers and its systems for obtaining and responding to customer feedback. By simultaneously auditing all of Centrelink's key customer feedback systems, the ANAO was able to identify opportunities for improvement common to each of these systems as well as specific issues relating to the individual systems.

Audit Report No.39 2004–05 The Australian Taxation Office's Administration of the Superannuation Contributions Surcharge.

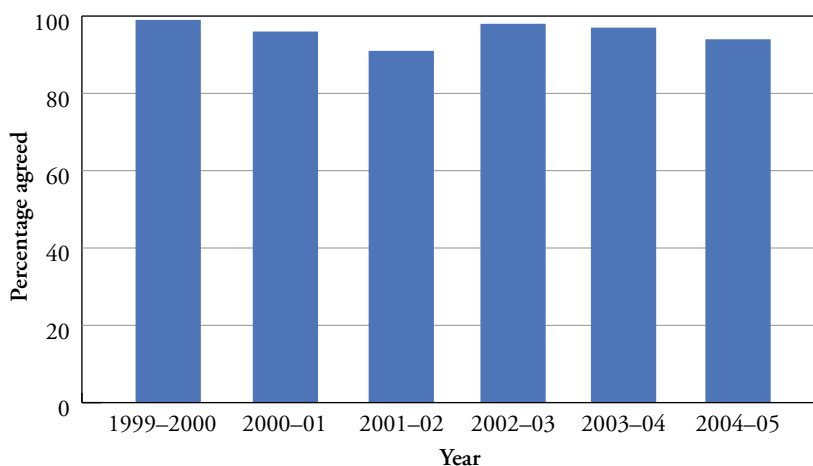
The ATO regards the implementation of the Surcharge as one of the most difficult challenges it has faced. This audit examined how well the ATO administered the Surcharge and found that overall, the Surcharge had not been managed well. Deficiencies in the ATO's administration of the Surcharge lead to a significant number of taxpayers not being assessed for the Surcharge. The ATO advised that implementing the surcharge was one of its most difficult challenges and that significant progress was made in redressing the shortcomings. Subsequent to the audit, as part of the 2005 Budget the Government announced that the surcharge would be abolished from 1 July 2005.

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, and genuine efforts are made to achieve this. However, it is inevitable that differences will occur, in which case any agency comments are included in full in the final report.

For 2004–05 the number of recommendations accepted by audited entities was 335 out of the 356 recommendations made, or 94 per cent, noting that the remaining six percent were agreed with qualification. This is similar to last year's result of 97.3 per cent. Figures for the last six years are shown in Figure 4.

FIGURE 4: AGREEMENT TO RECOMMENDATIONS IN PERFORMANCE AUDIT REPORTS



SURVEYS OF ENTITIES

Further performance information on the impact of performance audits is obtained through a survey of audited entities' responses to tabled reports. After each performance audit report is tabled, feedback on the audit process is sought independently from the senior manager responsible for the audited programme 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 October 2004 survey the consultancy firm reported on responses received for the 2003–04 reporting period. Overall, the ANAO's performance was rated above the average level achieved since the commencement of the survey in 1997–98. 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.

FINANCIAL IMPACT

No audit reports tabled in 2004–05 identified agreed¹ specific savings that could be made from implementing recommendations. However, Audit Report No.39 2004–05 *The Australian Taxation Office's (ATO's) Administration of the Superannuation Contributions Surcharge* did identify uncollected revenue relating to the Superannuation Contribution Surcharge. The ANAO estimated that this uncollected revenue was between \$360 million and \$750 million. Subsequent to the audit, as part of the 2005 Budget, the Government announced that the surcharge would be abolished from July 2005.

QUALITY ASSURANCE

Throughout the year, the ANAO continued its program of quality assurance reviews of selected audits. The objective of the quality assurance program is to ensure that performance audits have been completed in accordance with ANAO Auditing Standards, incorporating Australian Auditing Standards. Interim results of the review of audits tabled in 2004–05 found that the audits examined complied with these standards, noting that the organisation and indexing of working papers was identified as an area for improvement in the performance auditing process.

The Peer Review arrangement for performance audits between Australia and New Zealand Audit Offices began in 2000. This review supplements the ANAO's quality assurance program with two performance audits from each Office reviewed every two years. Peer review with New Zealand is approached with a dual focus of compliance and adding value.

Also in the international context, the INTOSAI Global Working Group has been considering the conduct of peer reviews of performance audits undertaken by Supreme Audit Institutions (SAIs). A team of auditors, including two from the ANAO, has completed the first-ever peer review of performance audit work undertaken by the Government Accountability Office (GAO) in the United States of America (USA).

The ANAO is also leveraging recent international experiences and undertaking a review of internal quality assurance procedures to ensure compliance with International Standards.

¹ Agreement between the ANAO and audited entity.



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. The outputs that comprise Output Group 2 in 2004–05 are:

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

The ISS aims 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 to, 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.

In addition, as previously mentioned, the ANAO completed its biennial survey of parliamentarians in May 2005, which obtained feedback about our products and services with a view to ensuring we are meeting the needs and expectations of parliamentarians, the Joint Committee of Public Accounts and Audit (JCPAA) and other relevant parliamentary committees. The survey continued to produce very high satisfaction ratings from parliamentarians in general and the JCPAA in particular. For example, 93 per cent of parliamentarians surveyed expressed satisfaction with ANAO products and services.

The assistance to the Parliament output cost the ANAO \$0.333 million in 2004–05 (\$0.480 million in 2003–04).

BETTER PRACTICE GUIDES (BPGs)

BPGs aim to improve public administration by providing a mechanism whereby better practices employed in organisations are recognised and promulgated to all Australian Government entities. This can involve examining practices in the public or private sectors, in Australia or overseas. The ANAO's emphasis is to identify, assess and articulate good practice from its knowledge and understanding of the public sector as well as areas where improvements are warranted.

Depending on the subject and nature of information collected during an audit, BPGs may be produced in conjunction with an audit or 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 2004–05, two BPGs were published against a target of four. The reduction in the number of BPGs was a result of the need to give priority to the conduct of other audit products, particularly our annual financial statement audits. Cost is also an important measure, noting that part of the costs of a BPG may be incurred in the previous year. Costs are discussed below. The ANAO's BPGs continue to be well-received by agencies, other audit offices and professional organisations.

BPGS PUBLISHED IN 2004–05

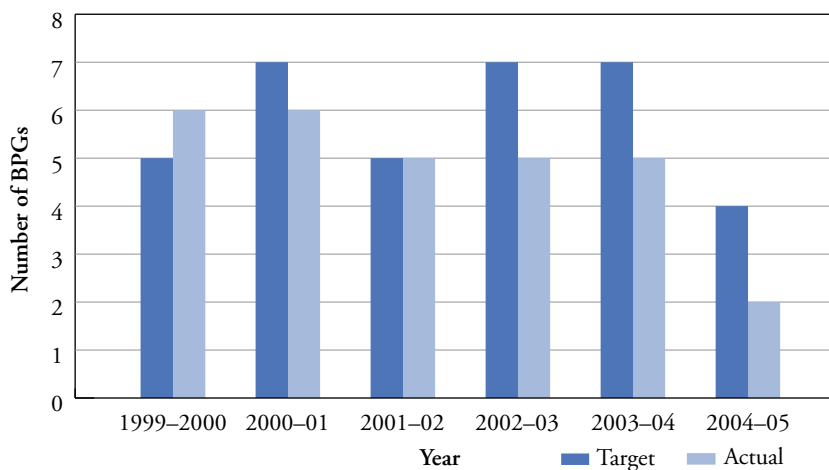
The two BPGs published in 2004–05 were:

Fraud Control in Australian Government Agencies (August 2004). This Guide, prepared in consultation with the Attorney-General's Department, examines all aspects of a sound fraud control framework and fraud control operations. The Guide provides practical assistance to agencies in complying with the Commonwealth Fraud Control Guidelines.

Public Sector Audit Committees (February 2005). This Guide is intended as an up-to-date reference document for Chief Executives, Boards, members of Audit Committees in public sector entities and people with specific Audit Committee reporting responsibilities and accountabilities.

Figure 5 shows this years result compared to the number of BPGs produced over the last six years.

FIGURE 5: NUMBER OF BPGs PRODUCED





A selection of BPGs and other publications produced by the ANAO in 2004–05.

COST

BPGs cost \$0.349 million in 2004–05 (\$0.438 million in 2003–04). These figures are a reflection of total costs incurred from BPGs in the relevant year, including the proportion of costs incurred where work carries over from a previous year and work in progress for reports not yet completed. The difference in cost reflects a reduction in the number of BPGs from five in 2003–04, to two this year. Also the majority of the costs for the Fraud Control in Australian Government Agencies BPG was incurred in 2003–04.

INCREASING AWARENESS OF BPGS AND RELATED PRODUCTS

During 2004–05, ANAO officers continued to participate in a number of APS forums, seminars and conferences to increase awareness of various BPGs and other audit reports. In particular, the ANAO encouraged the Audit Committees of all public sector entities to review their Audit Committee charters and practices in the context of the Public Sector Audit Committees BPG.

BENCHMARKING SERVICES

In the development of the 2004–05 Audit Work Programme, it was decided to again suspend the conduct of benchmarking projects in favour of higher priority audits. This is reflected in our PBS 2004–05 where no resources were allocated to benchmarking studies.

NATIONAL AND INTERNATIONAL REPRESENTATION

INTERNATIONAL REPRESENTATION

The ANAO contributes to the development of international auditing standards and professional practices through the exchange of experiences and information with the following bodies:

- 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 Auditing and Assurance Standards Board (IAASB).

In meeting our responsibilities to these organisations, the Auditor-General and selected ANAO staff typically attend international conferences and workshops, participate in short-term placements and prepare research papers.

The then Auditor-General and two staff members attended the XVIII International Congress of Supreme Audit Institutions (INCOSAI) in October 2004. INCOSAI is the triennial gathering of members of INTOSAI. The ANAO participated in plenary sessions and discussion groups where the themes of the Congress were presented and discussed. A key event at the Congress was the adoption of the INTOSAI Strategic Plan.

The ANAO is a member of the INTOSAI Professional Standards Committee (formerly the Auditing Standards Committee) and the INTOSAI Working Group on Privatisation. The Auditor-General attended the former Auditing Standards Committee meeting during 2004–05. The major outcome of this meeting was the establishment of a Working Group on Compliance Audit. The ANAO contributes to this Working Group by sharing information on our own experiences and commenting on draft documents. Achievements for the INTOSAI Working Group on Privatisation for the 2004–05 year included the completion of *Guidelines on Best Practice for the Audit of Public/Private Partnerships*.

Through its involvement with the INTOSAI Global Working Group, the ANAO participated in an international peer review of the performance audit work undertaken by the Government Accountability Office (GAO) in the United States of America. The international team included representatives from the GAO's counterpart offices in Australia, Canada, Mexico, Norway, the Netherlands, South Africa and Sweden. Its task was to determine whether the GAO's internal quality control system was adequate and whether the GAO's quality control policies and procedures were being complied with to provide reasonable assurance of conformance with applicable professional standards. The Peer Review reported on 20 April 2005 that: 'In our opinion, the United States Government Accountability Office's quality assurance system was suitably designed and operating effectively, during the year ended 31 December 2004, to provide the GAO with reasonable assurance of conforming with the United States Government Auditing Standards in conducting its performance audit practice'.

The ANAO took part in the 9th Tokyo Audit Forum in Japan in January 2005, presenting a paper on *Social Security—Social Security System and Related Audit Reports from the View of Effectiveness*. The ANAO exchanged information on the possible approaches to various audit issues such as, reviewing the effectiveness of social security systems.

The then Auditor-General and two staff members attended the 19th Commonwealth Auditors-General conference, which was held in Wellington in February 2005. The ANAO presented a paper on *Sustainability Reporting—the Role of Auditors* and led a workshop on sustainable development reporting and the role of auditors.



The Global Working Group (GWG) is a forum which provides a select group of sixteen Auditors-General to meet for organised, yet informal discussions on current and emerging issues of concern to their governments and offices, and to explore opportunities to share information and work closely together. One senior executive attended the annual GWG meeting in Canada in May 2005. The ANAO presented a paper on Whole-of-Government approaches and exchanged ideas with other Supreme Audit Institutions (SAI) on issues such as cross-agency collaboration and coordination while maintaining individual accountability to Ministers, Government and the legislature.

The Auditor-General is one of Australia's representatives on the International Auditing and Assurance Standards Board (IAASB), which functions as an independent standard setting body under the auspices of the International Federation of Accountants (IFAC). The mission of the IAASB is to establish high quality auditing, assurance, quality control and related services standards. It also aims to improve the uniformity of practice by professional accountants throughout the world, thereby strengthening public confidence in the global auditing profession and serving the public interest. In June 2005, the Auditor-General attended an IAASB meeting in Rome.

The ANAO also participated in the International Conference on Promoting Financial Accountability in Managing Funds related to Tsunami, Conflict and other Disasters in Jakarta, Indonesia on 25–27 April 2005. Attendance involved a wide range of international aid and audit organisations. It included discussions with senior Ministers and Local Governors, and a visit to the Tsunami devastated Aceh province. The outcomes of the conference addressed the need for better coordination of aid, and audit of that aid; adequacy of procurement arrangements; and supporting the capability of the Indonesian Audit Office.



Attendees at the International Conference on Promoting Financial Accountability in Managing Funds related to Tsunami, Conflict and other Disasters in Jakarta, Indonesia.

The ANAO contributes to the development of other audit offices by hosting a number of international visitors throughout the year. During 2004–05, the ANAO hosted 26 short-term visits for just over 150 delegates, from a number of countries including Azerbaijan, China, Bangladesh, Vietnam, Thailand, South Africa, New Zealand, Indonesia and the UK. Overall, delegates provided very positive feedback on their visit.

The ANAO continued its international staff exchange program with the Office of the Comptroller and Auditor-General of Ireland, the Office of the Auditor-General of Canada and Office of the Controller and Auditor-General New Zealand.

- ◆ More information on these exchanges may be found under 'Management of human resources' in the 'Management and Accountability' section of this report.



ANAO Executive Director David Crossley (sixth from the left) and Judy Pejovic from PASG (second from left), with members of a delegation from the Thai Office of the Civil Service Commission (OCSC). The delegation visit was coordinated by Catherine Miller from the Australian Public Service Commission (third from left) as part of the AusAID Government Sectors Linkage Program.

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 ANAO attended an ACAG Regional Working Group Workshop on Environmental Auditing in April 2005. The ANAO learnt from presentations from experts on environmental and sustainability issues relevant to the work of the ANAO, such as on the challenges of climate change for Australia. The ANAO also attended presentations on: environmental audit methodologies; lessons learned from recent audits and issues; and challenges faced by the respective audit offices in the conduct of environmental audits.

As a member of the Australian Auditing and Assurance Standards Board, the Auditor-General attended Board meetings during 2004–05.

COST

The national and international representation output cost \$0.587 million in 2004–05 (\$0.531 million in 2003–04).



CLIENT SEMINARS AND ADVICE

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

The ANAO arranges seminars to provide advice on topical and emerging issues. The focus of this activity is directed towards improving financial reporting. Two series of five financial reporting seminars were conducted in 2004–05 in Canberra, Sydney and Melbourne. The first series was conducted in November/December 2004 and the second series in June 2005. 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 forms for the November/December 2004 seminars, 95 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.

Two full day workshops on performance auditing were conducted for public sector internal auditors in 2004–05. These workshops again proved to be very popular with agencies, covering the essentials of performance audit in a practical and useful context.

Our quarterly newsletter, *Opinions*, provides audit clients with information on developments in financial reporting and disclosure, together with information on 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.

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. The Auditor-General also attended the CPA National Public Sector Convention in Melbourne on 20 May 2005, where he presented a paper entitled *Outcomes and Outputs: Are We Managing Better as a Result?*

- ◆ More information on these presentations may be found at Appendix 5.

COST

The client seminars and advice output cost \$0.015 million in 2004–05 (\$0.058 million in 2003–04).



Cha Jordanoski and Mark Farquhar from the Research and Development Branch.

CONTRIBUTION TO OUTCOMES

In 2004–05, the distribution of Information Support Services costs were approximately 50 per cent to Outcome 1 and 50 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.



OUTPUT GROUP 3

ASSURANCE AUDIT SERVICES

Assurance Audit Services (AAS) outputs 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 financial 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 the interim phase of the audit of the financial statements of major entities² while the other provides a summary commentary on the results of all financial statement audits undertaken in the 12-month audit cycle ending in December of each year.³

A report was also tabled that summarised the final result of the audits of the financial statements of Australian Government entities for the period ended 30 June 2004, including the Consolidated Financial Statements of the Australian Government.⁴ A commentary was provided 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. Also outlined were the results of the verification of the triple bottom line reports for the Department of Family and Community Services and the Department of the Environment and Heritage.

² This report was tabled on 24 June 2005, ANAO Audit Report No.56 2004–05 *Interim Phase of the Audit of Financial Statements of General Government Sector Entities for the Year Ending 30 June 2005*.

³ This report was tabled on 12 January 2005, ANAO Audit Report No.21 2004–05 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2004*.

⁴ Audit Report No.21 2004–0529 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2004*.



*ANAO
financial
statement
auditors,
from left,
Tracey Rankin,
Ron Wah,
Craig Sims and
Tammy Haines.*

A positive improvement was reported in the timeliness of the financial statement preparation process from that achieved in the previous year, noting that there was still room for improvement. The report 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.

Significantly, the report summarised the various financial management, internal control and system issues in the Department of Defence. This section of the report became the subject of a JCPAA public enquiry into the Department of Defence and the ANAO's associated inability to form an opinion on Defence's financial statements. At the time of preparing this annual report, the enquiry was still in progress.

A broad range of internal control issues were raised as part of the final audit phase, all of which 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:

- review systems to ensure adequacy of recording and reporting of special accounts and special appropriations;
- 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;
- change systems to ensure adequacy of audit trails in data warehouses forming part of major business systems;
- reconcile major business systems to financial records;
- develop reliable models to be used for important accounting estimates;
- establish appropriate processes to monitor ongoing liabilities and contingencies;



- review accounting for complex transactions to ensure the treatment is appropriate for the underlying substance of the transactions; and
- improve the processes for the capture and reporting of employee benefits.

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

In June 2005, a report was tabled that presented the results of the interim phase of the 2004–05 financial statement audits and a review of governance arrangements related to entities' financial management responsibilities.⁵ Internal controls were also examined, including IT system controls for all portfolio departments and other major General Government Sector entities as at 31 March 2005. The purpose of such an examination is to assess the reliance that can be placed on internal controls to produce complete and accurate information for financial reporting purposes. The report also provided an update on the broader corporate governance issues that impact on financial management and reporting. Further, the section covering the Department of Defence was also considered during the JCPAA enquiry into Report No.21 noted above.

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 establishing a foundation for effective internal control, and minimises both financial and non-financial risks to the entity. The measures should be designed to meet the individual circumstances of each entity and to assist in the orderly and efficient conduct of its business in compliance with applicable legislative requirements. 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:

- improving risk management and insurance frameworks, including the use of performance management tools such as data metrics to monitor trends in risk;
- enhancing the financial analysis and commentary associated with monthly financial reporting;
- strengthening business practices and systems of authorisations;
- integrating financial and non-financial data as part of the development of credible performance measurement frameworks; and
- continually reassessing internal audit capabilities.

The ANAO found that most entities had improved their performance in these areas in 2004–05. However, further improvements were required, particularly with regard to: improving the role of audit committees in reviewing the effectiveness of legislative compliance arrangements and business continuity planning arrangements; ensuring Fraud Control Plans are regularly reviewed and updated, and the Fraud Control Guidelines are consistently applied; implementing formal controls over the exercise of delegations; and focussing on various corporate governance practices.

⁵ Audit Report No.56 2004–05 *Interim Phase of the Audit of Financial Statements of General Government Sector Entities for the Year Ending 30 June 2005*.

INFORMATION TECHNOLOGY SYSTEMS

In general, improvements were made over the year for both the information security and business continuity management practices. The majority of entities attained an 'Established' rating for their information security management practices.⁶ The review identified that, of the entities obtaining the 'Established' control rating, most had implemented more than 75 per cent of the 'Mature' control indicators.⁷ It was also noted that approximately half of these entities had implemented 75 per cent of indicators at the 'Best Practice' control level.

A significant number of entities still had business continuity management practices below the 'Established' rating, the minimum baseline.

SAP is widely used as a financial management information system in the Australian Government public sector. Weaknesses in the operation of SAP identified in 2003–04 had not improved appreciably. These weaknesses included matters associated with: user access; security administration functions; and functions associated with ordering, receipting and payment for goods and services, more commonly referred to as the 'purchase to pay' cycle.

Given the number of entities using the SAP application, the ANAO purchased SAP analysis software⁸ to aid in the review of the system-based configurable controls used by entities. The software is able to assess the implementation of those user selected configurable controls that support business and accounting processes, and also facilitates analysis of the application security. This software was utilised to conduct a review in ten agencies.

The SAP review for these entities concentrated on examining the SAP 'purchase to pay' cycle. A particular focus was how the application was configured for application controls and security arrangements. General observations from the review identified that standard SAP system-based controls had either not been configured, or had been configured poorly. Poorly configured controls were often at variance to an entity's policy, business requirements and better practice. Entities were therefore heavily reliant on the robustness of controls, external to the application, to provide the assurance that transactions were valid and processed accurately and completely.

The ANAO will continue to review information security and business continuity given that the preservation of an effective security and continuity control framework is a key responsibility for entities. Maintenance of effective security and business continuity arrangements are necessary for the integrity, availability and continued operation of government business. Identification and testing of key risks and controls will continue to be the main audit focus, but it is intended that this will be supplemented with increased data analysis. The latter will provide additional detail on the extent of any exposure or error that may be occurring within an entity's systems, due to control weaknesses. This data analysis may also be used in benchmarking IT controls to gain an overall understanding of the general health of entity controls, enabling comparison across entities.

⁶ An 'Established Defined Process' rating is attained when systems and procedures have been standardised, documented, communicated and implemented.

⁷ A 'Mature-aged 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.

⁸ SAP Assure © jabIT Solutions: www.jabit.com.au

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 controls over significant operational and accounting processes and financial systems are assessed as part of the audit of an entity's financial statements. In most entities, key areas covered in the interim phase of the audit include:

- appropriations management;
- receivables, revenue and receipts;
- cash management;
- purchasing, payables and payments;
- employment and related costs; and
- asset management.

Overall, the effectiveness of controls over business and accounting processes had generally been maintained at a reasonable level. However, most of the entities had areas that required attention, particularly in relation to IT controls and the controls underpinning the financial management framework where performance had been quite variable.



*ANAO
IT auditors,
Huyen Tran and
Martin Simon.*

FINANCIAL STATEMENT AUDIT 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 2004–05, excluding the Department of Defence (Defence), indicated that the effectiveness of control procedures over business and accounting processes was generally consistent with that found in the previous year. This was demonstrated by the following findings:

- the number of entities with 'A' category audit issues increased to three in 2004–05, up from one in 2003–04;
- the total number of 'A' category audit issues increased to nine in 2004–05, from one in 2003–04;
- the number of entities with no category 'A' or 'B' audit issues was six in 2004–05, up from three in 2003–04;
- the total number of 'B' category audit issues across all entities, decreased from 87 in 2003–04 to 64 in 2004–05, due largely to improved performance by the Health Insurance Commission; and
- twelve entities reported an improvement in the number of 'B' category audit issues. Eight entities showed a deterioration in their position, with two entities remaining in the same position.

Defence was excluded from the overall analysis of audit activity as their audit was still in progress when the report⁹ was being prepared. At the time of publication, the resolution of issues in Defence remained uncertain. However, a section was included in the report which discussed Defence's remediation plans for addressing its numerous systems and financial management issues.

INTERIM AUDIT RESULTS

The ANAO's interim audit results revealed that, for most entities, the fundamental processes underpinning financial statement reporting were in place. However, there were a large number of control weaknesses relating to IT systems and controls, such as the management of user and systems access and IT security and change controls.

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 interim phase. These issues include:

- shortcomings in corporate governance frameworks;
- accountability issues associated with joined-up Government arrangements;
- 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;

⁹ Audit Report No.56 2004–05 *Interim Phase of the Audit of Financial Statements of General Government Sector Entities for the Year Ending 30 June 2005*.

- 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

The ANAO continues to utilise a risk based methodology in undertaking its financial statement audits. The methodology emphasises the need for a detailed understanding of the client's organisation and associated business risks, and seeks to place greater reliance on business processes and management. The methodology is supported by a comprehensive training program.

As part of the ANAO's commitment to improved service and enhanced products, a procurement process has been commenced to acquire methodology and enabling technology. This is to be trialled by the ANAO in 2005–06 with full implementation scheduled in 2006–07.

CLIENT SURVEY

An independent survey was completed in May 2005 to gain feedback from entities on the conduct of the audit of their 2003–04 financial statements.¹⁰ Of the entities that were included in the survey, 144 responses were received representing a response rate of 77 per cent. The survey results received were very positive and indicated a high degree of satisfaction with the performance of the ANAO in auditing entity 2003–04 financial statements. Key findings included the following:

- 92 per cent of respondents considered that the auditors demonstrated sufficient understanding of the financial reporting requirements of the entity;
- 94 per cent of respondents agreed that the auditor's interaction with agency staff was conducted in a professional manner; and
- 91 per cent of entities agreed that the ANAO's financial statement audit services make a valuable contribution to the organisation.

The results of the survey have been discussed with relevant ANAO staff to identify lessons learned so that improvements can continue to be made to future audits. The ANAO is continuing to explore avenues to increase entity awareness of the products, publications and services available on financial statement and related assurance matters as a means of improving performance.

PERFORMANCE

The primary performance measures for financial statement audit reports relate to the number of opinions issued, timeliness and cost.

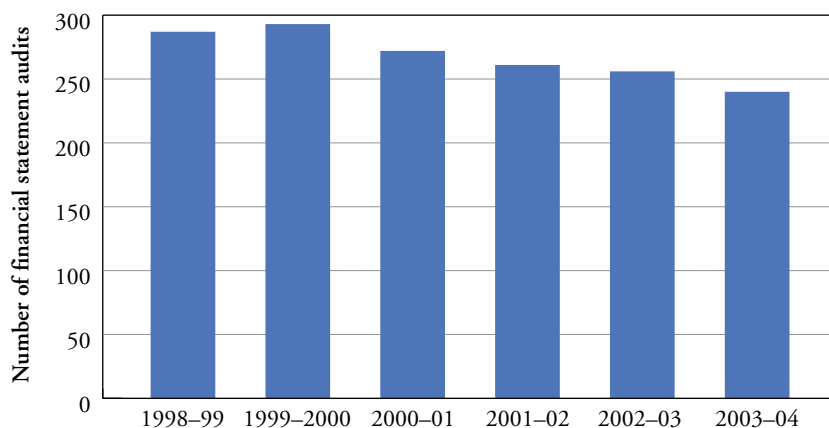
- ◆ Measures of quality are discussed under 'Contribution to Outcomes'.

NUMBER AND TYPE OF OPINIONS ISSUED

The number of audit opinions issued for the 2003–04 financial statement audit cycle, which ended in December 2004, in comparison to previous periods, is shown in Figure 6.

¹⁰ Due to the timing of the financial statement audit cycle, this data relates to the 2003–04 financial year.

FIGURE 6: NUMBER OF OUTPUTS FROM THE FINANCIAL STATEMENT AUDIT PROCESS



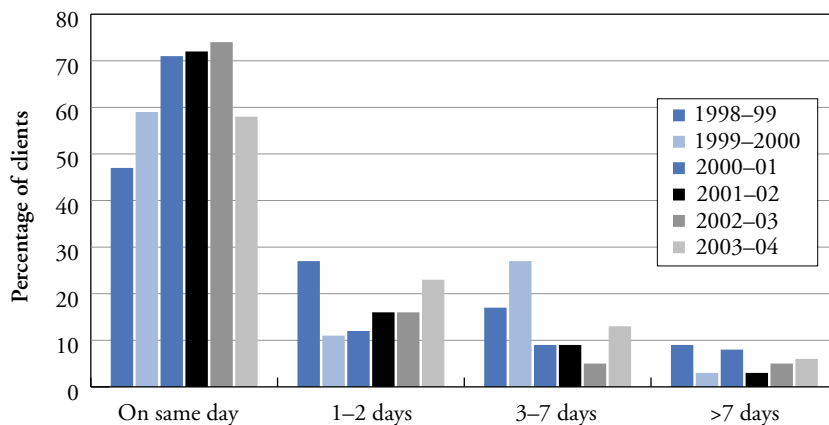
The ANAO issued 240 audit opinions for the audit cycle ended December 2004. This compares with 256 opinions in the previous cycle. The reduction was due to entities combining to form, for example, a single organisation and others ceasing to exist. Separate reports were also provided to Ministers on the results of all financial statement audits.

TIMELINESS OF ISSUING OPINIONS

Issuing audit opinions on the day the financial statements are signed, or shortly thereafter, is good audit practice and also assists agencies in meeting their own management and annual report commitments. For the audit cycle ended December 2004, 81 per cent of opinions were issued on the day the financial statements were signed or within two days, compared to 88 per cent for the audit cycle ended December 2003. The decrease was primarily a result of delays in the receipt of signed financial statements.

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

FIGURE 7: TIMELINESS OF ISSUING AUDIT OPINIONS



COMPLETION WITHIN AGREED TIMELINES

The ANAO endeavours to complete financial statements audits within agreed timelines. The Budget Estimates and Framework Review (BEFR) sets delivery targets for entity financial statements. For the 2003–04 financial year,¹¹ 73 per cent of material entities were able to provide full audit clearance to the Department of Finance and Administration in accordance with the requirements established under the BEFR (30 July 2004). The number of entities that were able to obtain clearance in accordance with the BEFR requirements, and obtain a signed audit opinion by the same date (30 July), is consistent with the position in 2002–03.

COST OF FINANCIAL STATEMENT AUDITS

Financial statement audits (Output Group 3.1) for the 2004–05 financial year required approximately 190 000 hours and consumed \$35.616 million of resources (176 000 hours and \$27.577 million respectively in 2003–04). The audit cycle ended December 2004 required approximately 178 000 hours compared to a budget of approximately 165 000 hours. The increase in the hours required to complete the audits was primarily a result of increased auditing complexities and the introduction of AEIFRS.

NOTIONAL AND ACTUAL COST RECOVERY OF ASSURANCE AUDIT SERVICES

Overall, the Assurance Audit Services Group charged 218 912 hours in 2004–05, generating \$27.804 million in notional cost recovery and actual revenue against actual costs of \$27.462 million (210 204 hours in 2003–04 generating \$24.277 million in notional cost recovery and actual revenue against actual costs of \$24.312 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 Act. All audit fees were recovered, either notionally or actually, in 2004–05.

In determining audit fees, the ANAO continues to use a system whereby 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.¹²

BUSINESS SUPPORT PROCESS 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 Act, that 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.

¹¹ Due to the timing of the financial statement audits cycle, this data relates to the 2003–04 financial year.

¹² Section 14 of the Act requires the Auditor-General to include in his annual report details of the basis of calculation of audit fees for the relevant financial year.

These audits are designed to identify areas and issues that are relevant to all, or a majority of entities. As such, audit findings and recommendations are usually reported to the Parliament in generic terms, without being attributed to individual entities. 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 BPGs.

- ◆ See Output Group 2.



ANAO Business Support Process auditors, Helen Hawken and Ben Matthes.

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

Seven BSP audit reports were tabled during 2004–05 against a target of seven. The seven reports were:

- Audit Report No.3 2004–05 *Management of Internal Audit in Commonwealth Organisations*;
 - Audit Report No.10 2004–05 *The Senate Order for Departmental and Agency Contracts (Calendar Year 2003 Compliance)*;
 - Audit Report No.13 2004–05 *Superannuation Payments for Independent Contractors working for the Australian Government*;
 - Audit Report No.37 2004–05 *Management of Business Support Service Contracts*;
 - Audit Report No.46 2004–05 *Management of Trust Monies in CAC Act Entities*;
 - Audit Report No.49 2004–05 *Administration of Fringe Benefits Tax*; and
 - Audit Report No.57 2004–05 *Purchasing Procedures and Practices*.
- ◆ 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 months with a range from 7 months to 19 months.

The average cost of the tabled BSP audit reports was \$0.304 million with a range from \$0.203 million to \$0.440 million.

COST OF THE BSP AUDIT PROGRAM

The BSP audit reports output consumed \$1.507 million in resources in 2004–05 (\$1.899 million in 2003–04).

PROTECTIVE SECURITY AUDITS

Protective security audits are a separate category of BSP audit undertaken under section 18 of the Act. The audits examine particular aspects of security, including information security, personnel security and physical security. The ANAO has a long standing commitment to undertake at least one audit each year that focuses on security issues.

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.41 2004–05 *Administration of Security Incidents, including the conduct of Security Investigations*, was tabled during 2004–05, against a target of two.

- ◆ The report of the audit is summarised at Appendix 4.

The other planned audit, *IT Security*, is scheduled to be tabled in the Spring Parliamentary session.

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 \$0.215 million.

COST

The protective security audit reports output consumed \$0.397 million in resources in 2004–05 (\$0.292 million in 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, other services included grant acquittal

certificates, performance information verification, other special purpose engagements, and the ANAO's verification of the triple bottom line¹³ reports for the Department of Family and Community Services and the Department of the Environment and Heritage.

COST

The cost of the other attest output for 2004–05 was \$1.625 million (\$1.228 million in 2003–04). The increase is mainly attributable to the conduct of the 2003–04 triple bottom line audits in 2004–05.

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:

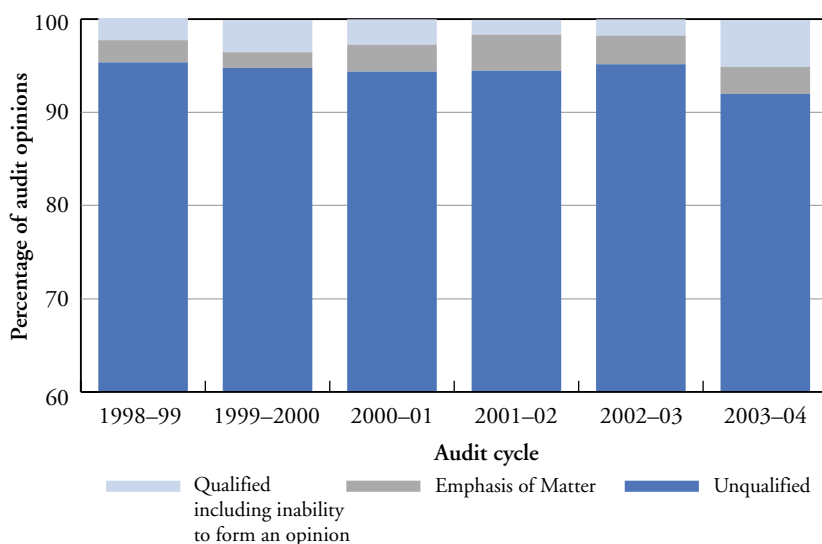
- the nature of the opinion expressed (that is, unqualified or qualified); and
- the nature and frequency of audit findings.

The need to qualify an audit opinion can arise for a number of reasons associated with the overall accuracy of the financial statements. 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 December 2004 was 92 per cent.

OTHER ASSURANCE AUDIT REPORTING

The financial statement audit opinions are complemented by the assessments provided in: the biannual reports to the Parliament covering the interim phase of the audits of material reporting entities (June); the financial statements of all reporting entities (December); and the periodic BSP audit reports providing assurance on selected financial and administrative topics. The reporting of protective security audits and conduct of specific-purpose attest audits also contribute to Output 2.

¹³ T environmental and social performance. As such TBL can be seen as both an internal management tool as well as an external reporting framework.

FIGURE 8: PERCENTAGE OF UNQUALIFIED OPINIONS¹⁴

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 controls in operation and make recommendations designed to improve the entity's internal controls. Effective internal controls 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, have been accepted by management of the relevant entities.

The 2004–05 Interim Phase report discussed earlier in this chapter provides a summary of the financial accounting and IT control processes adopted by entities. It also includes an 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 entity's internal control environment are also addressed in this section.

¹⁴ 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.

PARLIAMENTARY INTEREST

Audit Report No.31 of 2003–04 *The Senate Order for Departmental and Agency Contracts (Financial Year 2002–2003 Compliance)* and Audit Report No.10 of 2004–05 *The Senate Order for Departmental and Agency Contracts (Calendar Year 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 fifth and sixth audits in a series of bi-annual audits commencing from Audit Report No.33 2001–02, which was presented to Parliament in February 2002. A seventh audit is currently in progress.

The JCPAA is currently reviewing Audit Report No.21 of 2004–05, *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2004*. The focus of the review is the Department of Defence and in particular, the Standard Defence Supply System (SDSS) and the ANAO's associated inability to form an opinion on Defence's financial statements. Further, the Defence commentary included in Report No.56 2004–05, *Interim Phase of the Audit of Financial Statements of General Government Sector Entities for the Year Ending 30 June 2005* was also considered during the JCPAA enquiry. At the time of preparing this annual report, the inquiry was still in progress.

The ANAO appeared at the Joint Committee on the: Australian Security Intelligence Organisation; Australian Secret Intelligence Service; and Defence Signals Directorate to discuss the review of the administration expenditure and financial statements of these organisations.

DEVELOPMENTS IN THE AUDITING PROFESSION

Following amendments to legislation made by the *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004*, the Financial Reporting Council (FRC) has been given oversight of Australia's audit standard setting process. Key amendments made by the Act include the reconstitution of the Auditing and Assurance Standards Board (AUASB) as an independent statutory body with responsibility for setting the national auditing and assurance standards. Auditing and Assurance Standards will be reissued after 30 June 2006 by the AUASB as legislative instruments under the *Legislative Instruments Act 2003* with effect under the *Corporations Act 2001*.

The strategic direction of the AUASB will include the development of Australian Auditing Standards that:

- have a clear public interest focus and are of the highest quality;
- use as a base, as appropriate, the International Standards on Auditing (ISAs);
- make such amendments to ISAs as are necessary to conform with the Australian regulatory environment and statutory requirements;
- incorporate additional requirements based on standards in other national jurisdictions, where appropriate and considered to be in the public interest; and
- the AUASB should continue to develop auditing and assurance standards other than for historical financial information as well as developing and issuing other guidance on auditing and assurance matters, and may participate in audit research that is conducive to, and which significantly benefits, the standard setting activities of the AUASB.

Audits conducted by the ANAO must be in accordance with the auditing standards set by the Auditor-General under section 24 of the Act. The ANAO standards have incorporated by reference the standards set by the AUASB.

A number of legal compliance issues have been identified in recent performance audits,¹⁵ 2003–04 financial statement audits¹⁶ and concerns expressed by Parliamentary committees.¹⁷ The ANAO is addressing these issues by expanding its financial statement work programmes to include some high level additional procedures to address specific legislative compliance risks relating to the management of appropriations, public funds and delegations.

QUALITY ASSURANCE

In 2004–05 the Research and Development Branch (the Branch) completed its annual quality assurance review of a selection of 2003–04 financial statements audits. In addition, the planning phase, of a selection of 2004–05 financial statement audits, have been subject to quality assurance review as part of a real time review program. Results of these reviews have been communicated to the Assurance Audit Service Group (AASG) and as appropriate, the Branch and AASG have responded to the results of the reviews.

¹⁵ Audit Report No.24 2003–04 Agency Management of Special Accounts, Audit Report No.42 2003–04 Financial Delegations for the Expenditure of Public Monies in FMA Agencies, Audit Report No.15 2004–05 Financial Management of Special Appropriations, and Audit Report No.46 2004–05 Management of Trust Monies in CAC Act Entities.

¹⁶ Audit Report No.21 2004–05, Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2004.

¹⁷ Chapter 7 JCPPA Report 402, Review of Auditor-General Reports 2003–04: First and Second Quarters.





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.

At 30 June 2005 the membership of the Board comprised:

- Ian McPhee, Auditor-General (Chair);
- Warren Cochrane, Acting Deputy Auditor-General;
- John Meert, Group Executive Director, Performance Audit Services;
- Peter White, Acting Group Executive Director, Performance Audit Services;
- Ian Goodwin, Group Executive Director, Assurance Audit Services;
- Michael Watson, Group Executive Director, Assurance Audit Services; and
- John Hawley, Executive Director, Corporate Management Branch.



The Executive Board of Management as at 30 June 2005. Standing, from left: Warren Cochrane, Ian McPhee, John Meert. Seated, from left: John Hawley, Michael Watson, Ian Goodwin. Absent: Peter White.

The Board established two 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 2004–05. At 30 June 2005 its membership comprised:

- Will Laurie, Chair and external independent member;
- Warren Cochrane, Acting Deputy Auditor-General;
- Michael Watson, Group Executive Director, Assurance Audit Services;
- Brian Boyd, Executive Director, Performance Audit Services; and
- Observers include: Michael Coleman, Independent Auditor; David Murphy and Mark Maskell, Internal Auditors from Acumen Alliance; and John Hawley, Executive Director Corporate Management Branch and Chief Financial Officer.



INFORMATION STRATEGY COMMITTEE

The Information Strategy Committee assists EBOM with policy advice and proposals on matters relating to information management and information and communications technology.

At 30 June 2005 the membership of this committee comprised:

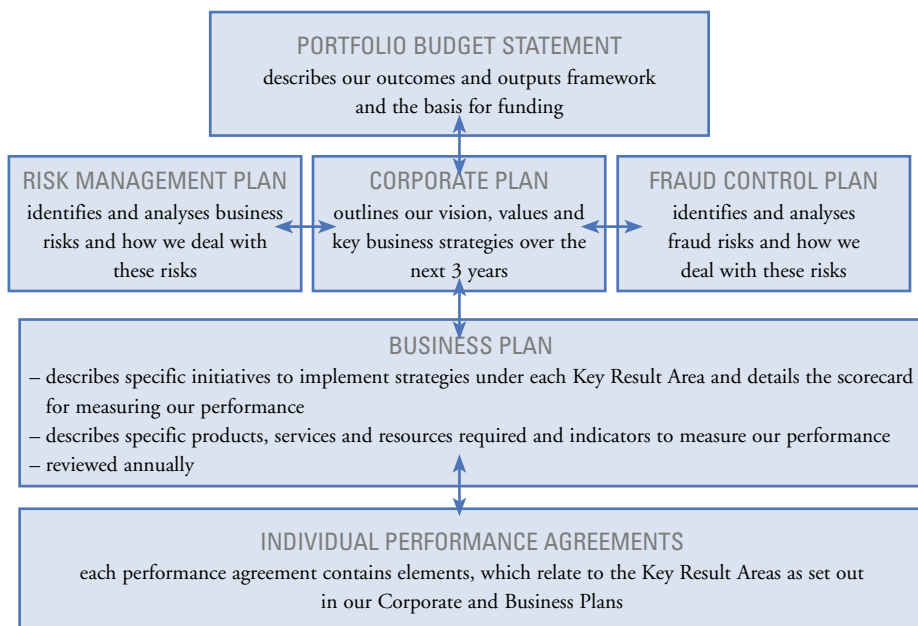
- Ian Goodwin (Chair), Group Executive Director, Assurance Audit Services;
- Alan Greenslade, Executive Director, Performance Audit Services;
- Mashelle Parrett, Executive Director, Research and Development Branch;
- John Hawley, Executive Director, Corporate Management Branch;
- Wayne Jones, Executive Director, Assurance Audit Services; and
- Gary Pettigrove, Chief Information Officer.

Two other sub-committees, the People Committee and Business Committee (reported in the 2003–04 Annual Report) were disbanded in 2004–05. In future EBOM will establish sub-committees to address specific corporate projects related to people and business management.

STRATEGIC PLANNING FRAMEWORK

Key elements of the ANAO's strategic planning framework are presented below.

FIGURE 9: STRATEGIC PLANNING FRAMEWORK



CORPORATE PLAN

The ANAO's *Corporate Plan 2004–07* was promulgated in July 2004 and is the defining document for all planning and other strategic and operational activities for its three-year period. The Plan outlines the vision, role and shared values of the ANAO. We deliver our services by focussing our efforts on the following four Key Result Areas (KRAs):

- our clients;
- our products and services;
- our people; and
- our business performance.

BUSINESS PLAN

The ANAO *Business Plan 2004–05* was promulgated in September 2004. The Business Plan outlines how the KRAs from the Corporate Plan are to be achieved and provides a 'scorecard' 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.



*David Evans
and Kylie
Biilmann from
Corporate
Management
Branch*

RISK MANAGEMENT

The ANAO updates its Risk Management Plan and individual plans for each of the Service Groups, Corporate Management Branch and Research and Development Branch, at least annually. The ANAO adopted the new Joint Standard AS/NZS 4360:2004 in this year's review of our risk management framework. The annual 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 adequate? and do we have sufficient capacity to deliver our products?

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 control 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 at least every two years. This review was completed in July 2004.

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

INFORMATION, SYSTEMS AND TECHNOLOGY STRATEGIC PLAN 2004–06

During this year, Information Services focused on progressing key initiatives identified in the current *Information, Systems and Technology Strategic Plan* by:

- advancing the Audit Working Paper Management Solution to improve the management of records, information and knowledge, noting that this project has been deferred for 2005–06;
- assisting in the establishment of linkages between audit evidence and audit conclusions and recommendations to improve access to, and quality of, audit management information;
- making improvements to the IT infrastructure, including connectivity, architecture and security by:
 - finalising the security certification (IRAP) of the network and IT infrastructure;
 - commencing planning for improvements to remote access connectivity;
 - developing an 'enterprise architecture'¹ for the ANAO;
 - completing upgrades to the ANAO's management information systems;
 - conducting training and support for staff in the use of the ANAO's systems and applications; and
 - working on a learning management system for business analysis and deployment of e-learning resources.

The Strategic Plan will be formally reviewed and updated annually as part of the ANAO's business planning process.

¹ The 'enterprise architecture' is an industry standard which provides the framework for the ANAO business model to determine the structure of its information, applications, infrastructure and security model and design.

GUIDE TO CONDUCT

The ANAO Guide to Conduct was promulgated in February 2005 and was derived from a review of our existing code of conduct. The Guide 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 Guide 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 refers to the package produced by the Australian Public Service Commission titled *APS Values and Code of Conduct in Practice: A Guide to Official Conduct for APS Employees and Agency Heads*. The Guide also reflects the ANAO's own core values and behaviours, which focus on the key elements of *Respect*, *Integrity* and *Excellence* as shown in Figure 10. The Guide also recognises the importance of auditing and accounting standards developed by the Australian auditing and accounting professional bodies.

FIGURE 10: ANAO VALUES AND BEHAVIOURS



EXTERNAL AND INTERNAL SCRUTINY

EXTERNAL AUDIT

Section 41 of the *Auditor-General Act 1997* (the Act) 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 ANAO's Independent Auditor is Michael Coleman, KPMG National Managing Partner, Risk and Regulation, who has been appointed until 30 November 2005. 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. There were no external performance audits conducted in 2004–05.

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 2004–05 included reviews of:

- Quality assurance;
- Procurement of contractor and consulting services;
- Physical security;
- Travel and purchase cards;
- Risk management;
- Records management; and
- Finance and payroll compliance.

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. Issues associated with the balance of the recommendations have been addressed through other means.

ROYAL COMMISSION—INQUIRY INTO THE CENTENARY HOUSE LEASE

The Honourable David Anthony Hunt AO QC was appointed to be a Commissioner to inquire into and report on circumstances surrounding the leasing by the Commonwealth of Centenary House, which provides office accommodation for the ANAO in the Australian Capital Territory. The ANAO assisted this inquiry with two witnesses and the provision of files and other documents.

DECISIONS BY COURTS AND TRIBUNALS

There have been no decisions by courts or tribunals affecting the ANAO during 2004–05.

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 A1–4. During the past year the ANAO has built on previous work designed to enhance the management of our workforce. The key initiatives are described below.

WORKFORCE PLANNING

Work is continuing on the development of the ANAO's three year workforce plan, which is expected to be completed in the first half of 2005–06. Progress has been made on a number of key workforce planning initiatives such as retention strategies and succession planning.

STAFF INDUCTION

Staff induction training was refined over the reporting year and now comprises:

- a complete ANAO induction package provided to staff before they join the ANAO;
- a self-paced ANAO e-induction program which is required to be undertaken in the first few days at the ANAO;
- updated business knowledge modules presented by supervisors to new staff during their first month at the ANAO; and
- specific work area induction modules which are made available during the first six months at the ANAO.

MATURING WORKFORCE

In recognition of the age profile of the ANAO's workforce, a range of activities have been undertaken including:

- the development of a maturing workforce paper outlining short and long term strategies;
- an information brochure distributed to all staff setting out the ANAO's approach to managing the ageing workforce;
- staff seminars on topics relating to financial, and work-life matters; and
- an intranet site to provide information on a range of topics of interest to mature age workers.

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 from 12 weeks to 15 weeks;
- more emphasis on the devolution of decision making to supervisors at the working level;
- a revised performance management scheme with more incentives for improved performance; and
- all staff are eligible to avail themselves of an Australian Workplace Agreement.



NON-SALARY BENEFITS PROVIDED TO EMPLOYEES

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

- access to in-house salary packaging;
- provision of annual influenza injection and health and fitness assessment;
- motor vehicle allowance when using a private vehicle on official business;
- reimbursement of costs 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;
- studies assistance when undertaking an approved course of study;
- reimbursement of parking fees if attending client premises on official business; and
- payment of professional membership fees where membership is work related.

Work has commenced on developing the next ANAO Certified Agreement.

PERFORMANCE ASSESSMENT SCHEME

Our 2003–06 Certified Agreement provided for a new four-tier Performance Assessment Scheme to provide greater flexibility and scope in rewarding staff who have been identified as attaining high levels of performance. The Scheme incorporates a mid-cycle review in April, with a formal report and rating in November of each year.

A summary of ratings for this reporting year are set out in Table 4.

**TABLE 4: SUMMARY OF PERFORMANCE ASSESSMENT RATINGS FOR THE PERIOD
ENDING 31 OCTOBER 2004**

Rating	Outstanding	More than fully effective	Fully effective	Unsatisfactory	Total
ANAO Bands 3 and 4 (Exec 1 and 2)	15	65	36	0	116
ANAO Bands 1 and 2 (APS 1 – 6)	11	54	49	0	114
Total	26 (11%)	119 (52%)	85 (37%)	0	230

STAFF SURVEY

The ANAO conducts a staff survey each year as part of its commitment to assessing the achievement of the 'people' element of our Corporate and Business Plans. The 2004–05 Staff Survey achieved a 79 per cent response rate, and indicated a steady improvement across most areas of the organisation. In particular, the survey results provided valuable information for our workforce planning, such as the examination of the key drivers of staff satisfaction, staff turnover and staff mobility expectations.

SES CONFERENCE

An SES conference was conducted in May 2005, which addressed, among other things: selected business issues including staff retention; risk management; and issues associated with the next Certified Agreement. The Conference also considered the 2005–06 Business Plan and identified a number of key projects for the coming year. These projects are included in the Introduction to this report under the heading, Areas of focus for the coming year.

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 elected staff, three union members and three management representatives.

During 2004–05, the WCF convened on six occasions to consider the development, implementation and review of a range of employment and workforce planning issues and initiatives. These included:

- an executive level conference;
- upwards appraisal;
- a new recruitment website and applicant tracking system;
- a rotation policy in Performance Audit Service Group;
- employee self service;
- the Workplace Diversity Program 2005–2007;
- a staff survey;
- a studies assistance policy; and
- productivity measures.

RECRUITMENT AND SELECTION EVALUATION

The Employment Section of the ANAO website was comprehensively revised over the reporting year to present more detailed information in a more professional format. Information includes details of the ANAO; the working environment; career opportunities; employment conditions; position descriptions by classification levels and available positions to prospective recruits.

Complementing the enhanced website information was the implementation of an on-line application form and application tracking system.



A number of recruitment and selection exercises were conducted throughout the year, with a view to meeting our resourcing and business requirements, while at the same time promoting the ANAO as an employer of choice. While some excellent results were achieved in recruiting highly qualified staff to the ANAO, and providing an opportunity for the advancement of existing staff, difficulties continue in attracting quality applicants in a very competitive market.

To address these concerns, the ANAO has adopted a number of strategies. These include: continuing to build and foster productive working relationships with external recruitment providers; targeting the mature aged workforce; implementing an undergraduate program with local universities; promoting the ANAO in a variety of forums, including the internet and careers fairs; and continuing to maintain an ongoing presence in the local and national press.

SES PAY

SES pay is determined largely by using public sector market benchmarks as a guide, such as those set out in the *APS Remuneration Survey*. The nature of the work, specific skills, and the individual contribution to ANAO business outcomes is also taken into account. SES remuneration is set out under Note 13 of the ANAO Financial Statements, presented in Appendix 2.

PERFORMANCE PAY

In 2004–05, a total of \$0.819 million in performance bonuses was paid to eligible ANAO staff (\$0.346 million in 2003–04). The increase in performance payments was principally due to the full implementation of a revised performance management scheme, which provided for a wider spread of performance ratings with the introduction of a four point rating scale, replacing the previous four point rating scale. This was accompanied by an extension of the possible maximum bonus payments from five to ten per cent.

◆ Aggregated information on performance pay is set out in Appendix 1, Table A1–8.

LEARNING AND DEVELOPMENT

Learning and development in the ANAO is managed 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

The ANAO Professional Development Program recognises the importance of a workforce consisting of highly performing individuals and teams with the ability to sustain and deliver 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.

The key elements of the program are:

- a learning and development framework policy;
- a suite of targeted in-house technical and management courses;
- a personal development scheme (PDS); and
- individual and work group professional development opportunities.

The Learning and Development Framework Policy 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.

Supervisors and staff are required to provide an assessment of any on-the-job performance improvements and/or improved work group contributions that came from attending substantive courses or learning opportunities, such as conferences or professional seminars. The overall result of these assessments is reported in the ANAO's scorecard in the section, Reporting on Performance.

PERSONAL DEVELOPMENT SCHEME

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. Three seminars were presented this financial year. This series continues to be well received by staff.

SECONDMENTS

The ANAO continues to provide staff with opportunities to work in other organisations to enhance their skills and knowledge. These development opportunities also form part of our staff retention strategy.

PLACEMENTS IN APS AGENCIES

Five staff were seconded to a number of larger agencies during the October–December 2004 period on a full cost recovery basis. These secondments enabled selected junior audit staff to work in an agency finance area to gain a better understanding of finance operations and the working environment. Based on the success of these placements, it is planned to expand this initiative to a wider range of staff next year.



EXCHANGE PLACEMENTS—NEW ZEALAND, CANADA AND IRELAND

The ANAO has also established exchange placements with the Office of the Controller and Auditor-General of New Zealand, the Office of the Auditor-General of Canada and the Office of the Comptroller and Auditor-General of Ireland. The placements involve staff from the Assurance Audit Services Group (AASG) working in these Offices for a four to eight week period, with reciprocal arrangements as set out in the table below. These placements are viewed as an important development opportunity for the individuals concerned who are exposed to a range of valuable work experiences. In addition, some secondments have enabled the ANAO to reduce the use of high cost contractors at peak periods during the year.

Staff secondments and exchanges during 2004–05 are set out below.

Secondments/Exchanges to the ANAO	From
John McCullough	Office of the Auditor-General of Canada (3 year secondment)
Jean-Marc Lundy	Office of the Auditor-General of Canada
Rhonda Tucker	Office of the Auditor-General of Canada
Linda Hurdle	Office of the Auditor-General of Canada
Rajesh Das	Office of the Controller and Auditor-General New Zealand
Andy Harkness	Office of the Comptroller and Auditor-General of Ireland
Secondments/Exchanges from the ANAO	To
Josephine Bushell	Office of the Controller and Auditor-General New Zealand
Milton Chen	Office of the Controller and Auditor-General New Zealand
Puspa Dash	Office of the Auditor-General of Canada
Paul Pearson	Office of the Auditor-General of Canada
Amy Fox	Office of the Auditor-General of Canada
Carolyn Cooper	Office of the Comptroller and Auditor-General of Ireland
Mark Goodman	Office of the Comptroller and Auditor-General of Ireland
Sarah Pfeiffer	Department of Family and Community Services
Deborah Ross	Centrelink
Olya Bajanova	Australian Customs Service
Nicholas Anderson	Department of Health and Ageing
Nathan Johnstone	Australian Taxation Office

UNDERGRADUATE PROGRAM AND ICAA CA ACHIEVERS PROGRAM

In 2004–05 the University of Canberra, the Australian National University and the ANAO established an undergraduate program, which resulted in two, second year accounting students being selected for vacation employment with the AASG. In addition, through the Institute of Chartered Accountants Australia (ICAA), the ANAO employed two students through the CA Achievers Program.

Based on the success of this initiative, the ANAO will continue to build the relationship with the Universities and ICAA to employ undergraduates on an annual basis. The longer-term objective is to have high performing undergraduates apply for the ANAO's annual graduate intake.

PROFESSIONAL QUALIFICATIONS AND REPRESENTATION

STUDIES ASSISTANCE

During 2004–05, the ANAO supported 78 staff members with their study programs. Of these, the majority participated in the ICAA 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 and other tertiary studies, with assistance from the ANAO in 2004–05, are set out below:

CA Program	CPA Program
Ben Mair Jodi Muir Mark Goodman John Barnes Amy Fox	Tim Beslee Adrian Tan Brendan O'Hanlon Kee Ho David Murtough
Staff Member	Studies Completed
Katherine Buchanan David Nyskohus Natalie Whiteley Debra Fulton	Bachelor of Health Services Bachelor of Laws Graduate Certificate in Performance Audit Certificate of Business

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 a member of the Assurance Standards Board and the International Auditing and Assurance Standards Board (IAASB) which functions as an independent standard setting body under the auspices of the International Federation of Accountants (IFAC). The Auditor-General is a Fellow of both CPA Australia and the ICAA in Australia. The Auditor-General is also a member of the INTOSAI Professional Standards Committee and the INTOSAI Privatisation 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 Chair and 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.
 - Kevin Caruana is a member of the Project Advisory Panel for the Australian Accounting Standards Board (AASB) on Government Financial Statistics (GFS)/Generally Accepted Accounting Principles (GAAP) Harmonisation.
- ♦ Appendix 5 provides a full list of papers and presentations by the Auditor-General and senior ANAO officers in 2004–05.



GRADUATE CERTIFICATE IN PERFORMANCE AUDITING

The ANAO assisted in the development of the initial Graduate Certificate in Performance Auditing course with the University of Canberra, which enrolled its first students in 2001. The core performance audit subject was delivered on site at the ANAO. From 2005 the University has revised the Graduate Certificate course into a mainstream program for those in the fields of performance audit and program evaluation. The Graduate Certificate in Performance Audit and Evaluation comprises two required units in performance audit and evaluation, and two elective units. The course is designed for most students to complete part-time over two semesters.

One ANAO performance auditor, Natalie Whiteley, graduated from the Graduate Certificate in Performance Auditing in 2004–05 and two more are expected to graduate in 2005–06.

GRADUATES

Twenty-eight graduates commenced employment with the ANAO on 31 January 2005. After completing an initial induction program, graduates were 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 2005 ANAO graduate intake. Seated left to right: Paul Kelly, Nathan Boyle, Ann Towers, Aislinn Morris, Martin Goodchild, Sabrina Taylor-Cannon, Cameron Mathie, David Graver, Pamela Foster (Graduate Coordinator). Middle row left to right: Nathan Franklin, Elisa Serje, Peter Critchley, Ruth Chatterton, Claire Dunstall, Melany Kent, Amelia Stevens, Ben Watson, Anna Iskenderova, Catherine Pauli, Kevin Lee, Niti Mehta, Mirjana Tomic. Back row left to right: Tony Prcevich, Jeffrey Hobson, Jeffrey McFarlane, Will Fitzgerald, Adrian Rowles, Matthew Biernat, Adam Hadfield.

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.

THE AUDITOR-GENERAL'S ANNUAL AWARDS FOR OUTSTANDING ACHIEVEMENT

The Auditor-General's Annual Outstanding Achievement Awards for 2005, were awarded to the following members of staff:

- Kerri Bradford and Natalie Whiteley—for their outstanding contribution to, and successful outcome with the Centrelink Customer Feedback Systems series of audits;
- Barbara Cass—for her strong leadership and motivational qualities, particularly relating to the personal and professional development of PASG staff, her auditing skills, and her participation in the peer review of the GAO;
- Mark Moloney, Sue Knox, and Jocelyn Ashford—for their contribution to the improvement in the efficiency and effectiveness of financial statement audits, by championing the implementation of the SAP Assure software tool;
- Raj Prathapan—for his dedication, commitment and quality of work on the Department of Defence financial statement audit, and in particular the complex issues flowing from the demerger of the Defence Materiel Organisation from the Department; and
- Margaret Knox—for her commitment, dedication and sustained high level of client service to ANAO staff and her leadership in the development and implementation of the Employee Self Service Scheme and employment website.



Winners of the Auditor-General's Outstanding Achievement Awards with the Auditor-General, Ian McPhee and Deputy Auditor-General, Steve Chapman. Standing, from left: Steve Chapman, Margaret Knox, Mark Moloney, Barbara Cass, Natalie Whiteley and Ian McPhee. Seated, from left: Kerri Bradford, Raj Prathapan, Jocelyn Ashford and Sue Knox

NATIONAL AUSTRALIA DAY COUNCIL MEDALLIONS

The Auditor-General presented the 2005 National Australia Day Council medallions to the following members of staff:

- Michael Watson—for high quality services and development of constructive relationships inside and outside of the APS that have contributed to public administration over a number of years;
- Kristian Gage—for his promotion of ANAO Values and his conscientious and professional work on the financial statements audits, and the End of Year Report;
- Grace Guilfoyle—for her professional integrity and contribution while maintaining her family responsibilities, making her a role model for other staff;
- Eric Turner—for consistently providing high quality reports, his integrity and leadership style, and for his ability to develop junior staff;

- Michael McFarlane—for *high quality, balanced reports, his technical contribution and his ability to build strong relationships with audited entities*; and
- David Evans—for *his consistently high level of client service over many years*.



Winners of the National Australia Day Council medallions. From left: Eric Turner, Pat Barrett (the then Auditor-General), Grace Guilfoyle, David Evans, Michael McFarlane and Kristian Gage. Absent: Michael Watson.

WORKPLACE DIVERSITY

The ANAO actively encourages diversity in the workplace that is consistent with the APS Values and Code of Conduct. 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 Workplace Diversity Program was refreshed in February 2005. This program sets out, among other things, policies, priorities, responsibilities and performance information.

- ◆ An analysis of workplace diversity within salary levels is provided in Table A1–4.

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. The OH&S Committee met on two occasions in 2004–05, and 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 2004–05

During 2004–05, there were no incidents reported under the *Occupational Health & Safety (CE) Act 1991*. There were no tests, directions or notices given under sections 30, 45, 46 or 47 of this 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 2005–07 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 including through an online application system.
- *Agency recruiters and managers apply the principle of 'reasonable adjustment'.* This principle is integrated into the ANAO's 2005–07 Diversity Program and OH&S policies. Under the Workplace Diversity Program, all supervisors and 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 made aware of disability and diversity issues during the induction process.
- *Complaints and 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 and 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 EAP.



Reporting of disability matters is undertaken as part of our Workplace Diversity Program and under our OH&S policies framework. During 2004–05, there were no matters of this nature that were reported or which 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

During 2004–05 new consultancy contracts were entered into amounting to total actual expenditure of \$0.930 million. In addition, 21 ongoing consultancy contracts were active during the 2004–05 year, involving total actual expenditure of \$1.08 million. Further details of these consultancies are provided at Table A6–1 in Appendix 6.

MAJOR COMPETITIVE TENDERING AND CONTRACTING ACTIVITIES

The major competitive tendering and contracting out of the delivery of government activities previously performed by the ANAO are described below. This section includes contracts let in 2004–05 or during a previous reporting period for which the contract is still current.

IT SERVICES

The ANAO IT contract with Unisys Australia was renewed in July 2003 for a further four years. The partnership with Unisys is a professional and effective arrangement that continues to meet the business needs of the ANAO.

LEGAL SERVICES

The ANAO has a panel of four legal firms for the provision of legal services. The panel comprises the *Australian Government Solicitor*, *Mallesons Stephen Jacques*, *Minter Ellison* and *Phillips Fox*. The current panel has been in place since May 2004 and provides timely and cost effective legal advice to the ANAO across a wide spectrum of issues.

PUBLISHING SERVICES

The ANAO has had a sound working relationship with *Canprint Communications Pty Ltd*, the external service provider for all audit report publishing services since the contract was let in December 2001. The contract was extended for a further two years in December 2004. This has been a successful partnership that has seen a number of significant improvements in the ANAO's publishing arrangements.

RECRUITMENT ADVERTISING

During 2004–05, the ANAO spent \$0.169 million on advertising in relation to recruitment. This was an increase of some \$0.075 million over last year. The increase can be attributed to costs associated with advertising a number of SES vacancies and the need for more targeted advertising at the non-SES level. There was also an additional cost for graduate advertising following the disbandment of an on line graduate recruitment arrangement, that provided considerable cost savings to the ANAO. Details of advertising expenditure are set out in Table 5.

TABLE 5: DETAILS OF ADVERTISING EXPENDITURE

Firm	Purpose	\$ million
HMA Blaze	recruitment	0.119
TMP Worldwide	recruitment	0.049
Total		0.168

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 continued its support of the Australian Greenhouse Office's Working Energy Program. During the year, the ANAO continued the implementation of an Environmental Management System, which provides a formal structure to allow the ANAO to identify and manage environmental risk and improve environmental performance.

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

Notable achievements include: the introduction of recycled paper throughout the Office; a reduction in the number of printers from 50 to 12; the introduction of new energy saving devices that also produce double sided copies to reduce the consumption of power and paper; and the environmental disposal of all used fluorescent tubes.

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.50 2004–05 *Drought Assistance*; and
- Audit Report No.17 2004–05 *The Administration of the National Action Plan for Salinity and Water Quality*.

The ANAO also conducted the verification of the Triple Bottom Line² reports for the Department of Family and Community Services and the Department of Environment and Heritage.

◆ A synopsis of each of the performance reports can be found in Appendix 4.

The ANAO 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.

The Auditor-General also presented a paper entitled *Public Sector Reporting and Triple Bottom Line* to the Department of Environment and Heritage seminar on Sustainable Reporting by the Public Sector.

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 understanding of the issues involved in both areas under review. A number of recommendations were made in each report which were aimed at improving the administration of these two high profile environmental initiatives.

SERVICE CHARTER

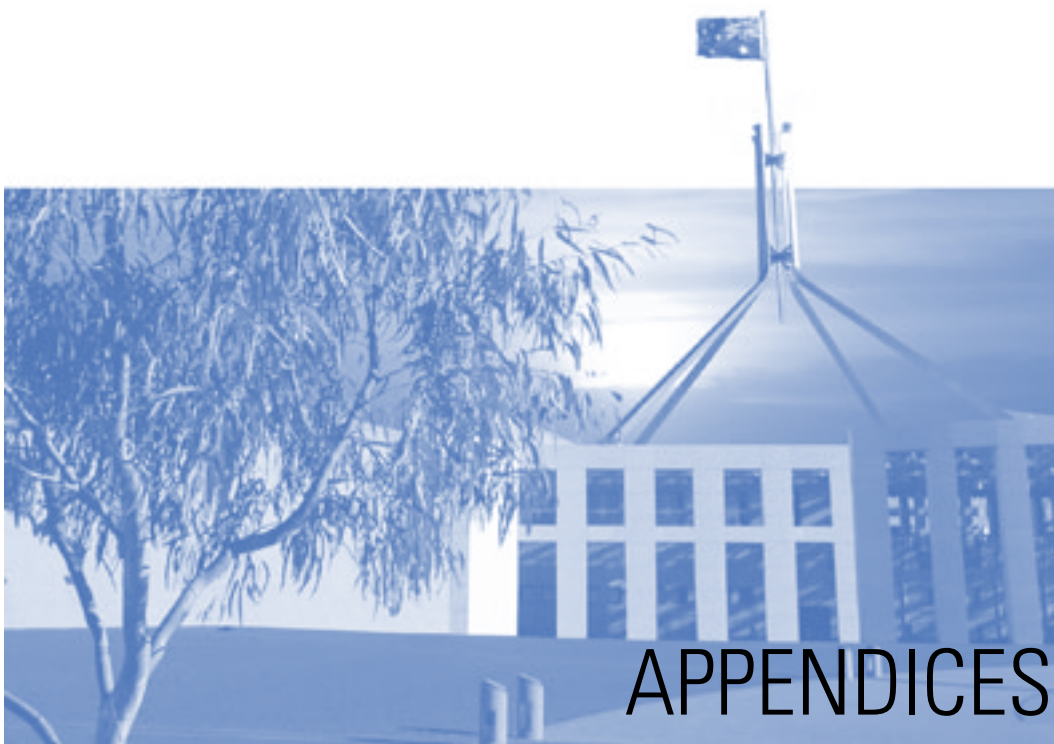
In a broad sense, the ANAO provides a service to the community through its public audit reports and other products such as better practice guides. As the ANAO does not provide a direct service to members of the public, there is no service charter of this nature.

DISCRETIONARY GRANTS

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

² Triple Bottom Line focuses on reporting and making decisions explicitly taking into consideration information on economic, environmental and social performance.





APPENDICES

1. ANAO STAFFING OVERVIEW
2. 2004–05 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 2004–05
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 2005

Classification	ACT	NSW	TOTAL	
			2004–05	2003–04
SES Band 3	0	-	0	1
SES Band 2	4	-	4	4
SES Band 1	20	-	20	17
Exec 2	71	2	73	72
Exec 1	46	-	46	50
APS 6	40	7	47	54
APS 5	46	-	46	38
APS 4	33	1	34	31
APS 3	12	-	12	12
APS 2	5	-	4	2
APS 1	1	-	1	1
Graduate	27	-	28	21
Undergraduate	1	-	1	0
TOTAL	306	10	316	303

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) AS AT 30 JUNE 2005

Location	June 2004		June 2005	
	Audit	Mgt	Audit	Mgt
ACT	224	47	239	50
NSW	10	1	9	1
Sub-total	234	48	248	51
TOTAL	282		299 ¹	

Note 1: excludes 17 inoperative staff.

TABLE A1–3: PAID FULL-TIME, PART-TIME AND NON ONGOING STAFF AS AT 30 JUNE 2005

Classification	Full-time		Part-time		Non ongoing		Total	
	M	F	M	F	M	F	M	F
SES Band 3	-	-	-	-	-	-	-	-
SES Band 2	4	-	-	-	-	-	4	-
SES Band 1	15	4	-	-	-	-	15	4
Exec 2	38	26	2	5	1	-	41	31
Exec 1	22	19	1	1	1	1	24	21
APS 6	10	26	2	3	-	5	12	34
APS 5	24	21	-	1	-	-	24	22
APS 4	10	22	-	-	-	-	10	22
APS 3	-	11	-	-	-	2	-	13
APS 2	1	-	-	-	1	2	2	2
APS 1	1	-	-	-	-	-	1	-
Graduate	15	12	-	-	-	-	15	12
Undergraduate	-	-	-	-	-	1	-	1
Sub-total	140	141	5	10	3	11	148	162
TOTAL	281		15		14		310 ¹	

Note 1: includes paid operative and inoperative staff, but excludes six unpaid staff who were on leave without pay.

TABLE A1–4: ANALYSIS OF WORKPLACE DIVERSITY GROUPS WITHIN SALARY LEVELS 2004–2005

Salary Range	Total staff	Women	NESB1	NESB2	ATSI	PWD
Below \$38 586 (includes APS 1 and Undergraduates)	1	1	-	-	-	-
\$38 586 to \$50 112 (includes APS 2–3 and Graduates)	42	24	5	2	-	-
\$50 113 to \$61 278 (includes APS 4–5)	82	47	11	1	1	1
\$61 279 to \$85 818 (includes APS 6–Exec 1)	85	52	12	1	-	2
\$85 819 and above	106	41	7	5	-	2
TOTAL	316	165 (52%)	35 (11%)	9 (3%)	1 (<1%)	5 (2%)

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

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	Other ¹	Total Losses	Gains
ACT	27	38	-	-	1	66	76
NSW	-	-	-	-	-	0	0
TOTAL	27	38	0	0	1	66	76

Note 1: one staff member succumbed to terminal illness.

TABLE A1–6: EXPENDITURE ON STAFF TRAINING

Description	2004–05	2003–04	2002–03	2001–02	2000–01
Net eligible training expenditure (excludes salaries)	\$847 755	\$608 791	\$622 967	\$808 418	\$757 366
Total number of person-days spent by staff on eligible training programs	1898	1763	1591	1566	1842
Total number of staff participating in eligible training programs	280	274	266	246	259

TABLE A1–7: BASIS OF EMPLOYMENT OF STAFF

Level	Basis of Employment of Staff	
	Employed under Certified Agreement	Employed on AWAs
SES	-	24
Non SES staff	248	44
Sub-total	248	68
TOTAL	316	

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

TABLE A1–8: PERFORMANCE PAYMENTS

Classification	Number	Total for classification \$	Average Payment \$	Minimum payment \$	Maximum payment \$
SES	22	200 206	9 100	3 333	24 725
EXEC 2	72	287 355	3 991	488	10 029
EXEC 1	41	121 008	2 951	559	8 884
APS 6	45	115 075	2 557	150	8 480
APS 5	37	65 292	1 765	324	6 084
APS 4	10	16 960	1 696	401	2 705
APS 1–3	10	13 033	1 303	409	2 617
TOTAL	237	\$818 929			

APPENDIX 2

2004–05 FINANCIAL RESULTS COMMENTARY AND FINANCIAL STATEMENTS

2004–05 FINANCIAL RESULTS COMMENTARY

ANAO 2004–05 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

2004–05 FINANCIAL RESULTS COMMENTARY

INTRODUCTION

The ANAO's operations are largely funded through parliamentary appropriations. An amount of revenue is also received for the provision of audit related services, rental income and other miscellaneous sources, 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 2004–05. 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

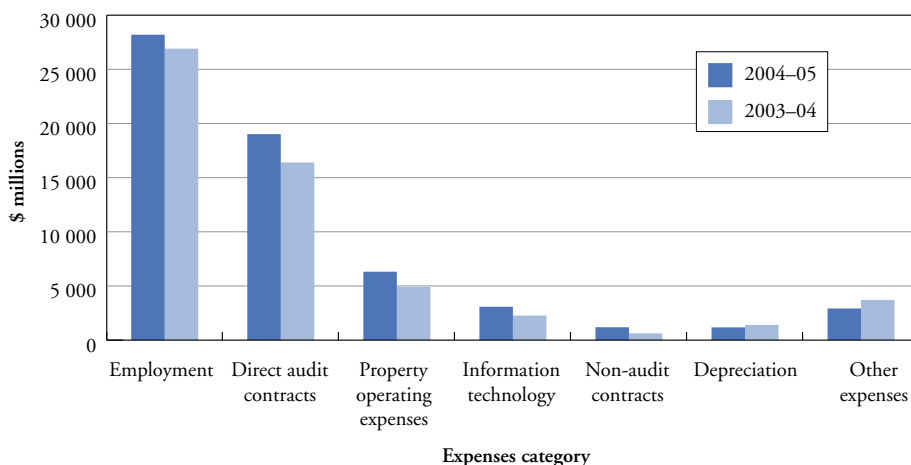
	2004–05 \$000	2003–04 \$000	Variance \$000	Variance %
Statement of Financial Performance				
Total operating revenues	62 278	56 165	6 113	10.9
Total operating expenses	61 899	56 239	5 660	10.1
Net Surplus	379	(74)	453	612.2
Statement of Financial Position				
Total assets	23 479	21 880	1 599	7.3
Total liabilities	14 246	12 934	1 312	10.1
Net assets	9 233	8 946	287	3.2
Equity	9 233	8 946	287	3.2

DETAILED ANALYSIS

OPERATING EXPENSES

Total operating expenses for the year ended 30 June 2005 were \$5.660 million (10.1 per cent) more than for 2003–04. The increase in employment cost reflects the impact of the ANAO's certified agreement (4.8 per cent); and the increase in audit costs is due to increased costs in the accounting labour market (15.9 per cent); additional financial statement auditing within the Department of Defence; and the auditing of the Commonwealth's adoption of the Australian Equivalents to the International Reporting Standards. The increase in property expenses is related to the annual increase of rent and inclusion of make-good provision. A breakdown of total operating expenses into major expense categories is shown in Figure A2–1.

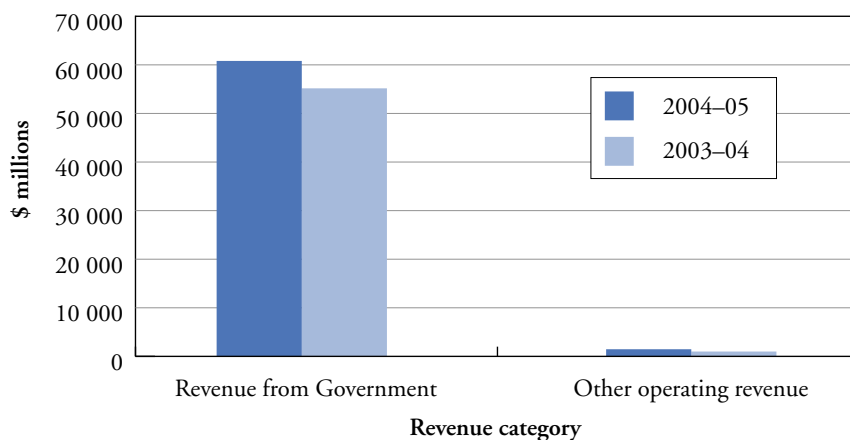
FIGURE A2–1: OPERATING EXPENSES



OPERATING REVENUE

The increase in total operating revenues is due to additional revenues from Government and minor increases from independent sources. Revenues from Government increased to provide for the auditing of the adoption of the Australian equivalents to the International Financial Reporting Standards, additional auditing of the Department of Defence, as well as its de-merger from the Defence Materiel Organisation, and increased costs associated with the accounting labour market. A breakdown of operating revenue is provided in Figure A2–2.

FIGURE A2-2: OPERATING REVENUE



STATEMENT OF FINANCIAL POSITION SUMMARY

The ANAO's statement of financial 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 operating surplus of \$0.379 million plus continued tight management of statement of financial position items has resulted in an improvement in the equity position of the ANAO, which stands at \$9.233 million (2003-04: \$8.946 million).

The increase in liabilities is predominantly due to the increase in trade creditors, increased accruals for contract auditor costs and the recording of a make-good provision for the first time. There was a small increase in employee entitlements. However, management of staff leave balances and some large payouts during the year upon the retirement of a number of long-term public servants have reduced the amount of the increase.

ADMINISTERED FUNDS FINANCIAL SUMMARY

Audit fees billed to Commonwealth authorities and companies for non-discretionary audit work are comparable with 2003–04, as reflected in the following table.

TABLE A2–2: ADMINISTERED FUNDS

	2004–05 \$000	2003–04 \$000
Administered Revenue and Expenses		
Sale of goods and services	11 807	10 893
Cash transferred to the Official Public Account	11 198	11 354
Administered Assets and Liabilities		
Financial Assets	3 322	2 505
Equity and liabilities	3 322	2 505

NET OUTLAYS TO GOVERNMENT

In overall terms, the ANAO generated \$13.275 million (2003–04: \$11.890 million) in revenues from audit and other services. Given that the ANAO received appropriations totalling \$60.810 million (2003–04: \$55.168 million) and generated \$11.198 million in the sale of goods and services, the net outlay by Government was \$49.003 million (2003–04: \$44.275 million).



ANAO 2004–05 FINANCIAL STATEMENTS



INDEPENDENT AUDIT REPORT

For the Australian National Audit Office

Mr President

Mr Speaker

Scope

The financial statements and Auditor-General's responsibility

The financial statements comprise:

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

Of the Australian National Audit Office for the year ended 30 June 2005.

The Auditor-General is responsible for the preparation and true and fair presentation of the financial statements in accordance with the Finance Minister's Orders. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial statements.

Audit approach

I have conducted an independent audit of the financial statements in order to express an opinion on them to you. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing and Assurance Standards, in order to provide reasonable assurance as to whether the financial statements are free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive, rather than conclusive, evidence. Therefore an audit cannot guarantee that all material misstatements have been detected.



Whilst the effectiveness of management's internal controls over financial reporting was considered when determining the nature and extent of audit procedures, the audit was not designed to provide assurance on internal controls.

I have performed procedures to assess whether, in all material respects, the financial statements present fairly, in accordance with Section 57 of the *Financial Management and Accountability Act 1997*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with my understanding of the Australian National Audit Office's financial position, and of its performance as represented by the statements of financial performance and cash flows.

The audit opinion is formed on the basis of these procedures, which included:

- Examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial statements; and
- Assessing the appropriateness of the accounting policies and disclosures used, and the reasonableness of significant accounting estimates made by the Auditor-General.

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 applicable Accounting Standards; and
- (ii) give a true and fair view, of the matters required by 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 2005, and its financial performance and its cash flows for the year then ended.

Michael J Coleman
Independent Auditor

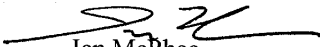
Appointed under clause 1 of Schedule 2 of the *Auditor-General Act 1997*


Sydney,
30 August 2005

Australian National Audit Office

STATEMENT BY THE AUDITOR-GENERAL AND CHIEF FINANCE OFFICER

In our opinion, the attached financial statements for the year ended 30 June 2005 have been prepared 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*, as amended.


 Ian McPhee
 Auditor General
 30 August 2005


 John Hawley
 Chief Finance Officer
 30 August 2005

Australian National Audit Office
STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 30 June 2005

REVENUE	Notes	2005 \$'000	2004 \$'000
Revenues from ordinary activities			
Revenue from Government	4A	60,810	55,168
Goods and services	4B	1,468	965
Revenue from sale of assets	4C	-	32
<i>Revenues from ordinary activities</i>		62,278	56,165
EXPENSE			
Expenses from ordinary activities			
Employees	5A	28,197	26,906
Suppliers	5B	31,386	27,486
Depreciation and amortisation	5C	1,176	1,404
Write-down and impairment of assets	4C	28	-
Value of assets sold	4C	1	21
Other expenses	5D	1,111	422
<i>Expenses from Ordinary Activities</i>		61,899	56,239
Net Surplus/(Deficit)		379	(74)

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

Australian National Audit Office
STATEMENT OF FINANCIAL POSITION
as at 30 June 2005

	Notes	2005 \$'000	2004 \$'000
ASSETS			
Financial Assets			
Cash	6A	950	906
Receivables	6B	18,499	17,175
Other financial assets	6C	4	14
Total Financial Assets		19,453	18,095
Non-Financial Assets			
Infrastructure, plant and equipment	7A/B	2,948	2,937
Intangibles	7C	225	246
Other non-financial assets	7D	853	602
Total Non-Financial Assets		4,026	3,785
Total Assets		23,479	21,880
LIABILITIES			
Interest Bearing Liabilities			
Other interest bearing liabilities	8A	1,882	2,368
Total interest bearing liabilities		1,882	2,368
Provisions			
Employees	9A	8,603	8,545
Other	9B	630	-
Total Provisions		9,233	8,545
Payables			
Suppliers	10A	2,941	1,831
Other payables	10B	190	190
Total Payables		3,131	2,021
Total Liabilities		14,246	12,934
NET ASSETS		9,233	8,946
EQUITY			
Contributed equity		4,929	4,929
Reserves		717	809
Retained surpluses/(accumulated deficits)		3,587	3,208
Total Equity	11A	9,233	8,946
Current Assets		20,306	18,697
Non-Current Assets		3,173	3,183
Current Liabilities		7,444	6,080
Non-Current Liabilities		6,802	6,854

**Australian National Audit Office
STATEMENT OF CASH FLOWS
for the year ended 30 June 2005**

OPERATING ACTIVITIES	Notes	2005 \$'000	2004 \$'000
Cash Received			
Goods and services		1,413	1,080
Appropriations		59,864	55,168
Net GST received from ATO		320	255
Total Cash Received		61,597	56,503
Cash Used			
Employees		28,248	26,808
Suppliers		32,018	29,740
Total Cash Used		60,266	56,548
Net Cash From or (Used by) Operating Activities	12	1,331	(45)
INVESTING ACTIVITIES			
Cash Received			
Proceeds from sales of property, plant and equipment		-	32
Total Cash Received		-	32
Cash Used			
Purchase of infrastructure, plant and equipment		1,124	715
Purchase of intangibles		163	-
Total Cash Used		1,287	715
Net Cash From or (Used by) Investing Activities		(1,287)	(683)
FINANCING ACTIVITIES			
Cash Received		-	-
Cash Used		-	-
Total Cash From or (Used by) Financing Activities		-	-
Net Increase or (Decrease) in Cash Held		44	(728)
Cash at the beginning of the reporting period		906	1,634
Cash at the End of the Reporting Period		950	906

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

**Australian National Audit Office
SCHEDULE OF COMMITMENTS
for the year ended 30 June 2005**

By Type	2005 \$'000	2004 \$'000
Capital Commitments		
Infrastructure, plant and equipment	3,182	4,036
Total Capital Commitments	3,182	4,036
Other Commitments		
Operating leases	24,412	30,767
Other commitments	27,829	12,148
Total Other Commitments	52,241	42,915
Commitments Receivable	(7,435)	(7,363)
Net Commitments by Type	47,988	39,588
By Maturity		
Capital Commitments		
One year or less	1,659	4,036
From one to five years	1,523	-
Over five years	-	-
Total Capital Commitments	3,182	4,036
Operating Lease Commitments		
One year or less	6,932	6,374
From one to five years	17,480	24,393
Over five years	-	-
Total Operating Lease Commitments	24,412	30,767
Other Commitments		
One year or less	16,383	5,933
From one to five years	11,446	6,215
Over five years	-	-
Total Other Commitments	27,829	12,148
Commitments Receivable	(7,435)	(7,363)
Net Commitments by Maturity	47,988	39,588

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

NB: Commitments are GST inclusive where relevant

1. Operating leases included for 2004-05 are effectively non-cancellable and comprise:

Nature of Lease	General description of leasing arrangements
Leases for office accommodation	The ANAO has two accommodation leases, one in the ACT and the other in NSW. 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 \$2.184 million (2003-04: \$2.806 million)

2. Other commitments comprise: contract audit services \$26.719 million (2003-04: \$11.284 million) and other corporate contracts totalling \$1.110 million (2003-04: \$0.864 million).

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

Australian National Audit Office
SCHEDULE OF ADMINISTERED ITEMS

	Notes	2005 \$'000	2004 \$'000
Revenues Administered on Behalf of Government <i>for the year ended 30 June 2005</i>			
Non-taxation Revenue			
Goods and services (audit fees)	17	11,807	10,893
Total revenues Administered on Behalf of Government		11,807	10,893
Assets Administered on Behalf of Government <i>for the year ended 30 June 2005</i>			
Financial Assets			
Cash	18	-	-
Receivables (audit fees)	18	3,026	1,325
Work in progress	18	296	1,180
Total Assets Administered on Behalf of Government		3,322	2,505
Liabilities Administered on Behalf of Government <i>As at 30 June 2005</i>			
Payables			
GST payable	19	372	164
Other payables	19	-	-
Total Liabilities Administered on Behalf of Government		372	164
Current Assets		3,322	2,505
Non-current Assets		-	-
Current Liabilities		372	164
Non-current Liabilities		-	-

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

Australian National Audit Office

SCHEDULE OF ADMINISTERED ITEMS (cont'd)

	Notes	2005 \$'000	2004 \$'000
Administered Cash Flows			
<i>for the year ended 30 June 2005</i>			
Operating Activities			
Cash received			
Rendering of services (audit fees)		11,198	11,140
Total cash received		11,198	11,140
Cash used			
GST paid to the Australian Taxation Office		1,018	1,131
Cash to the Official Public Account		10,180	10,223
Total Cash Used	20	11,198	11,354
Net cash (used in)/from operating activities		-	(214)
Administered Commitments			
<i>As at 30 June 2005</i>			
Net Administered Commitments		-	-

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 activities planned for the year can be found in the Australian National Audit Office Portfolio Budget Statement for 2004-05, which was 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 2005

Note	Description
1	Summary of Significant Accounting Policies
2	Adoption of Australian Equivalents to International Financial Reporting Standards from 2005-2006
3	Events Occurring after Reporting Date
4	Operating Revenues
5	Operating Expenses
6	Financial Assets
7	Non-Financial Assets
8	Interest Bearing Liabilities
9	Provisions
10	Payables
11	Equity
12	Cash Flow Reconciliation
13	Executive Remuneration
14	Remuneration of Auditors
15	Average Staffing Levels
16	Financial Instruments
17	Revenues Administered on Behalf of Government
18	Assets Administered on Behalf of Government
19	Liabilities Administered on Behalf of Government
20	Administered Reconciliation Table
21	Administered Contingent Liabilities
22	Administered Financial Instruments
23	Appropriations
24	Specific Payment Disclosures
25	Reporting of Outcomes

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

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 ANAO 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 ANAO. They are used by the ANAO in producing its outputs and include:

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

Administered items are those items that are controlled by the Government and managed or overseen by the ANAO 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 ANAO 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:

- a. 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 2005*);
- b. Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board; and
- c. Consensus Views of the Urgent Issues Group.

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, which, 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.

Australian National Audit Office**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS****for the year ended 30 June 2005**

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 and the Schedule of Contingencies (other than unquantifiable or remote contingencies, which are reported at Note 21).

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 reported in the Schedule of Administered Items and related notes are accounted for on the same basis and using the same policies as for Agency items, except where otherwise stated at Note 1.16.

1.3 Revenue*Revenues from Government*

Amounts appropriated for Departmental outputs appropriations for the year (adjusted for any formal additions and reductions) are recognised as revenue, except for certain amounts that relate to activities that are reciprocal in nature, in which case, revenue is recognised only when it has been earned.

Appropriations receivable are recognised at their nominal amounts.

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

All revenues described in this note are revenues relating to audit and related operating activities of the ANAO, except for revenues received from the sublease of surplus space and gains from the sale of ANAO assets. Revenue amounts are disclosed in Note 4.

Receivables for goods and services 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 collectability of the debt is judged to be less rather than more likely.

1.4 Transactions with the Government as Owner*Equity Injections*

No equity injections were received by the ANAO in the 2004-05 financial year.

Other distributions to owners

The FMOs require that distributions to owners be debited to contributed equity unless in the nature of a dividend. There were no distributions to owners during the 2004-05 financial year.

1.5 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.

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

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 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 ANAO'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 at the present value of the estimated future cash flows to be made in respect of all employees at 30 June 2005. 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. The liability for their superannuation benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course.

The ANAO makes employer contributions to the Australian Government at rates determined by an actuary to be sufficient to meet the cost to the Government of the superannuation entitlements of the ANAO's employees.

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

1.6 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 an operating lease, the lessor effectively retains substantially all such risks and benefits.

The ANAO did not have any finance leases as at 30 June 2005.

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.

Leased space, surplus to the ANAO's requirements, 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.

1.7 Cash

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

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

1.8 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 and services have been received (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.

1.9 Acquisition of Assets

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

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

1.10 Infrastructure, Plant and Equipment

Asset Recognition Threshold

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

Revaluations

Basis

Infrastructure, plant and equipment are carried at valuation, being revalued with sufficient frequency such that the carrying amount of each asset class is not materially different, at reporting date, from its fair value. Valuations undertaken in each year are as at 30 June.

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

Asset class	Fair value
Infrastructure (leasehold improvements)	Depreciated replacement cost
Plant and equipment	Depreciated replacement cost

Assets which are surplus to requirements are measured at their net realisable value. There are no assets that are surplus to requirements at 30 June 2005.

Infrastructure, plant and equipment are revalued every year to determine if a significant change in the value of the assets has occurred during the financial year. Valuations are carried out by an independent qualified valuer.

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Depreciation

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

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

	2005	2004
Leasehold improvements	Lease term	Lease term
Plant and equipment	3-15 years	3-15 years

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

1.11 Impairment of Non-Current Assets

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

1.12 Intangibles

The ANAO's intangibles comprise off-the-shelf and internally developed software for internal use. These assets are carried at cost.

Software is amortised on a straight-line basis over its anticipated useful life. The useful lives of ANAO's software are 3-5 years (2003-04: 3-5 years).

All software assets were assessed for indications of impairment as at 30 June 2005. No impaired software assets were identified.

1.13 Inventories

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

1.14 Taxation

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

Revenues, expenses and assets are recognised net of GST, except:

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

1.15 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.

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1.16 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 Departmental items, including the application of Accounting Standards, Accounting Interpretations and UIG Abstracts.

These transfers of cash are reported as administered (operating) cash flows and in the administered reconciliation table in Note 20.

Accounting policies that are relevant only to administered activities of the ANAO are disclosed below.

Administered Cash Transfers to the Official Public Account

Revenue collected by ANAO for use by the Government rather than the ANAO is Administered Revenue. Collections are transferred to the Official Public Account (OPA) maintained by the Department of Finance and Administration. The transfers to the OPA are adjustments to the administered cash held by the ANAO on behalf of the Government and reported as such in the Statement of Cash Flows in the Schedule of Administered Items and in the Administered Reconciliation Table in Note 20. Thus the Schedule of Administered Items largely reflects the Government's transactions, through the ANAO, with parties other than the ANAO.

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.

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Note 2 - Adoption of Australian 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 Australian Equivalents to International Financial Reporting Standards (AEIFRS). The International Financial Reporting Standards 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, including reporting periods ending on 30 June 2005.

The purpose of issuing AEIFRS is to enable Australian reporting entities reporting under the *Corporations Act 2001* to be able to more readily access overseas capital markets by preparing their financial reports according to accounting standards more widely used overseas.

AEIFRS contain certain additional provisions that will apply to not-for-profit entities, including Australian Government agencies. Some of these provisions are in conflict with IFRS, and therefore the ANAO will only be able to assert that the financial report has been prepared in accordance with Australian Accounting Standards.

AAS 29 *Financial Reporting by Government Departments* will continue to apply under AEIFRS.

Accounting Standard AASB 1047 *Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards* requires that the financial statements for 2004-05 disclose:

- an explanation of how the transition to AEIFRS is being managed;
- narrative explanations of the key policy differences arising from the adoption of AEIFRS;
- any known or reliably estimable information about the impacts on the financial report had it been prepared using the Australian equivalents to IFRS;
- if the impacts of the above are not known or reliably estimable, a statement to that effect.

Where an entity is not able to make a reliable estimate, or where quantitative information is not known, the entity should update the narrative disclosures of the key differences in accounting policies that are expected to arise from the adoption of AEIFRS.

The purpose of this Note is to make these disclosures.

Management of the transition to AEIFRS

The ANAO has taken the following steps for the preparation towards the implementation of AEIFRS:

- a. The ANAO's Audit Committee is tasked with oversight of the transition to and implementation of AEIFRS. The Chief Finance Officer is formally responsible for the project and reports regularly to the Audit Committee on progress against the formal plan approved by the Committee.
- b. The plan required the following key steps to be undertaken with set deadlines for their achievement:
 - i. All major accounting policy differences between current AASB standards and AEIFRS were identified by 30 June 2004.
 - ii. Identified 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.
 - iii. Preparing an AEIFRS balance sheet at the same time as the 30 June 2005 statements are prepared.
- c. These measures will ensure the ANAO meets reporting deadlines set by the Department of Finance and Administration for the 2005-06 balance sheet under AASB Equivalent Standards.

Major changes in accounting policy

The ANAO believes that the first financial report prepared under AEIFRS, i.e. at 30 June 2006, will be prepared on the basis that the ANAO will be a first time adopter under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. Changes in accounting policies under AEIFRS are applied retrospectively, i.e. as if the new policy had always applied except in relation to the exemptions available under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. This rule means that an AEIFRS compliant balance sheet had to be prepared as at 1 July 2004. This will enable the 2005-06 financial statements to report comparatives under AEIFRS.

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A first time adopter of AEIFRS may elect to use exemptions under paragraphs 13 to 25E. When developing the accounting policies applicable to the preparation of the 1 July opening balance sheet, no exemptions were applied by the ANAO.

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

Management's review of the quantitative impacts of AEIFRS represents the best estimates of the impacts of the changes as at reporting date. The actual effects of the impacts of AEIFRS may differ from these estimates due to:

- continuing review of the impacts of AEIFRS on ANAO's operations;
- potential amendments to the AEIFRS and AEIFRS interpretations; and
- emerging interpretation as to the accepted practice in the application of AEIFRS and the AEIFRS Interpretations.

Infrastructure, plant and equipment

It is expected that the 2005-06 Finance Minister's Orders will continue to require infrastructure, plant and equipment assets to be valued at fair value in 2005-06. Infrastructure, plant and equipment assets are valued at fair value in the 2004-05 financial statements.

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 28 *Revaluation of Non-current Assets* in 2000-01 and AASB 1041 of the same title in 2001-02.

The Australian 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, is not traded and is carried at cost.

Impairment of non-current assets

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

Under AEIFRS these assets will be subject to assessment for impairment and, if there are indications of impairment, an assessment of the degree of 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.

Make-good provisions

The ANAO has an operating lease that requires the asset to be returned to the lessor in its original condition. The operating lease payments do not include an element for restoration and dismantling costs.

A make-good provision of \$629,700 has been recognised for the first time as at 30 June 2005 in accordance with current AGAAP. The contra entry has been made to expense. Under AEIFRS, the contra entry will be to capitalise the make-good amount to the related asset, Leasehold Improvements.

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.

The 2003-04 Financial Report noted that the AEIFRS standards may require the market yield on corporate bonds to be used. The AASB has decided that a deep market in high quality corporate bonds does not exist and therefore national government bonds will be referenced.

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AEIFRS require that annual leave that is not expected to be taken within 12 months of balance date is to be discounted. After assessing the staff leave profile, the ANAO has discounted annual leave not expected to be taken within the next 12 months.

Administered Items

Assessment of the administered assets and liabilities of the ANAO indicate that there are no adjustments due to the transition to AEIFRS.

Financial Instruments

AEIFRS include an option for entities not to restate comparative information in respect of financial instruments in the first AEIFRS report. It is expected that Finance Minister's Orders will require entities to use this option. Therefore, the amounts for financial instruments presented in the ANAO's 2004-05 primary financial statements are not expected to change as a result of the adoption of AEIFRS.

The ANAO will be required by AEIFRS to review the carrying amounts of financial instruments at 1 July 2005 to ensure they align with the accounting policies required by AEIFRS. It is expected that the carrying amounts of financial instruments held by the ANAO will not materially change as a result of this process.

Operating Leases

Under AEIFRS, lease expenses and income shall be recognised on a straight-line basis over the lease term.

The ANAO has two operating leases with escalation clauses:

- an operating lease as the lessee with a rent escalation of 9% each year; and
- an operating lease as the lessor with a rent escalation of 4% each year.

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Reconciliation of surplus for the financial year ended 30 June 2005

The following table sets out the expected adjustment to the Statement of Financial Performance of the ANAO for the year ended 30 June 2005.

	30 June 2005		
	AGAAP	Transition	AEIFRS
	2005	impact	2005
	\$'000	\$'000	\$'000
REVENUE			
Revenues from ordinary activities			
Revenue from Government	60,810	-	60,810
Goods and services	1,468	(77)	1,391
Revenue from sale of assets	-	-	-
Revenues from ordinary activities	62,278	(77)	62,201
EXPENSE			
Expenses from ordinary activities (excluding borrowing costs expense)			
Employees	28,197	(37)	28,160
Suppliers	31,386	(1,053)	30,333
Depreciation and amortisation	1,176		1,176
Write-down and impairment of assets	28		28
Value of assets sold	1		1
Other expenses	1,111	9	1,102
Expenses from Ordinary Activities (excluding borrowing costs expense)	61,899	(1,081)	60,818
Net Surplus/(Deficit)	379	1,004	1,383

Summary of impact of transition to AEIFRS on accumulated surpluses

The impact of the transition to AEIFRS on accumulated surpluses as at 1 July 2004 is summarised below:

1 July 2004	
\$'000	
3,208	
	34
	45
	(8,103)
	<u>499</u>
	(4,317)

Accumulated surpluses as at 1 July 2004 under AGAAP

AEIFRS reconciliation:

Employee provisions

Other payables

Rental expense

Rental income

Accumulated (deficit)/surpluses as at 1 July 2004 under AEIFRS

Summary of transitional adjustments

The following table sets out the expected adjustments to the statement of financial position of the ANAO at transition to AEIFRS as at 1 July 2004 and for the AEIFRS comparative period balance sheet as at 30 June 2005.

	1 July 2004		30 June 2005	
	AGAAP \$'000	Transition impact \$'000	AGAAP \$'000	Transition impact \$'000
		AEIFRS \$'000	AEIFRS \$'000	AEIFRS \$'000
ASSETS				
Financial Assets				
Cash	906	-	950	-
Receivables ⁽¹⁾	17,175	499	18,499	422
Other financial assets	14	-	4	-
Total Financial Assets	<u>18,095</u>	<u>499</u>	<u>19,453</u>	<u>422</u>
Non-Financial Assets				
Infrastructure, plant and equipment	2,937	-	2,948	630
Intangibles	246	-	225	-
Other non-financial assets	602	-	853	-
Total Non-Financial Assets	<u>3,785</u>	<u>-</u>	<u>4,026</u>	<u>-</u>
Total Assets	<u>21,880</u>	<u>499</u>	<u>23,479</u>	<u>422</u>

- (1) Accounting for operating lease as a lessor on a straight-line basis
- (2) Discounting of the non-current portion of Annual Lease
- (3) Accounting for operating lease as a lessee on a straight-line basis
- (4) Discounting of sub-lease rental bond

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Note 3 - Events Occurring after Reporting Date

No events have occurred after balance date that should be brought to account or noted in the 2004-05 financial statements.

	2005	2004
	\$'000	\$'000

Note 4 - Operating Revenues

Note 4A: Revenues from Government

Appropriations for outputs	60,810	55,168
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Note 4B: Goods and Services

Audit related services	831	627
Rental income	622	331
Other	15	7
Total sales of services	1,468	965

Provision of services to:

Related entities	831	627
External entities	637	338
Total sales of services	1,468	965

Note 4C: Net Gain from Sale of Assets

Infrastructure, plant and equipment:		
Proceeds from disposal	-	32
Net book value of assets disposed	(1)	(21)
Write-downs	(28)	-
Net gain/(loss) from disposal of infrastructure, plant and equipment	(29)	11

Note 5: Operating Expenses

Note 5A: Employee Expenses

Wages and Salary	20,801	19,511
Superannuation	4,346	3,918
Leave and other entitlements	2,769	3,200
Separation and redundancies	-	90
Other employee expenses	54	37
Total employee benefits expense	27,970	26,756
Worker's compensation premiums	227	150
Total employee expenses	28,197	26,906

Note 5B: Supplier Expenses

Services from external entities	25,588	22,060
Operating lease rentals	5,798	5,426
Total supplier expenses	31,386	27,486

Note 5C: Depreciation and Amortisation

(i) Depreciation

Infrastructure, plant and equipment	567	795
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(ii) Amortisation

Intangibles - Computer Software	184	361
Leasehold improvements	425	248
Total amortisation	609	609
Total depreciation and amortisation	1,176	1,404

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

Note 5D: Other Expenses

Surplus space liability interest	481	422
Make good expense	630	-
	1,111	422

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	2005	2004
	\$'000	\$'000

Note 6 - Financial Assets

Note 6A: Cash

Cash on hand	2	1
Cash at bank	948	905
Total cash	950	906

All cash recognised is a current asset

Note 6B: Receivables

Goods and services	146	90
Less: Provision for doubtful debts	-	-
	146	90
GST receivable from the Australian Taxation Office	558	346
Appropriation receivable but undrawn	17,681	16,734
Other	114	5
Total receivables (net)	18,499	17,175

Receivables is represented by:

Current	18,499	17,175
Non-current	-	-
Total receivables (net)	18,499	17,175

Appropriations receivable but undrawn are appropriations controlled by the ANAO but held in the Official Public Account under the Government's just-in-time drawdown arrangements.

Receivables (gross) are aged as follows:

Current	18,499	17,153
Overdue by:		
Less than 30 days	-	-
30 to 60 days	-	11
61 to 90 days	-	-
More than 90 days	-	11
	-	22
	18,499	17,175

Note 6C: Other

Work in progress - audit related services	4	14
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All work in progress is recognised as a current asset.

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	2005 \$'000	2004 \$'000
Note 7 - Non-Financial Assets		
<u>Note 7A: Infrastructure, Plant and Equipment</u>		
Leasehold improvements - at fair value	1,495	1,761
Accumulated amortisation	-	-
	1,495	1,761
Plant and equipment - at fair value	1,453	1,176
Accumulated depreciation	-	-
	1,453	1,176
Total infrastructure, plant and equipment	2,948	2,937

All formal revaluations are independent and are conducted in accordance with the revaluations policy stated at Note 1. In 2004-05, the formal revaluations were conducted by an independent valuer - Australian Valuation Office.

Note 7B: Analysis of Infrastructure, Plant and Equipment

TABLE A - Reconciliation of the opening and closing balances of infrastructure, plant and equipment

Item	Leasehold Improvements	Plant & Equipment	TOTAL
As at 1 July 2004			
Gross book value	1,761	1,176	2,937
Accumulated depreciation/amortisation	-	-	-
Opening Net Book Value	1,761	1,176	2,937
Additions by purchase	75	1,049	1,124
Net revaluation increment/(decrement)	84	(176)	(92)
Depreciation/amortisation expense	(425)	(567)	(992)
Disposals	-	(29)	(29)
As at 30 June 2005			
Gross book value	1,495	1,453	2,948
Accumulated depreciation/amortisation	-	-	-
Closing net book value	1,495	1,453	2,948

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

TABLE B - Assets at valuation

Item	Leasehold Improvements	Plant & Equipment	TOTAL
As at 30 June 2005			
Gross book value	1,495	1,453	2,948
Accumulated depreciation/amortisation	-	-	-
Net book value	1,495	1,453	2,948
As at 30 June 2004			
Gross book value	1,761	1,176	2,937
Accumulated depreciation/amortisation	-	-	-
Net book value	1,761	1,176	2,937
		2005	2004
		\$'000	\$'000

Note 7C: Intangibles

Computer software - at cost (non-current)	2,591	2,428
Accumulated amortisation	(2,366)	(2,182)
Total intangibles	225	246

TABLE A - Reconciliation of opening and closing balances of intangibles

Item	Computer Software
As at 1 July 2004	
Gross book value	2,428
Accumulated depreciation/amortisation	(2,182)
Net book value	246
Depreciation/amortisation expense	(184)
Additions	163
As at 30 June 2005	
Gross Book Value	2,591
Accumulated depreciation/amortisation	(2,366)
Net book value	225

Note 7D: Other Non-Financial Assets

Prepayments

All prepayments are recognised as current assets	853	602
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Note 8 - Interest Bearing Liabilities

Note 8A: Other Interest Bearing Liabilities

Surplus lease space	1,882	2,368
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Other interest bearing liabilities are represented by:

Current	522	487
Non-current	1,360	1,881
Total other interest bearing liabilities	1,882	2,368

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	2005	2004
	\$'000	\$'000

Note 9 - Provisions

Note 9A: Employee Provisions

Salaries and wages	499	209
Leave	7,342	7,639
Superannuation	762	697
Aggregate employee entitlement liability	8,603	8,545

Current	3,981	3,762
Non-current	4,622	4,783

Note 9B: Other Provisions

Make good provision	630	-
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The make-good provision is recognised as a non-current liability.

Note 10 - Payables

Note 10A: Supplier Payables

Trade creditors	2,129	841
Other accruals	812	990
Total supplier payables	2,941	1,831

Note 10B: Other Payables

Advance rental payment	190	190
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The advance rental payment is recognised as a non-current liability.

Note 11 - Equity

Note 11A - Analysis of Equity

Item	Accumulated Results		Assets Revaluation		Contributed Equity		Total Equity	
	2005	2004	2005	2004	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance as at 1 July	3,208	3,282	809	579	4,929	4,929	8,946	8,790
Net surplus/deficit	379	(74)	-	-	-	-	379	(74)
Net revaluation (decrement)/increment	-	-	(92)	230	-	-	(92)	230
Transactions with owner:								
Distributions to owner:								
Returns on Capital								
Dividends	-	-	-	-	-	-	-	-
Returns of Capital:								
Returns of contributed equity	-	-	-	-	-	-	-	-
Contributions by owner:								
Appropriations (equity injections)	-	-	-	-	-	-	-	-
Restructuring	-	-	-	-	-	-	-	-
Closing balance as at 30 June	3,587	3,208	717	809	4,929	4,929	9,233	8,946

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	2005 \$'000	2004 \$'000
Note 12 - Cash Flow Reconciliation		
Reconciliation of net surplus to net cash from operating activities:		
Net surplus/(deficit)	379	(74)
Depreciation/amortisation	1,176	1,404
Net write down of non-financial assets	28	-
Loss/(profit) on disposal of assets	1	(11)
(Increase)/decrease in net receivables	(1,324)	610
Decrease/(increase) in other financial assets	10	6
(Increase)/decrease in prepayments	(251)	10
Increase/(decrease) in employee provisions	58	57
Increase/(decrease) in supplier payables	1,110	(707)
Increase/(decrease) in other interest bearing liabilities	(486)	(1,340)
Increase/(decrease) in other provisions	630	-
Net cash from/(used by) operating activities	1,331	(45)

Note 13: Executive Remuneration

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

	2005	2004
\$100 000 to \$109 999	1	-
\$150 000 to \$159 999	-	1
\$160 000 to \$169 999	-	1
\$170 000 to \$179 999	4	3
\$180 000 to \$189 999	3	5
\$190 000 to \$199 999	5	2
\$200 000 to \$209 999	2	3
\$210 000 to \$219 999	4	1
\$220 000 to \$229 999	1	1
\$230 000 to \$239 999	-	2
\$240 000 to \$249 999	1	1
\$250 000 to \$259 999	-	1
\$260 000 to \$269 999	1	-
\$270 000 to \$279 999	1	-
\$280 000 to \$289 999	1	1
\$350 000 to \$359 999	-	1
\$490 000 to \$499 999	-	1
	24	24
The aggregate amount of total remuneration of executives shown above	4,896,012	5,328,304
The aggregate amount of separation and redundancy/termination benefit payments during the year to executives shown above.	-	-

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	2005	2004
	\$	\$

Note 14 - Remuneration of Auditors

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

Financial statement audit	85,800	53,696
Performance audit	-	38,000
	85,800	91,696

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 15 - Average Staffing Levels

The average staffing levels for the ANAO during the year were	305	297
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Note 16 - Financial Instruments

Note 16A: Interest Rate Risk

Financial Instrument	Notes	Floating Interest Rate		Fixed Interest Rate						Non-Interest Bearing				Total				Weighted Average Effective Interest Rate	
				Maturing In															
		1 Year or Less			1 to 5 Years			> 5 Years											
		2005	2004	\$'000	2005	2004	\$'000	2005	2004	\$'000	2005	2004	\$'000	2005	2004	\$'000	2005	2004	%
Financial Assets																			
Cash at bank and on hand	6A	-	-	-	-	-	-	-	-	-	-	950	906	950	906	-	-	-	-
Receivables for goods and services	6B	-	-	-	-	-	-	-	-	-	-	146	90	146	90	-	-	-	-
Employee receivables	6B	-	-	-	-	-	-	-	-	-	-	114	5	114	5	-	-	-	-
GST receivable	6B	-	-	-	-	-	-	-	-	-	-	558	346	558	346	-	-	-	-
Appropriations receivable	6B	-	-	-	-	-	-	-	-	-	-	17,681	16,734	17,681	16,734	-	-	-	-
Work in progress	6C	-	-	-	-	-	-	-	-	-	-	4	14	4	14	-	-	-	-
Total		-	-	-	-	-	-	-	-	-	-	19,453	18,095	19,453	18,095				
Total Assets																			
Financial Liabilities																			
Supplier payables	10A	-	-	-	-	-	-	-	-	-	-	2,941	1,831	2,941	1,831	-	-	-	-
Other payables	10B	-	-	-	-	-	-	-	-	-	-	190	190	190	190	-	-	-	-
Total		-	-	-	-	-	-	-	-	-	-	3,131	2,021	3,131	2,021				
Total Liabilities																			
																14,246		12,934	

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Note 16B: Net Fair Values of Financial Assets and Liabilities

	Notes	2005		2004	
		Total Carrying Amount \$'000	Aggregate Net Fair Value \$'000	Total Carrying Amount \$'000	Aggregate Net Fair Value \$'000
Financial Assets					
Cash at bank and on hand	6A	950	950	906	906
Receivables for goods and services	6B	146	146	90	90
Employee receivables	6B	114	114	5	5
GST receivable	6B	558	558	346	346
Appropriation receivables	6B	17,681	17,681	16,734	16,734
Work in progress	6C	4	4	14	14
Total Financial Assets		19,453	19,453	18,095	18,095
Financial Liabilities					
Supplier payables	10A	2,941	2,941	1,831	1,831
Other payables	10B	190	190	190	190
		3,131	3,131	2,021	2,021

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

Note 16C: Credit Risk Exposures

The ANAO's maximum exposure 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.

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	2005 \$'000	2004 \$'000
Note 17 - Revenues Administered on Behalf of the Government		
Goods and services		
Rendering of services - Financial statement audit fees	11,807	10,893
Total Revenues Administered on Behalf of Government	11,807	10,893
Note 18 - Assets Administered on Behalf of Government		
Cash		
Administered bank account - Australian National Audit Office	-	-
Receivables		
Receivables - Financial statement audit fee	3,026	1,325
Receivables (gross) are aged as follows:		
Not overdue	2,480	1,252
Overdue by:		
Less than 30 days	-	-
30 to 60 days	546	57
61 to 90 days	-	-
More than 90 days	-	16
Total receivables (gross)	3,026	1,325
Work in progress		
Financial statement audits	296	1,180
Total Assets Administered on Behalf of Government	3,322	2,505
Note 19 - Liabilities Administered on Behalf of Government		
Other payables		
GST payable to Australian Taxation Office	372	164
Other payables	-	-
Total other payables	372	164
Total Liabilities Administered on Behalf of Government	372	164
Note 20 - Administered Reconciliation Table		
Opening administered assets less administered liabilities as at 1 July	2,341	2,802
Plus: Administered revenues	11,807	10,893
Transfers to the OPA	(11,198)	(11,354)
Closing administered assets less administered liabilities as at 30 June	2,950	2,341
Note 21 - Administered Contingent Liabilities		
Quantifiable Administered Contingencies		
There were no quantifiable Administered Contingent Liabilities as at 30 June 2005 (2004: Nil)		
Unquantifiable Administered Contingencies		
There were no unquantifiable Administered Contingent Liabilities as at 30 June 2005 (2004: Nil)		
Remote Administered Contingencies		
There were no remote Administered Contingent Liabilities as at 30 June 2005 (2004: Nil)		

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 22 - Administered Financial Instruments

Administered Interest Rate Risk

Financial Instrument	Notes	Floating Interest Rate		Fixed Interest Rate						Non-Interest Bearing		Total		Weighted Average Effective Interest Rate		
				Maturing In												
		1 Year or Less		1 to 5 Years		> 5 Years										
		2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%	%
Financial Assets																
Cash at bank	18	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Receivables for goods and services	18	-	-	-	-	-	-	-	-	3,026	1,325	3,026	1,325	-	-	-
Work in progress	18	-	-	-	-	-	-	-	-	296	1,180	296	1,180	-	-	-
Total		-	-	-	-	-	-	-	-	3,322	2,505	3,322	2,505	-	-	-
Total Assets																
Financial Liabilities																
GST payable	19	-	-	-	-	-	-	-	-	372	164	372	164	-	-	-
Total		-	-	-	-	-	-	-	-	372	164	372	164	-	-	-
Total Liabilities																
												372	164	-	-	-

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 23 - Appropriations

Under Section 31 of the *Financial Management and Accountability Act 1997* (the FMA Act) the Minister for Finance may enter into a net appropriation agreement with an agency Minister. Appropriation Acts nos. 1 and 3 (for the ordinary annual services of government) authorise the supplementation of an agency's annual net appropriation by amounts received in accordance with its Section 31 agreement eg, receipts from charging for goods and services.

One of the conditions that must be satisfied under Section 31 of the FMA Act in order for an annual net appropriation to be increased lawfully in this way is that the agreement is made between the Finance Minister and the agency Minister or by officials expressly delegated (where permitted) or authorised by them.

There is a different arrangement for the Auditor-General to enter into a net appropriation agreement. Section 52 of the *Auditor-General Act 1997* (the A-G Act) provides for the net appropriation agreement to be between the Minister for Finance and the Auditor-General. Section 29 of the A-G Act allows the Auditor-General to delegate the Auditor-General's powers or functions under any Act to an FMA official.

The Minister for Finance's delegate and an ANAO official, authorised by the Minister assisting the Prime Minister, executed the ANAO's Section 31 agreement covering the period 1 July 1999 to 15 November 2004. Whilst the ANAO has operated and recorded Section 31 monies as though a valid agreement existed, the agreement was not consistent with the requirements of Section 52 of the G Act. As a result, the ANAO's agreement was ineffective.

A new Section 31 agreement was made on 18 November 2004 between the Auditor-General and the Minister for Finance. This agreement was revised on 28 June 2005 to capture all monies that were not subject to an effective prior agreement.

In summary, amounts disclosed in previous financial years as available for spending under the ANAO's departmental outputs appropriations up to 30 June 2004 were overstated by \$10.615 million. However, the 28 June 2005 revision to the ANAO's agreement increased the ANAO's appropriation by the amount of receipts (\$11.165 million) subject to the earlier ineffective agreement.

A year-by-year analysis of the overstatement of the departmental output appropriation is given below.

	98-99 \$'000	Total Pre- accrual budgeting \$'000	99-00 \$'000	00-01 \$'000	01-02 \$'000	02-03 \$'000	03-04 \$'000	Total Post- accrual budgeting \$'000	1 July 04 to 18 Nov 2004 \$'000	Total \$'000
Receipts affected	933	933	1,252	1,894	2,838	3,649	982	10,615	550	11,165
Unspent	933	933	1,252	1,894	2,838	3,649	982	10,615	550	11,165

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the period ended 30 June 2005

Note 23 - Appropriations

Note 23A: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (CRF) for Ordinary Annual Services Appropriations

Particulars	Administered Expenses Outcome 1	Administered Expenses Outcome 2	Departmental Outputs	Total
Year ended 30 June 2005				
Balance carried from previous year	-	-	17,946,656	17,946,656
Reductions of appropriations (prior years)	-	-	-	-
Unspent prior year appropriations - invalid s31				
Opening Balance 1999-2000 carryover from prior years included in Bill No. 2			(10,614,517)	(10,614,517)
Adjusted Balance carried from previous period			(5,456,000)	(5,456,000)
Appropriation Act (No.1) 2004-2005	-	-	1,876,139	1,876,139
Sub-total	-	-	58,234,000	58,234,000
Appropriations to take account of recoverable GST (FMAA s30A) to 18 November 2004	-	-	60,110,139	60,110,139
Annotations to 'net appropriations' (FMAA s31) made to 18 November 2004	-	-	725,043	725,043
Total appropriations available for payments to 18 November 2004			-	-
Cash payments made to 18 November 2004 (GST inclusive)			60,835,182	60,835,182
Balance carried forward from 18 November 2004			(22,236,337)	(22,236,337)
Appropriation Act (No.3) 2004-2005 passed 1 April 2005	-	-	38,598,845	38,598,845
Annotations to 'net appropriations' (FMAA s31) made from 19 November 2004 to 28 June 2005	-	-	2,173,000	2,173,000
Appropriations to take account of recoverable GST (FMAA s30A) from 18 November 2004 to 28 June 2005			1,412,521	1,412,521
Total to 28 June 2005			1,236,538	1,236,538
Cash payments made from 19 November 2004 to 28 June 2005 (GST inclusive)			43,420,904	43,420,904
Balance carried forward from 28 June 2005	-	-	(37,133,273)	(37,133,273)
Annotations to 'net appropriations' (FMAA s31) made from 29 June 2005 to 30 June 2005			6,287,631	6,287,631
Annotations to 'net appropriations' (FMAA s31) from prior years to reflect legal agreement signed 28 June 2005			31	31
Less: s31 receipt not backed by cash				
Sub-total			11,547,255	11,547,255
Appropriations to take account of recoverable GST (FMAA s30A) from 29 June to 30 June 2005			(932,738)	(932,738)
Cash payments made from 29 June to 30 June (GST inclusive)	-	-	16,902,179	16,902,179
Balance of Authority to Draw Cash from the CRF for Ordinary Annual Services Appropriations	-	-	(3,128,715)	(3,128,715)
			13,773,464	13,773,464

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the period ended 30 June 2005

Represented by:				
Cash at bank and on hand	-	949,461		949,461
Receivables - departmental appropriations	-	12,294,962		12,294,962
Receivables - GST receivable from customers	-	-		-
Receivables - GST receivable from the ATO	-	558,464		558,464
Receivables - departmental appropriations - drawing rights withheld by the Finance Minister (FMAA s27(4))	-	-		-
Formal reductions of appropriations	-	-		-
Receivables - departmental appropriations (appropriation for additional outputs)	-	-		-
Payables - GST payable	-	(29,423)		(29,423)
Undrawn, unexpired administered appropriations	-	-		-
Total	-	13,773,464		13,773,464

Particulars	Administered Expenses		Departmental Outputs	Total
	Outcome 1	Outcome 2		
Year ended 30 June 2004 (comparative period)				
Balance carried from previous year	-	-	18,385,555	18,385,555
Appropriation Act (No.1) 2003-2004	-	-	54,567,000	54,567,000
Appropriation Act (No.3) 2003-2004	-	-	245,000	245,000
Departmental Adjustments by the Finance Minister (Appropriation Acts)	-	-	-	-
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	-	-	-	-
Total appropriations available for payments	-	-	75,209,720	75,209,720
Payments made during the year (GST inclusive)	-	-	(57,263,064)	(57,263,064)
Appropriations credited to Special Accounts (excluding GST)	-	-	-	-
Balance carried to the next period	-	-	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 2005

Note 23 - Appropriations (cont'd)

Note 23B: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (CRF) for Other than Ordinary Annual Services Appropriations

Particulars	Administered Outcome 1			Administered Outcome 2			Non-operating				Total
	SPPs	NAE		SPPs	NAE		Equity	Loans	Previous years' outputs	Admin assets and liabilities	
Year ended 30 June 2005											
Balance carried from previous year		\$ -	\$ -		\$ -	\$ -				\$ -	\$ -
Reduction of appropriations (prior years)		-	-		-	-				-	-
Opening Balance 1999-2000 carryover from prior years included in Bill No. 2									5,456,000		5,456,000
Opening Balance 1999-2000 equity injection for payment of surplus space rent											
Adjusted balance carried from previous period		-	-		-	-			5,456,000		5,456,000
Appropriation Act (No.2) 2004-2005		-	-		-	-					
Appropriation Act (No.4) 2004-2005		-	-		-	-					
Departmental Adjustments and Borrowings		-	-		-	-					
Advance to the Finance Minister		-	-		-	-					
Adjustment of appropriations on change of entity function (FMAA s32)		-	-		-	-					
Refunds credited (net) (FMAA s30)		-	-		-	-					
Appropriation reduced by a section 11 determination (current year)		-	-		-	-					
Sub-total 2004-05 Annual Appropriation		-	-		-	-					
Appropriations to take account of recoverable GST (FMAA s30A)		-	-		-	-					
Total appropriations available for payments		-	-		-	-					
Cash payments made during the year (GST inclusive)		-	-		-	-					
Appropriations credited to Special Accounts (GST exclusive)		-	-		-	-					
Balance of Authority to Draw Cash from the CRF for Other Than Ordinary Annual Services Appropriations									5,456,000		5,456,000

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 23B: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (CRF) for Other than Ordinary Annual Services Appropriations (cont'd)

Particulars	Administered				Non-operating				Total
	Outcome 1		Outcome 2		Equity	Loans	Previous years' outputs	Admin assets and liabilities	
	SPPs	NAE	SPPs	NAE					
<i>Represented by:</i>									
Cash at bank and on hand	-	-	-	-	-	-	-	-	-
Departmental appropriation receivable	-	-	-	-	-	-	5,456,000	-	5,456,000
GST receivable from the ATO	-	-	-	-	-	-	-	-	-
Departmental appropriation receivable - Drawing rights withheld by the Finance Minister (FMAA s27(4))	-	-	-	-	-	-	-	-	-
Formal reductions of appropriation revenue	-	-	-	-	-	-	-	-	-
Departmental appropriation receivable (appropriation for additional outputs)	-	-	-	-	-	-	-	-	-
Undrawn, unexpired administered appropriations	-	-	-	-	-	-	-	-	-
Total appropriations available for payments	-	-	-	-	-	-	5,456,000	-	5,456,000

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 23B: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (CRF) for Other than Ordinary Annual Services Appropriations (cont'd)

Particulars	Administered Outcome 1			Administered Outcome 2			Non-operating				Total
	SPPs	NAE	SPPs	NAE	SPPs	NAE	Equity	Loans	Previous years' outputs	Admin assets and liabilities	
Year ended 30 June 2004 (Comparative Period)											
Balance carried from previous year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Appropriation Act (No.2) 2003-2004	-	-	-	-	-	-	-	-	-	-	-
Appropriation Act (No.4) 2003-2004	-	-	-	-	-	-	-	-	-	-	-
Adjustments by the Finance Minister	-	-	-	-	-	-	-	-	-	-	-
Advance to the Finance Minister	-	-	-	-	-	-	-	-	-	-	-
Refunds credited (net) (FMAA s30)	-	-	-	-	-	-	-	-	-	-	-
Appropriations to take account of recoverable GST (FMAA s30A)	-	-	-	-	-	-	-	-	-	-	-
Other cash adjustments	-	-	-	-	-	-	-	-	-	-	-
Adjustment of appropriations on change of entity function (FMAA s32)	-	-	-	-	-	-	-	-	-	-	-
Appropriation lapsed	-	-	-	-	-	-	-	-	-	-	-
Total appropriations available for payments	-	-	-	-	-	-	-	-	-	-	-
Cash payments made during the year (GST inclusive)	-	-	-	-	-	-	-	-	-	-	-
Appropriations credited to Special Accounts (GST exclusive)	-	-	-	-	-	-	-	-	-	-	-
Balance carried to the next year	-	-	-	-	-	-	-	-	-	-	-

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the period ended 30 June 2005

Note 23C - Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund - Special Appropriations (Unlimited Amount)

Auditor-General Act 1997 - Schedule 1 sections 3 and 7	2005	2004
	\$	\$
Purpose: Remuneration expenses and allowances of the office of the Auditor-General		
	Outcome 1	
Cash payments made during the year	201,500	178,000
Budget estimate	183,500	178,000
	Outcome 2	
Cash payments made during the year	201,501	178,000
Budget estimate	183,500	178,000
Total payments made	403,001	356,000
Total budget estimate	367,000	356,000

For the periods 2003-04 and 2004-05, the ANAO has not used section 28 of the FMA Act or any other legislative provision allowing for refunds to be paid.

Note 23D - Special Accounts

Other Trust Monies Special Account - Special Public Monies	2005	2004
	\$	\$
Legal Authority: <i>Financial Management and Accountability Act 1997</i> , section 20		
Purpose: For expenditure in connection with services performed on behalf of other Governments and bodies that are not FMA agencies.		
Balance carried from previous period	94,211	80,733
Appropriation for reporting period		-
Costs recovered		-
GST credits (FMA s30A)		-
Realised investments		-
Other receipts - Staff contributions for salary packaging	39,952	32,121
Other receipts - Comcare receipts paid in accordance with the <i>Safety Rehabilitation and Compensation Act 1998</i> .	18,522	114,744
Available for payments	152,685	227,598
Payments made to employees	(56,081)	(100,568)
Payments made to suppliers	(42,544)	(32,819)
Repayments debited from the Special Account (s28)		
Investments debited from the Special Account (FMA s39)		
Balance carried to the next period	54,060	94,211
Represented by:		
Cash - transferred to the Official Public Account		
Cash - held by the entity	54,060	94,211
Total balance carried to the next period	54,060	94,211

The note above discloses the transactions relating to Comcare and Salary Packaging. These amounts were shown in separate tables in the 2003-04 financial statements.

The ANAO's Services for Other Government and Non-agency Bodies Special Account (Special Public Money) was not used during the 2004-05 or 2003-04 financial years.

Australian National Audit Office
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for the year ended 30 June 2005

Note 24 - Specific Payment Disclosures

	2005	2004
	\$'000	\$'000
<i>Departmental</i>		
No payments made under section 73 of the Public Service Act 1999 (2004: No payments made)	Nil	Nil
<i>Administered</i>		
No 'Act of Grace' expenses were incurred during the reporting period (2004: No payments made)	Nil	Nil
No waivers of amounts owing to the Commonwealth were made pursuant to subsection 34(1) of the <i>Financial Management and Accountability Act 1997</i> . (2004: No waivers made)	Nil	Nil
No ex-gratia payments were made during the year (2004: No payments made)	Nil	Nil

Australian National Audit Office
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Note 25 - Reporting of Outcomes

The Australian National Audit Office records direct costs for each outcome and attributes resources employed in corporate activities to outcomes in-line with utilisation of program resources. The basis of attribution in the table below is consistent with the basis used for the 2004-05 Budget.

Note 25A: Reporting of Outcomes

	Outcome 1		Outcome 2		Total	
	Improvement in Public Administration		Assurance			
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Administered expenses	-	-	-	-	-	-
Departmental expenses	22,137	21,460	39,762	34,779	61,899	56,239
Total expenses	22,137	21,460	39,762	34,779	61,899	56,239
<i>Costs recovered from provision of goods and services to the non-government sector</i>						
Administered	-	-	-	-	-	-
Departmental	318	169	319	169	637	338
Total costs recovered	318	169	319	169	637	338
<i>Other External Revenues</i>						
Administered	-	-	-	-	-	-
Total Administered	-	-	-	-	-	-
Departmental	-	-	-	-	-	-
Interest on cash deposits	-	-	-	-	-	-
Revenue from disposal of assets	-	16	-	16	-	32
Goods and services revenue from related entities	-	-	831	627	831	627
Total Departmental	-	16	831	643	831	659
Total other external revenues	-	16	831	643	831	659
Net Cost/(Contribution) to Outcome	21,819	21,275	38,612	33,967	60,431	55,242

Costings for 2003-04 were adjusted to reflect a new costing system introduced in 2004-05. The new costing system better reflects the split of resources between the two outcomes.

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2005

Note 25B: Major Classes of Departmental Revenues and Expenses by Output Groups and Outputs

Outcome 1	Output Group 1		Output Group 2		Total - Outcome 1 Improvement in Public Administration	
	Performance Audit Services		Information Support Services			
	2005	2004	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Departmental expenses						
Employees	13,092	12,740	429	508	13,521	13,248
Suppliers	7,371	7,096	204	282	7,575	7,378
Depreciation and amortisation	471	599	15	24	486	623
Other expenses	536	203	19	8	555	211
Total departmental expenses	21,470	20,638	667	822	22,137	21,460
Funded by:						
Revenues from Government	21,093	20,242	655	807	21,748	21,049
Sale of goods and services	308	178	10	7	318	185
Other non-taxation revenue	-	-	-	-	-	-
Total departmental revenues	21,401	20,420	665	814	22,066	21,234

Outcome 2	Output Group 2		Output Group 3		Total - Outcome 2 Assurance	
	Information Support Services		Assurance Audit Services			
	2005	2004	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Departmental expenses						
Employees	284	232	14,392	13,426	14,676	13,658
Suppliers	309	342	23,531	19,787	23,840	20,129
Depreciation and amortisation	13	13	677	768	690	781
Other expenses	11	4	545	207	556	211
Total departmental expenses	617	591	39,145	34,188	39,762	34,779
Funded by:						
Revenues from Government	606	580	38,456	33,539	39,062	34,119
Sale of goods and services	13	3	1,137	809	1,150	812
Other non-taxation revenue	-	-	-	-	-	-
Total departmental revenues	619	583	39,593	34,348	40,212	34,931

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 for the year ended 30 June 2005

Note 25C: Major Classes of Administered Revenues and Expenses by Outcome

Outcome 1	Outcome 1 Improvement in Public Administration		Outcome 2 Assurance		Total	
	2005	2004	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Administered Revenue						
Revenue from the sale of goods and services (audit fees)	-	-	11,807	10,893	11,807	10,893
Total Administered Revenues	-	-	11,807	10,893	11,807	10,893
Administered Expenses						
Total Administered Expenses	-	-	-	-	-	-

APPENDIX 3

AUDIT AND OTHER PUBLICATIONS

Report title	Tabled	Cost
Audit Report No.1 Performance Audit 2004–05 <i>Sale and Leaseback of the Australian Defence Collage Weston Creek</i>	08/07/2004	\$199 000
Audit Report No.2 Performance Audit 2004–05 <i>Onshore Compliance—Visa Overstayers and Non-Citizens Working Illegally</i>	15/08/2004	\$609 000
Audit Report No.3 Business Support Process Audit 2004–05 <i>Management of Internal Audit in Commonwealth Organisations</i>	23/07/2004	\$300 000
Audit Report No.4 Performance Audit 2004–05 <i>Management of Customer Debt</i>	02/08/2004	\$487 000
Audit Report No.5 Performance Audit 2004–05 <i>Management of the Standard Defence Supply System Upgrade</i>	04/08/2004	\$368 000
Audit Report No.6 Performance Audit 2004–05 <i>Performance Management in the Australian Public Service</i>	05/08/2004	\$390 000
Audit Report No.7 Performance Audit 2004–05 <i>Administration of Taxation Rulings Follow-up Audit</i>	09/08/2004	\$120 862
Audit Report No.8 Performance Audit 2004–05 <i>Management of Bilateral Relations with Selected Countries</i>	13/08/2004	\$423 000
Audit Report No.9 Performance Audit 2004–05 <i>Assistance Provided to Personnel Leaving the ADF</i>	25/08/2004	\$271 000
Audit Report No.10 Business Support Process Audit 2004–05 <i>The Senate Order for Departmental and Agency Contracts (Calendar Year 2003 Compliance)</i>	17/09/2004	\$255 000
Audit Report No.11 Performance Audit 2004–05 <i>Commonwealth Entities' Foreign Exchange Risk Management</i>	14/10/2004	\$395 000
Audit Report No.12 Performance Audit 2004–05 <i>Research Project Management Follow-Up Audit</i>	19/10/2004	\$150 000
Audit Report No.13 Business Support Process Audit 2004–05 <i>Superannuation Payments for Independent Contractors working for the Australian Government</i>	28/10/2004	\$341 000
Audit Report No.14 Performance Audit 2004–05 <i>Management and Promotion of Citizenship Services</i>	05/11/2004	\$150 000

Report title	Tabled	Cost
Audit Report No.15 Performance Audit 2004–05 <i>Financial Management of Special Appropriations</i>	23/11/2004	\$460 000
Audit Report No.16 Performance Audit 2004–05 <i>Container Examination Facilities</i>	14/12/2004	\$260 000
Audit Report No.17 Performance Audit 2004–05 <i>The Administration of the National Action Plan for Salinity and Water Quality</i>	15/12/2004	\$311 200
Audit Report No.18 Performance Audit 2004–05 <i>Regulation of Non-prescription Medicinal Products</i>	16/12/2004	\$998 000
Audit Report No.19 Performance Audit 2004–05 <i>Taxpayers' Charter</i>	17/12/2004	\$365 000
Audit Report No.20 Performance Audit 2004–05 <i>The Australian Taxation Office's Management of the Energy Grants (Credits) Scheme</i>	21/12/2004	\$359 000
Audit Report No.21 Financial Statement Audit 2004–05 <i>Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2004</i>	12/01/2005	\$260 675
Audit Report No.22 Performance Audit 2004–05 <i>Investment of Public Funds</i>	18/01/2005	\$370 000
Audit Report No.23 Audit Activity Report 2004–05 <i>Audit Activity Report: July to December 2004</i>	21/01/2005	\$46 911
Audit Report No.24 Performance Audit 2004–05 <i>Integrity of Medicare Enrolment Data</i>	27/01/2005	\$245 000
Audit Report No.25 Performance Audit 2004–05 <i>Army Capability Assurance Processes</i>	01/02/2005	\$311 975
Audit Report No.26 Performance Audit 2004–05 <i>Measuring the Efficiency and Effectiveness of E-Government</i>	10/02/2005	\$444 000
Audit Report No.27 Performance Audit 2004–05 <i>Management of the Conversion to Digital Broadcasting</i>	15/02/2005	\$435 000
Audit Report No.28 Performance Audit 2004–05 <i>Protecting Australian Missions and Staff Overseas</i>	21/02/2005	\$440 000
Audit Report No.29 Performance Audit 2004–05 <i>The Armidale Class Patrol Boat Project: Project Management</i>	25/02/2005	\$265 000
Audit Report No.30 Performance Audit 2004–05 <i>Regulation of Commonwealth Radiation and Nuclear Activities</i>	02/03/2005	\$518 000

Report title	Tabled	Cost
Audit Report No.31 Performance Audit 2004–05 <i>Centrelink's Customer Feedback Systems—Summary Report</i>	09/03/2005	\$975 000
Audit Report No.32 Performance Audit 2004–05 <i>Centrelink's Customer Charter and Community Consultation Program</i>		
Audit Report No.33 Performance Audit 2004–05 <i>Centrelink's Customer Satisfaction Surveys</i>		
Audit Report No.34 Performance Audit 2004–05 <i>Centrelink's Complaints Handling System</i>		
Audit Report No.35 Performance Audit 2004–05 <i>Centrelink's Review and Appeals System</i>		
Audit Report No.36 Performance Audit 2004–05 <i>Centrelink's Value Creation Program</i>		
Audit Report No.37 Business Support Process Audit 2004–05 <i>Management of Business Support Contracts</i>	10/03/2005	\$203 400
Audit Report No.38 Performance Audit 2004–05 <i>Payment of Goods and Services Tax to the States and Territories</i>	10/03/2005	\$291 000
Audit Report No.39 Performance Audit 2004–05 <i>The Australian Taxation Office's Administration of the Superannuation Contributions Surcharge</i>	13/04/2005	\$516 000
Audit Report No.40 Performance Audit 2004–05 <i>The Edge Project</i>	14/04/2005	\$370 000
Audit Report No.41 Protective Security Audit 2004–05 <i>Administration of Security Incidents, including the Conduct of Security Investigations</i>	15/04/2005	\$215 000
Audit Report No.42 Performance Audit 2004–05 <i>Commonwealth Debt Management Follow-up Audit</i>	19/04/2005	\$289 000
Audit Report No.43 Performance Audit 2004–05 <i>Veterans' Home Care</i>	17/05/2005	\$360 000
Audit Report No.44 Performance Audit 2004–05 <i>Defence's Management of Long-term Property Leases</i>	25/05/2005	\$290 000
Audit Report No.45 Performance Audit 2004–05 <i>Management of Selected Defence System Program Offices</i>	27/05/2005	\$445 000
Audit Report No.46 Business Support Process Audit 2004–05 <i>Management of Trust Monies in CAC Act Entities</i>	21/05/2005	\$265 000

Report title	Tabled	Cost
Audit Report No.47 Performance Audit 2004–05 <i>Australian Taxation Office Tax File Number Integrity</i>	31/05/2005	\$325 500
Audit Report No.48 Performance Audit 2004–05 <i>Internationalisation of Australian Education and Training</i>	02/06/2005	\$390 000
Audit Report No.49 Business Support Process Audit 2004–05 <i>Administration of Fringe Benefits Tax</i>	2/06/2005	\$440 000
Audit Report No.50 Performance Audit 2004–05 <i>Drought Assistance</i>	02/06/2005	\$738 000
Audit Report No.51 Performance Audit 2004–05 <i>DEWR's Oversight of Job Network Services to Job Seekers</i>	15/06/2005	\$781 200
Audit Report No.52 Performance Audit 2004–05 <i>Legal Services Arrangements in the Australian Public Service</i>	20/06/2005	\$520 000
Audit Report No.53 Performance Audit 2004–05 <i>The Home Ownership Programme</i>	21/06/2005	\$318 110
Audit Report No.54 Performance Audit 2004–05 <i>Administration of Health Care Cards</i>	22/06/2005	\$490 000
Audit Report No.55 Performance Audit 2004–05 <i>Workforce Planning</i>	23/06/2005	\$333 000
Audit Report No.56 Financial Statement Audit 2004–05 <i>Interim Phase of the Audit of Financial Statements of General Government Sector Entities for the Year Ending 30 June 2005</i>	24/06/2005	\$462 500
Audit Report No.57 Business Support Process Audit 2004–05 <i>Purchasing Procedures and Practices</i>	28/06/2005	\$323 000
Audit Report No.58 Performance Audit 2004–05 <i>Helping Carers: the National Respite for Carers Program</i>	29/06/2005	\$325 000
Audit Report No.59 Performance Audit 2004–05 <i>Safe and Accessible National Collections</i>	30/06/2005	\$325 000

APPENDIX 4

MAIN ISSUES RAISED IN PERFORMANCE AUDIT, BUSINESS SUPPORT PROCESS (BSP) AUDIT AND PROTECTIVE SECURITY AUDIT REPORTS TABLED IN 2004–05

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: *our clients; our products and services; our people; and our business performance*. Strategies for achieving results are set out in the ANAO's *Business Plan 2004–05*.

This appendix indicates the main issues raised in performance audit, BSP audit and protective security audit reports tabled during the year.¹ The summaries are grouped according to the audit theme.

An outline of a preliminary study about the Military Rehabilitation and Compensation Scheme is presented at the end of this appendix.

ANAO REPORTS EXAMINING SECURITY

Audit Report No.2 2004–2005, Onshore Compliance—Visa Overstayers And Non-Citizens Working Illegally.

The ANAO reviewed the Department of Immigration Multiculturalism and Indigenous Affairs (DIMIA) administration of its onshore compliance activities. The audit found that DIMIA could enhance its performance management and measurement by undertaking more robust analysis of its existing data including through the development of compliance target group profiles to respond appropriately to the different levels of risk presented by the onshore compliance target population. To this end the report concluded that DIMIA needed to further focus attention on improvements in the data quality of its overstayer file. This would assist in improving the quality of its reporting and facilitate DIMIA's data matching activities with a range of agencies (such as the Australian Taxation Office). It would also enhance the performance of compliance officers at the State and Territory level through the provision of more timely and accurate information.

Audit Report No.8 2004–2005 DFAT's Management of Bilateral Relations with Selected Countries. The greater part of the day-to-day work of Australia's foreign and trade policy is bilateral advocacy—working to influence foreign governments to take decisions that suit Australia's as well as their own interests. The audit assessed Department of Foreign Affairs and Trade's (DFAT) management of bilateral relations and any scope for improvement, using three bilateral relationships as case studies. The audit concluded that, overall, DFAT has

¹ All reports referred to in this appendix are performance audit reports except those identified as BSP or protective security audit reports.

effective arrangements in place to manage Australia's bilateral relationships. However, there is scope for better integration of risk management with DFAT's strategic planning and evaluation processes for posts and divisions. DFAT's performance information framework would benefit from strengthening, to provide greater clarity and accountability.

Audit Report No.16 2004–2005 *Container Examination Facilities*. Customs plays a vital role in preventing illegal and harmful goods from entering Australia. To strengthen its border protection capability, Customs established Container Examination Facilities (CEFs) in Melbourne, Sydney, Brisbane and Fremantle as part of a more comprehensive and integrated approach to sea cargo examination in Australia's major ports. The audit examined the administrative effectiveness of Customs' CEFs in addressing the full range of Customs risks, including counter terrorism. Particular emphasis was given to Customs' target selection processes; target development strategies; intervention processes; and facilities operation. The ANAO found that Customs has implemented effective systems and processes for target selection and development. Its intervention capability has also increased significantly with the establishment and ongoing operation of the CEFs. However, the ANAO identified a number of areas where improvements could be made to strengthen administration and improve the operational effectiveness of the CEFs.

Audit Report No.25 2004–2005 *Army Capability Assurance Processes*. The audit identified that a number of risks and limitations have implications for Army's capacity to achieve levels of capability commensurate with those indicated as required by government guidance. The ANAO noted that a series of factors adversely impacting on Army capability have emerged over a prolonged period and will require remediation over a number of years. The ANAO found that improving the ability of Army to achieve desired outcomes will require attention to: identifying personnel numbers and skill requirements; improving the availability and serviceability of existing equipment; addressing issues delaying the introduction into service of new and updated equipment; and refining processes that allocate personnel and equipment across Army units. The ANAO compared Army's reporting of capability information in the 2002–03 Defence Annual Report to internal Defence documentation. This comparison was unable to reconcile statements of achievement made against certain performance indicators for certain Army Capability Outputs. In the period since the White Paper 2000, Army has commenced developing responses to many of these challenges.

Audit Report No.28 2004–2005 *Protecting Australian Missions and Staff Overseas*. The audit examined five key areas relating to the physical security of overseas missions: guidance, training and skills; physical security risk management; physical security framework; operational effectiveness; and monitoring the security of overseas missions. The ANAO identified elements in each of these areas that required strengthening, in both the Department of Foreign Affairs and Trade and Austrade.

Audit Report No.29 2004–2005 *Defence Management of the Armidale Class Patrol Boat Project*. The Royal Australian Navy (RAN) currently operates 15 Fremantle Class Patrol Boats (FCPBs), which have exceeded their designed life of type by in excess of six years. In October 2002, the Government approved a Capital Acquisition Project, Project Sea 1444, with an acquisition Project Budget of \$436.8 million, to provide a replacement Patrol Boat capability. The contractual construct employed by the Defence Materiel Organisation (DMO) is a sound approach that will encourage the Contractor to deliver reliable, fully capable ships for use by the RAN. The ANAO found that, to mitigate the risks associated with performance over the period of the contract, the Contractor is responsible for delivering the training of crew, non operational maintenance, and general upkeep of the vessels, against a fixed cost, performance based contract. The payment to the Contractor for

ship availability is at risk in the event that system failures or platform non-availability prevents the RAN from undertaking prescribed, operational activities. The ANAO made three recommendations directed to improve the issues whereby the acquisition process could have been strengthened. Defence agreed with all the recommendations.

Audit Report No.41 (Protective Security Audit) 2004–2005 Administration of Security Incidents, including the Conduct of Security Investigations. The audit evaluated selected organisations' policies and procedures in relation to the administration of security incidents and the conduct of security investigations. The audit found that generally the organisations audited had sound policies and practices in place to support, and maintain effective control over, the administration of security incidents and the conduct of security investigations. However, the audit did identify a number of opportunities for improvement, particularly in relation to: the content, and processes for maintaining the currency, of security-related policies and procedures; a lack of formal strategies or plans for the management of security awareness activities; and the need to incorporate an analysis of the impact of security incidences into management reports.

ANAO AUDITS EXAMINING ECONOMIC MANAGEMENT

Audit Report No.1 2004–2005 Sale and Leaseback of the Australian Defence College Weston Creek. The audit examined the Department of Defence's management of the sale and leaseback process for the Australian Defence College (ADC) Weston Creek property. ANAO found that overall, Defence's management of the process was consistent with Government intentions. The sale was conducted in a competitive manner, was completed on time within the 2002–03 financial year, and realised proceeds in excess of the market valuation. However, the long-term sale and leaseback arrangements for the property do not adequately protect the interests of the Commonwealth. The need for additional accommodation, identified prior to sale, was not resolved prior to finalising the sale. In order to meet the sale deadline and to maximise financial returns, Defence has assumed the risks associated with potential future development at the site. In respect of the 2002–03 approved property sales programme, Defence exceeded the Budget revenue target by \$104.5 million. A comparison of individual sale proceeds to estimates supporting the Budget revenue target highlighted the difficulties of using revenue estimates as a basis for calculating revenue to be retained by Defence. ANAO made five recommendations aimed at improving the management of property sale and leaseback processes. Defence accepted the recommendations, two with qualification.

Audit Report No.11 of 2004–2005 Commonwealth Entities' Foreign Exchange Risk Management. The Audit focussed on the implementation of the Revised Government Foreign Exchange Risk Management Policy. Overall, the audit found the implementation of the revised policy with all *Commonwealth Authorities and Companies Act 1997* (CAC Act) entities was not complete and important elements of the revised policy have not been adequately implemented. ANAO made five recommendations aimed at improving the compliance of General Government Sector entities with the revised policy, central agency consideration of entities' requests for exemption and enhancing the reporting made to Government. Finance and other entities agreed with all the recommendations.

Audit Report No.22 2004–2005 Investment of Public Funds. The objective of the audit was to examine the investment of public funds by selected entities, including: compliance with relevant legislation, delegations and instructions; the value for money of investment strategies; and reporting of investment activities. ANAO found

that for a number of entities there have been shortcomings in the management of the investment of public funds. The report identified more than \$566 million in authorised investments. In a number of instances, entities' investment procedures and governance structures demonstrated insufficient regard for legislated investment restrictions. Among other things, this was reflected in documented investment strategies that included plans to purchase unauthorised investments and inadequate oversight of investment activities. Also, some different views exist on what investments are, and are not, permitted by the Commonwealth Authorities and Companies Act 1997.

Audit Report No.38 2004–2005 Payment of Goods and Services Tax to the States and Territories. The Goods and Services Tax (GST) came into effect on 1 July 2000. Under arrangements negotiated between the States and Territories, the Commonwealth (through the Department of the Treasury) pays all GST revenue to the States and Territories. ANAO found that, although there had not been any errors in payments of GST and associated revenue, the spreadsheet used to calculate the payments had been developed in-house with limited resources and without adequate consideration being given to alternatives. The resulting approach did not, in ANAO's view, adequately manage some important risks. The findings of the audit have highlighted the importance of thorough development and sound implementation of systems used for the payment of large amounts of public monies.

Audit Report No.44 2004–2005 Defence's Management of Long-term Property Leases. The audit found that leases resulting from property sale and leaseback transactions were generally effectively managed by Defence. However, ANAO determined the implication of selling and leasing back property on a long-term basis was that, at the point of execution of the sale and leaseback transaction, the Government would be paying more to lease four of the six properties reviewed than it could gain from applying the sale proceeds to paying off debt or from investing the funds in Reserve Bank of Australia term deposits.

ANAO AUDITS EXAMINING THE AGEING POPULATION

Audit Report No.43 2004–2005 Veteran's Home Care. The audit examined whether the Department of Veteran's Affairs (DVA) effectively planned and managed the current and future demand for Veteran's Home Care (VHC) services. The audit also examined whether DVA monitored and evaluated how effectively it managed the demand for VHC services, including the use of the Internet in the VHC process. DVA had taken some positive steps in developing a new approach to delivering services to veterans. This included the design and implementation of a standard assessment process for veterans, automated claiming for payment by stakeholders, and the implementation of a standard fees model. The ANAO also found that under VHC, veterans were assessed and, if approved, received services in a timely manner. However, the ANAO also identified that DVA did not effectively collect and use data to assist it to manage the demand for VHC services. This limited DVA's ability to describe the eligible VHC populations, identify and explain variations in service levels between regions, and assess and manage demand for VHC services. The ANAO also found that DVA had not evaluated the effectiveness of communications with stakeholders, or whether VHC was meeting its stated aims. The audit made seven recommendations addressing these findings.

Audit Report No.55 2004–2005 Workforce Planning in the Australian Public Service. The audit considered the status of workforce planning by APS agencies against the background of the ANAO's 2001 Better Practice Guide Planning for the Workforce of the Future, and in light of the recommendations made in the MAC Organisational Renewal 2001 and the Senate Finance and Public Administration References Committee report *Recruitment and Training in the Australian Public Service 2003*. The ANAO found that while a number of APS

agencies are undertaking workforce planning, few if any, could claim to have successfully embedded workforce planning into their business processes and that a more thorough workforce risk assessment needs to be made by each agency to target their activities. Agencies need to consider the consequences of an ageing workforce and particular skill or staff shortages and their affects on organisational capability.

Audit Report No.58 2004–2005 Helping Carers: the National Respite for Carers Programme. The objective of the audit was to assess the effectiveness of the Department of Health and Ageing's (Health's) administration of National Respite for Carers Programme (NRCP). The audit concluded that, while Health's administration of NRCP supports the delivery of respite, information and counselling services to carers, opportunities exist for Health to improve the effectiveness of its administrative practices. The ANAO made six recommendations aimed at improving Health's administration of NRCP through improving Health's planning of programme delivery, strengthening Health's day-to-day administration of the programme, and improving Health's monitoring arrangements.

ANAO AUDITS EXAMINING GROWING DEMAND FOR BETTER QUALITY OF LIFE

Audit Report No.4 2004–2005 Management of Customer Debt in Centrelink. The audit examined Centrelink's management, on behalf of the Department of Family and Community Services (FaCS), of customer debt, excluding debt relating to Family Tax Benefit. The ANAO found that while Centrelink had in place a framework to effectively manage customer debt, communication channels within the agency and with FaCS could be improved, particularly regarding debt prevention, identification and recovery. Centrelink's performance measurement of debt management was found to be inadequate. The ANAO suggested that Centrelink's proposed performance measures for debt management be broadened. Similarly, the ANAO suggested that Centrelink commence monitoring of customer satisfaction with debt management, as debt recovery was not meant to place customers in financial hardship. The ANAO found that Centrelink delivered inconsistent outcomes across its network for its debtor customers.

Audit Report No.9 2004–2005 Assistance Provided to Personnel Leaving the ADF. The audit examined the range of support made available to ADF personnel making the transition from military to civilian life, the extent to which the assistance is utilised, the cost to Defence of such assistance and the relevant responsibilities of those who deliver assistance. The ANAO found that, overall, Defence provides an effective package of transition assistance to personnel leaving the ADF, although not all personnel chose to utilise this assistance or use all of the benefits to which they were entitled. The cost to Defence of providing transition assistance in 2002–03 amounted to almost \$20 million.

Audit Report Nos. 31–36 2004–05 Centrelink's Customer Feedback Systems Series. This series of audits examined the effectiveness of Centrelink's major customer feedback systems: the Customer Charter and community consultation programme; customer satisfaction surveys; complaints handling system; review and appeals system; and Value Creation programme. The ANAO found that, while Centrelink has a range of systems for gathering, measuring, reporting and responding to customer feedback, there is no overarching system for bringing all this information together in a systematic way, to better inform Centrelink of opportunities for service delivery improvement. In addition, there was a range of identifiable performance issues with each of the individual feedback systems. The series of audit reports made a total of 44 recommendations aimed at improving Centrelink's key customer feedback systems to better obtain and utilise the allied information, with a view to capturing better the potential for service improvement and cost savings. Centrelink agreed with all recommendations.

ANAO AUDITS EXAMINING THE GROWING INTERCONNECTIVITY AND CHANGING SERVICE DELIVERY THROUGH INFORMATION TECHNOLOGY AND TELECOMMUNICATION

Audit Report No.5 2004–2005 Defence Project Management of the SDSS Upgrade Project. The audit on the Defence Project Management of the Standard Defence Supply System (SDSS) Upgrade Project examined Defence project management procedures and practices in the information management systems domain. The ANAO found that the Project has not delivered value for money to Defence. The Project exhibited extensive scope reduction and based on scheduled final deliverables being accepted in June 2004, operated with an extended schedule of 200 per cent of the planned schedule. By November 2003, the Project had already exceeded its initial approved budget by more than 200 per cent. The audit also examined the post delivery support environment, and briefly discussed the remedial Get Well Plan that Defence has subsequently implemented.

Audit Report No.7 2004–2005 The Australian Taxation Office's Administration of Taxation Rulings Follow-up Audit. The audit assessed how well the Australian Taxation Office (ATO) has implemented the recommendations of Audit Report No.3 of 2001–2002, *The Australian Taxation Office's Administration of Taxation Rulings*. In the original audit the ATO's information technology (IT) systems supporting the provision of advice capability was examined. At that time, the ANAO identified a number of deficiencies with these IT systems. In the Follow-up audit the ANAO found that the ATO has redeveloped its IT systems supporting the issuing of private binding rulings. The systems previously used by the ATO have been replaced by one case management system. This case management system also supports enhanced monitoring and reporting of performance. The ANAO further found that the ATO has implemented an on-line manual of policies and procedures that supports staff in their role of providing advice to taxpayers. Overall, the ANAO concluded that the ATO has fully implemented the 12 recommendations of Audit Report No.3 of 2001–2002.

Audit Report No.24 2004–2005 Integrity of Medicare Enrolment Data. The audit provided an assurance that the Medicare enrolment database was sufficiently complete, accurate and current to support the effective administration of the Medicare programme. The report highlighted a number of opportunities for the Health Insurance Commission (HIC) to improve data integrity and thereby commence the new system with the best possible data set. The audit also provided assurance that HIC had developed a strong organisational culture of protecting the privacy and security of personal information stored on its database. ANAO canvassed a number of specific data integrity issues in the report—encouraging HIC to complete a data cleansing exercise and to enforce all business rules for data in the new environment, prior to actually commencing the new system. The audit revealed that approximately 2 per cent of records on the Medicare enrolment database probably relate to people who are deceased. ANAO encouraged HIC to make better use of information from the State Registrars of Births, Deaths and Marriages, to update these records and remove them from the active Medicare enrolment database.

Audit Report No.26 2004–2005 Measuring the Efficiency and Effectiveness of E-Government. The audit assessed the adequacy of the methods used by selected agencies to measure the efficiency and effectiveness of their delivery of services through the Internet. The ANAO concluded that agencies' methods of measuring were inadequate to assess whether their delivery of government services and programmes through the Internet was efficient and effective. It found that agencies could demonstrate their achievements against the Government's aims for e-government by providing improved services to their clients, business and the broader community. However, they were generally unable to determine whether their investments in e-government were delivering tangible returns, such as cost reductions or increased efficiency and productivity.

Audit Report No.27 2004–2005 Management of the Conversion to Digital Broadcasting. The audit examined the efficiency and effectiveness of the conversion to digital broadcasting by the national broadcasters (the Australian Broadcasting Corporation (ABC) and the Special Broadcasting Service Corporation (SBS)). The ANAO concluded that the national broadcasters did a commendable job to determine related needs; procure, install and commission the equipment; and successfully negotiate the transmission and distribution contracts. Fixed legislative deadlines for digital broadcasting were met and the ABC and SBS consider the new equipment has notably increased the quality and timeliness of their broadcast material. The national broadcasters are undertaking digital conversion efficiently. However, the ANAO noted improvements that could have been made to the national broadcasters' project management approaches and the maintenance of appropriate documentation, particularly for SBS.

Audit Report No.40 2004–2005 The Edge Project. This audit considered the management of the Edge project. Edge was a significant joint IT project undertaken by the Department of Family and Community Services and Centrelink. The ANAO found the project was over time, over budget, and terminated before completion. Direct financial savings from the project were not realised, and the project was unsuccessful when assessed against its aims. There were deficiencies in the conduct of the project, particularly in the governance of the project, from which lessons for the future can be learnt. The Department of Family and Community Services and Centrelink did gain some benefits from the project; nevertheless it was appropriate for the agencies to terminate the project.

Audit Report No.47 2004–2005 Tax File Number Integrity. The audit reports the ATO's implementation of Audit Report No.37 1998–99 Management of Tax File Numbers and the report of the House of Representatives Standing Committee on Economics, Finance and Public Administration, Numbers on the Run, which examined Report No.37, taking into account that the Government had not formally responded to the report at this time. ANAO found that the ATO had fully or substantially implemented key recommendations of both reports. Nevertheless, ANAO found that interrelationships between the Tax File Number (TFN) system and other systems within the ATO still require improvement. The ANAO noted that developments underway as part of the ATO's Easier, Cheaper and More Personalised Programme are, in part, designed to address these. The audit details whole of government developments regarding proof of identity, electronic service delivery and interconnectivity from the more efficient use of the TFN system.

ANAO AUDITS EXAMINING THE EVOLVING GOVERNANCE STRUCTURES, INCLUDING HIGHER COMMUNITY EXPECTATIONS FOR STRONG MANAGEMENT AND APPROPRIATE GOVERNANCE

Audit Report No.3 (BSP) 2004–2005 Management of Internal Audit in Commonwealth Organisations.

The audit examined whether selected Commonwealth organisations had utilised better practice principles when establishing the role, and managing the use, of their internal audit groups. While the audit found that the management of internal audit was generally in accordance with legislative and professional requirements, there were opportunities for increasing transparency and accountability, particularly in relation to key decisions and statements of the roles and responsibilities between governance stakeholders. The ANAO also identified opportunities, for individual agencies to improve their processes for performance measurement and the management of audit committees' oversight of internal audit.

Audit Report No.6 of 2004–2005 Performance Management in the Australian Public Service. APS agencies have now had sufficient guidance and a reasonable period of time to implement and bed down their performance management systems in accordance with the framework set out in the Management Advisory Committee's (MAC) 2001 Report titled *Performance Management in the APS: A Strategic Framework*. The objectives of the audit were to:

- assess the extent to which agencies' performance management systems, strategies and plans are consistent with the strategic framework set out in the MAC Report as represented by the three critical success factors: Alignment, Credibility and Integration;
- provide assurance that the administration of performance management is being implemented efficiently and effectively; and
- quantify the cost of performance linked remuneration.

While this audit found that progress has been made in consolidating the processes of performance management, major challenges are still to be faced, especially on the issues of credibility and staff engagement. The ANAO concluded that there is scope for agencies to do more to ensure that their systems contribute to organisational outcomes.

Audit Report No.10 (BSP) 2004–2005 The Senate Order for Departmental and Agency Contracts (Calendar Year 2003 Compliance). This was the sixth audit report under the Senate Order, which required all *Financial Management and Accountability Act 1997* (FMA Act) agencies to place on the Internet lists of contracts of \$100 000 or more, within two months after the last day of the calendar year. The purpose of the audit was to ensure agency compliance with the Senate Order and the new accountability framework for determining confidentiality provisions in contracts. The audit found that there was scope for agencies to improve the presentation of their Internet lists and to ensure that all details required of the Senate Order and the Finance Guidance of February 2003 and January 2004 had been met. Although agencies had revised, or were in the process of revising, elements of their general contracting practices, policy guidance, tender documentation and contract templates to reflect changes in government policy, little assurance was obtained, at the contract negotiation stage, that agency staff and contractors had discussed the implications of the Commonwealth's accountability environment on the treatment of confidential information. The audit also found that agencies had incorrectly identified, on their Internet lists, a significant number of contracts as containing confidential provisions, although there was some improvement since the previous Senate Order audit.

Audit Report No.12 2004–2005 Research Project Management Follow-up Audit Commonwealth Scientific and Industrial Research Organisation. The Commonwealth Scientific and Industrial Research Organisation (CSIRO) manages some 4500 research projects each year. This audit followed up the ANAO Audit Report No.51 of 2001–02 *Research Project Management—Commonwealth Scientific and Industrial Research Organisation*, which assessed the effectiveness of CSIRO in administering research projects to deliver required results. That audit made nine recommendations designed to improve project management in CSIRO. The Joint Committee of Public Accounts and Audit (JCPAA), subsequent to reviewing the audit report, also recommended that CSIRO develop and implement a consistent and coherent model of project management. This follow-up found that, overall, CSIRO's management of research projects has improved. The establishment of a corporate framework and policies for project management underpin improvements. However, full implementation of some recommendations is hampered by shortcomings in the quality of management information. Furthermore, there remain a number of important aspects of its new framework which are not implemented in practice in particular the use of project plans and project risk assessments.

Audit Report No.13 (BSP) 2004–2005 Superannuation Payments for Independent Contractors Working for the Australian Government. The audit examined whether Commonwealth organisations were identifying contracts that were wholly or principally for the labour of the contractor and meeting statutory superannuation obligations under the *Superannuation (Productivity Benefit) Act 1988* (PB Act). The ANAO concluded that, generally, there was a lack of awareness of the requirements of the PB Act within Commonwealth organisations, even though some had sought legal advice and developed policies, procedures and standard contract clauses that incorporated superannuation requirements for independent contractors. The audit also found that clarification was still required on issues such as the interaction and boundaries between the PB Act and the *Superannuation Guarantee (Administration) Act 1992*, whether there is a continuing role for the PB Act. If so, how to make the PB Act less complex in achieving that role, and mechanisms for monitoring Commonwealth organisations' compliance with the PB Act.

Audit Report No.14 2004–2005 Management and Promotion of Citizenship Services. The objectives of the audit were to determine whether: citizenship services were planned based on a risk assessment, especially in relation to fraud; were monitored and reported on appropriately; decision-making was accurate, consistent and in line with relevant laws and policies and was supported by appropriate training and quality assurance (QA) mechanisms; client and outsourced services were managed effectively; and promotion strategies were effective and have been evaluated appropriately. The ANAO concluded that the Department of Immigration Multicultural and Indigenous Affairs (DIMIA) citizenship services were well managed and effectively promoted. The Department had a range of appropriate information available in regard to citizenship services, including by region. However, it would be useful for DIMIA to analyse this information with a view to further improving client service. DIMIA was, in line with better practice, seeking to improve its data analysis and all aspects of its citizenship services.

Audit Report No.15 2004–2005 Financial Management of Special Appropriations. Appropriations are fundamentally important to Parliamentary control over expenditure. In 2002–03, more than \$223 billion was spent from the Consolidated Revenue Fund (CRF) under the authority of Special Appropriations. Overall, ANAO concluded that there have been widespread and significant shortcomings in the financial management of Special Appropriations. There is evidence that, in response to ANAO's audit activities, entities have increased their focus on developing greater understanding of, and increased care and attention to, legislative requirements and appropriation management practices. In addition, during the course of this audit, Finance issued guidance relating to particular aspects of appropriation management.

Audit Report No.17 2004–2005 The Administration of the National Action Plan for Salinity and Water Quality. The audit examined the planning and corporate governance for the new regional delivery model of the National Action Plan for Salinity and Water Quality. The ANAO concluded that the administration of the programme has been characterised by delays that have had flow-on effects for all stages of programme implementation. The delivery of the programme through regional bodies is a new and evolving process for agencies. In particular, there are substantial residual risks in small, newly established, community-based bodies having primary responsibility for delivering challenging outcomes and managing substantial allocations of Australian Government funds.

Audit Report No.18 2004–2005 Regulation of Non-prescription Medicinal Products. The audit examined the Therapeutic Goods Administration's (TGA) regulation of non-prescription medicinal products (over-the-counter and complementary medicines), particularly in respect of the approval of new manufacturers, monitoring of on-going compliance of manufacturers and products with mandated requirements and managing

non-compliance. This audit was undertaken in response to a recommendation of the JCPAA. The audit found that, while the TGA has a structured framework for the regulation of non-prescription medicinal products, more rigour around systems, procedures and resource management within the framework was required. Quality, consistency and reliability of manufacturer audits, and of any enforcement actions, were areas that required management attention. Decision-making required more structured documentation, especially when discretionary judgments were made. Improved information capture, and better use of information to monitor and analyse regulatory trends and inform regulatory decisions were warranted.

Audit Report No.19 2004–2005 *The Taxpayers Charter*. The Australian Taxation Office (ATO) is the principal revenue collection agency in Australia. In 2003–04, through the self-assessment system and a broad range of compliance strategies, it collected revenue of \$199 billion. The ATO uses compliance strategies to help optimise collections and to instil confidence in the community that the taxation system is operating effectively. The ATO draws authority from the *Income Tax Assessment Act 1936* (the Act), which allows it to exercise broad powers in collecting revenue. In 1993, the then Joint Committee of Public Accounts (now the Joint Committee of Public Accounts and Audit (JCPAA)) assessed the ATO's administration of the Act and highlighted concerns about an imbalance of power between the ATO and taxpayers. It recommended that the ATO adopt a Taxpayers' Charter (the Charter) to redress this imbalance. The Charter was introduced in July 1997 and sets out the way the ATO will conduct itself when dealing with taxpayers. It defines the relationship that the ATO seeks with the community—a relationship based on mutual trust and respect. The audit examined how the ATO manages its responsibilities under the Charter. It found that the ATO is managing its responsibilities under the Charter. The ATO has shown commitment to the Charter principles at the strategic level and is working to fully integrate these principles into its business processes. The ANAO has made nine recommendations so that the ATO achieves better performance in meeting its challenge of 'living' the Charter.

Audit Report No.20 2004–2005 *The Australian Taxation Office's Management of the Energy Grants (Credits) Scheme*. The ATO has comprehensive and administratively-effective frameworks for managing the Energy Grants (Credits) Scheme (EGCS). The policy and administrative environments have evolved and further changes, as foreshadowed in the Government's Energy White Paper, *Securing Australia's Energy Future*, present the opportunity to: enhance the transparency of Scheme objectives; and evaluate performance against these objectives. The planning, monitoring and reporting framework was structured and appropriate. The risk and compliance management framework was generally well developed and the processes and controls framework was comprehensive. Future management of EGCS would be enhanced by improving the rigour and transparency of risk and compliance management activities.

Audit Report No.30 2004–2005 *Regulation of Commonwealth Radiation and Nuclear Activities*. The audit examined the Australian Radiation Protection and Nuclear Safety Agency's (ARPANSA's) regulatory management of Commonwealth activities involving radiation sources and facilities, including nuclear installations. The audit was undertaken in response to an Order of the Senate. The ANAO concluded that improvements are required in the management of ARPANSA's regulatory function. ARPANSA's systems and procedures are still not sufficiently mature to adequately support the cost effective delivery of regulatory responsibilities. In particular, deficiencies in planning, risk management and performance management limit ARPANSA's ability to align its regulatory operations with risks, and to assess its regulatory effectiveness. As well, procedures for licensing and monitoring of compliance have not been sufficient, particularly as a licence continues in force until it is cancelled or surrendered. Current arrangements do not adequately support the setting of fees in a user pays environment, nor ARPANSA's responsibilities for transparently managing the potential for conflict of interest.

Audit Report No.37 (BSP) 2004–2005 Management of Business Support Service Contracts Audit. The audit reviewed the management of business support contracts in a number of agencies. The ANAO concluded that, generally, audited agencies' CEIs and procedures did not provide adequate guidance for all the stages of contract management. Contract management practices for the contracts reviewed tended to be informal and undocumented. In particular, there were a large number of contracts that had either expired, or were operating on a month-by-month basis. The ANAO also found that there was a significant lack of training for contract managers. As a consequence, a risk existed that contract objectives may not be achieved efficiently or effectively by some agencies. The ANAO considered that all agencies would benefit from reviewing contract management practices, including contracts of both a core business and process support nature, against better practice contract management guidance.

Audit Report No.39 2004–2005 The Australian Taxation Office's Administration of the Superannuation Contributions Surcharge. The audit assessed the ATO's administration of the Superannuation Contributions Surcharge (the Surcharge). Overall, the ANAO concluded that the ATO's administration of the Surcharge has not been managed well. In particular, the ANAO found a number of administrative deficiencies relating to: past Surcharge governance arrangements; surcharge systems, processes and controls; the past management of Surcharge exceptions; and Surcharge compliance. The audit made seventeen recommendations that were aimed at improving the ATO's administration of the Surcharge. These recommendations supported the improvement of relevant ATO governance structures.

Audit Report No.42 2004–2005 Commonwealth Debt Management Follow-up. The follow-up audit assessed the Australian Office of Financial Management's (AOFM) implementation of the six recommendations in Audit Report No.14 1999–2000 *Commonwealth Debt Management*. Overall the ANAO found that the majority of the recommendations had been implemented or satisfactory progress has been made on their implementation. ANAO identified two areas where further progress by the AOFM was required. These were: in regularly assessing the cost and risk implications of departures from the portfolio benchmark targets and reporting key performance indicators in the Annual Report; and also in prioritising its follow-up of outstanding counterparty confirmations. ANAO recommended that the AOFM establish a reporting trigger to inform the Treasurer and Treasury Secretary when the swap portfolio has significant unrealised losses; and that AOFM report more comprehensively and consistently on the efficiency of its swap dealings in future Annual Reports.

Audit Report No.45 2004–2005 Management of Selected Defence System Programme Offices. The audit found that Defence Materiel Organisation (DMO) had implemented significant organisational change since 2000, which should enable accountability to be effectively aligned to system acquisition and logistics support management. It also exploited the system engineering synergies between product design, development and logistics support. However, there was scope for further improvement in the areas of DMO's standardised Business Process Model, DMO's project scheduling and status-reporting system, and the technical integrity management systems within DMO's Maritime and Electronic and Weapon Systems Divisions.

Audit Report No.46 (BSP) 2004–2005 Management of Trust Monies in CAC Act Entities. The audit examined the management and reporting of trust monies in accordance with trust law and Australian Government financial reporting requirements. The audit found that although the selected entities were generally managing their reported trust monies in accordance with legal and administrative requirements, some of the reported monies were not, in fact, trust monies. Entities were in some cases mixing trust monies with other trust monies or entity monies contrary to trust law. There was also some inconsistency in how entities reported trust monies

in their financial statements. The audit again highlighted the need for entities to be alert to the potential costs and administrative requirements of accepting responsibility as trustee. The Department of Finance and Administration also agreed to revise the relevant reporting guidance to enable more consistent reporting of trust moneys in entities' financial statements.

Audit Report No.48 2004–2005 Internationalisation of Australian Education and Training. The audit assessed the administrative effectiveness of the Department of Education, Science and Training's (DEST) International Education Group's support for the Australian education and training export industry, including its regulatory and associated roles, and how it monitors and reports on its performance in undertaking these roles. The ANAO identified a number of weaknesses in DEST's International Education Group's administration of the wide range of activities it undertakes in support of the Australian education and training export industry and relevant international relationships. A key weakness was a lack of effective performance monitoring and reporting.

Audit Report No.49 (BSP) 2004–2005 Administration of Fringe Benefits Tax. The audit concluded that, overall, most of the audited entities had committed sufficient resources and effort to meet their fringe benefits tax (FBT) obligations and some exhibited sound and better practices in relation to the administration of FBT. However, the audit identified that all of the audited entities had provided benefits to employees that had not been subject to FBT and there were a number of incorrect calculations supporting the determination of FBT payable. In two of the entities this resulted in a potential significant understatement of their FBT liability and the resultant reportable fringe benefits amounts for their employees. The audit also found that a number of arrangements and processes associated with the administration of FBT could be improved in some entities.

Audit Report No.50 2004–05 Drought Assistance. The audit examined the administration and implementation of drought assistance measures including Exceptional Circumstances and key aspects of the additional drought assistance measures announced by the Australian Government on 27 November and 9 December 2002. The audit concluded that Australian Government agencies made considerable efforts to deliver the drought assistance measures to affected communities. Delivery of assistance was, on the whole, accurate and timely. However, the overall response to the drought would have been facilitated by clearer arrangements for a lead agency, allied with associated risk management, coordination and whole-of-government performance management arrangements. This would have assisted the measurement of the overall success of the drought assistance measures, particularly in terms of outcomes and client satisfaction. Overall, there was a degree of confusion amongst potential recipients of the range of drought assistance measures, which underlines the importance of agencies taking into account the growing experience with whole-of-government approaches in delivering more effective outcomes.

Audit Report No.51 2004–2005 DEWR's Oversight of Job Network Services to Job Seekers. The audit focused on the Department of Employment and Workplace Relations (DEWR) oversight Job Network service delivery. The audit found that DEWR required additional assurance that job seekers were being provided with key aspects of employment services as intended by the Department. The lack of objective and measurable performance indicators relating to DEWR's specified service standards and delays in the implementation of performance management arrangements with Job Network Member (JNM) and Centrelink limited DEWR's ability to gain assurance that job seekers receive high quality services. While individual complaints from job seekers are being handled by DEWR, JNMs and Centrelink there were substantial weaknesses in the collection and recording of complaints data. The ANAO's assessment of the services received by an indicative sample of long-term and highly disadvantaged job seekers raised concerns about whether the customised and individualised contacts and services required in the Contract were provided.

Audit Report No.52 2004–2005 Legal Services Arrangements in the Australian Public Service. The audit examined the efficiency and effectiveness of agencies' procurement and management of legal services arrangements, as well as reviewing the role of the Office of Legal Services (OLSC), within the Attorney-General's Department, in assisting agencies to comply with Government policy. The ANAO concluded that the quality of agency management of legal services has been variable. Some agencies demonstrated a high level of efficiency and effectiveness in the way they procure and manage legal services. Key features of this included a strong, informed, client-focused coordination point for legal services, the ability to adjust arrangements to suit changing needs, an active approach to the management of risks, and appropriate systems to monitor workload, expenditure and knowledge management needs and developments. However, the ANAO also found that a number of agencies require improvement in these areas.

Audit Report No.53 2004–2005 The Home Ownership Programme. The audit focused on the management of the Home Ownership Programme (HOP). The audit found that while the HOP had more than doubled the size of its portfolio since 1990 and provided housing for around 21 700 indigenous Australians, the programme required improvement in several key areas. This was especially in regard to the security and protection of client information where the HOP needs to develop controls in line with Australian Government requirements to limit the risk of inappropriate access or disclosure of client information. HOP management proposes to update its Funding Procedures manual and the ANAO considers this initiative will go a long way towards promoting consistency in decision-making across its regional network of Housing Loans Units.

Audit Report No.54 2004–2005 Administration of Health Care Cards. The audit assessed the effectiveness of the administration and governance of Health Care Cards (HCCs) by the Health Insurance Commission, Department of Health and Ageing, Centrelink and the Department of Family and Community Services. This included examining the roles and responsibilities of these four agencies, as well as HCC performance information, administration costs and controls relating to the issue, maintenance and cancellation of HCCs. The ANAO found that the HCC operational functions of the four agencies are clear and well understood. The ANAO suggested that there would be benefit in the relevant agencies enhancing their coordination of the delivery of the HCC programme. The ANAO also found that little performance information was compiled relating to HCCs and suggested that all agencies concerned should continue with their efforts to improve financial controls related to the HCC programme.

Audit Report No.57 2004–2005 Purchasing Procedures and Practices. The audit examined purchasing activities at five entities. While all of the entities were generally making purchases in accordance with relevant Government requirements and sound purchasing principles and practices, there were various aspects of each entity's purchasing framework, and of certain purchasing transactions that could be improved. Most of the entities needed to link purchasing policies and procedures with the nature, risks and financial profile of their purchases, provide more guidance and training to officers involved in purchasing, and develop performance measures relating to purchasing activity. Most of the entities also needed to improve tendering evaluation and contracting processes and procedures, and associated recordkeeping practices.

Audit Report No.59 2004–2005 Safe and Accessible National Collections. The objectives of this audit were to provide assurance that there are effective measures in place to safeguard the national collections and that institutions had processes in place to provide access to them. The ANAO also examined the extent to which the national cultural institutions have implemented the eleven recommendations from the previous report,

Safeguarding Our National Collections (Audit Report No.8 1998–99). Overall, the ANAO concluded that there were effective measures in place to safeguard the national collections, although long-term storage to house the collections was a critical issue. In addition, cultural institutions had various approaches to enhance general knowledge about the national collections and for creating opportunities for the general public to experience and access them.

PRELIMINARY STUDY

THE MILITARY REHABILITATION AND COMPENSATION SCHEME

The ANAO often conducts a preliminary study to determine, among other things, whether a full audit is warranted. During the year, the ANAO undertook a preliminary study of The Military Rehabilitation and Compensation Scheme (MRCS).² The MRCS provides rehabilitation, treatment and compensation for serving and former members of the Australian Defence Force (ADF), and for the dependants of members whose deaths were the result of an injury or disease due to service after 1 July 2004. The scheme replaces previous military and veteran compensation arrangements for injury, disease and death resulting from service on or after 1 July 2004.

After receiving briefings on the status of the MRCS and examining relevant documentation, it was concluded that the scheme was still in the early stages of implementation and therefore there would be limited benefit in conducting a performance audit in 2005–06. The ANAO will consider conducting a performance audit of the scheme in the future when it is sufficiently well established to warrant such a review.

² The and Compensation Act 2004 and the Military Rehabilitation and Compensation (Consequential and Transitional Provisions) Act 2004.

APPENDIX 5

ADDRESSES AND PAPERS BY THE AUDITOR-GENERAL AND ANAO SENIOR OFFICERS

Denzil Bourne

ANAO's Role in Encouraging Better Public Sector Governance

Leadership Forum 2005

Hong Kong, 16 June 2005

Ian McPhee PSM

Outcomes—Outputs: Are We Managing Better as a Result?

CPA Public Sector Convention 2005

Melbourne, 20 May 2005

Brandon Jarrett

Fast Finishes—ANAO Experience

Queensland Audit Office Client Information Session

Queensland, 6 May 2005

Kevin Caruana

Looking at the Whole of Government Reporting System

Public Sector Finance and Management Conference

Canberra, 24 February 2005

Pat Barrett AO

Sustainability Reporting—The Role of Auditors

Commonwealth Auditors-General Conference

New Zealand, 1 February 2005

David Nyskohus

Intellectual Property Policies and Practices in Commonwealth Agencies

Australian Government Intellectual Property Management and Accrual Budgeting:

Frameworks under the FMA Act and CAC Act, Symposium

Canberra, 10 December 2004

Pat Barrett AO

Contemporary Developments in Restoring Public Trust in the Accounting Profession—Information Disclosure, Transparency and Related International Standards

The 2nd Taipei Corporate Governance Forum

Taiwan, 5 November 2004

Paul Nicoll

Governance in the Public Sector: Current Issues and What Lies Ahead

Sydney, 12 October 2004

Pat Barrett AO

Results Based Management and Performance Reporting—An Australian Perspective
Switzerland, 5 October 2004

Pat Barrett AO

ANAO's Role in Encouraging Better Public Sector Governance
Address to ANZSOG Students at ANU
Canberra, 20 September 2004

Pat Barrett AO

Public Sector Reporting and Triple Bottom Line
Department of Environment and Heritage—Sustainability Reporting by the Public Sector
Canberra, 25 August 2004

Pat Barrett AO

Financial Management in the Public Sector—How Accrual Accounting and Budgeting Enhances Governance and Accountability
CPA Forum 2004
Singapore, 21 August 2004

Pat Barrett AO

Auditing in an Evolving Environment
CPA Forum 2004
Singapore, 20 August 2004

Pat Barrett AO

Address to the 2004 program for Officials of South-East Asian Parliaments Australian National University
Occasional paper
Canberra, 2 August 2004

APPENDIX 6

PROCUREMENT ACTIVITIES

The Commonwealth purchasing policy framework is outlined in the Commonwealth Procurement Guidelines—January 2005 (the Guidelines).¹ The Guidelines set out a series of core principles.

ANAO PERFORMANCE AGAINST CORE PURCHASING POLICIES

The ANAO's purchasing activities in 2004–05 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 to seek high quality services that provided value for money for the Commonwealth.

To ensure that the ANAO meets the objectives and mandatory requirements set out in the new Guidelines issued in January 2005, the Auditor-General's Procurement Instructions and associated Procedural Rules were updated and re-issued, particularly to take account of the mandatory requirements relating to 'covered procurements'. In some areas, the ANAO established 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.

The ANAO's Annual Procurement Plan for 2005–06 was published in *Austender*.

The ANAO continues to consider a range of factors to ensure access and equity for Australian and New Zealand small/medium enterprises as set out in the Department of Finance and Administration's brochure titled, *Financial Management Guidance No 10* dated March 2004.

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:²

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

¹ Department of Finance and Administration *Commonwealth Procurement Guidelines—2005*.
<http://www.finance.gov.au/ctc/publications/purchasing/cpg/commonwealth_procurement_guide.html>.

² Contractors who deliver a defined service such as cleaning and printing or are engaged to carry out routine work for the ANAO are not defined as consultants and are not included in the table and figures contained in this appendix.

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

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

When consultants are contracted in to provide services under the *Auditor-General Act 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

Table A6–1 lists the consultancies valued at \$10 000 or more that were let in 2004–05. 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 2004–05 VALUED AT \$10 000 OR MORE

Consultant Name	Description	Contract Price \$	Selection Process ⁽¹⁾	Justification ⁽²⁾
Accessible Information Solutions	Advice on forms design	12 000	Direct Sourcing	A
Acumen Alliance (ACT) Pty Ltd	Internal audit—2003–04 Additional Programs	50 000	Direct Sourcing	C
Acumen Alliance (ACT) Pty Ltd	Internal Audit Services 2004–06	210 000	Open Tender	C
Ascent Governance	Home Ownership audit IT work	31 020	Direct Sourcing	B
Ascent Solutions Pty Ltd	Assist with BPG on Fringe Benefits Tax	68 640	Direct Sourcing	B
Aust Government Solicitor	Audit of Trust Moneys	24 600	Panel	B
Aust Government Solicitor	Investment of Public Moneys	10 700	Panel	B
Aust Government Solicitor	Superannuation Act	10 500	Panel	B
Blake Dawson Waldron	Audit Tenders Probity Advice	26 200	Direct Sourcing	B
CanberraNet I.T.	Website Review—Devel. & Design Phase	12 900	Direct Sourcing	B
Catalyst Interactive	Design & Develop E-induction Courses	15 000	Direct Sourcing	B
Christopher Conybeare & Associates Pty Ltd	Assist with audit of counter-terrorism	45 000	Direct Sourcing	B
ClientWise Pty Ltd	IT Survey	25 850	Direct Sourcing	B
ConSolve Pty Ltd	ANAO Enterprise Architecture Stage 1	19 278	Direct Sourcing	B
Corrs Chambers Westgarth	Advice on Insurance and Indemnity Claims	10 000	Direct Sourcing	B
Courage Partners	Assist with the TradeStart Perform Audit	18 700	Panel	B
Cybertrust	Completion of IRAP accreditation	29 920	Direct Sourcing	B
CyberTrust	Project Implementation of Gateway 4 ANAO	14 850	Direct Sourcing	B
Excelerated Consulting Pty Ltd	ANAO-Time Allocation	22 283	Direct Sourcing	B
Excelerated Consulting Pty Ltd	Automating the ANAO Financial Statements	29 000	Direct Sourcing	B

Consultant Name	Description	Contract Price \$	Selection Process ⁽¹⁾	Justification ⁽²⁾
Excelerated Consulting Pty Ltd	Restructuring the existing TM1 (management reporting) Database	10 000	Direct Sourcing	B
Excelerated Consulting Pty Ltd	Specialised Consulting re TM1 (management reporting)	82 236	Direct Sourcing—let 1 Jul 04	B
HRM Consulting Pty Ltd	Surveys of APS agencies in November 2004	11 215	Direct Sourcing	C
Mallesons Stephen Jaques	Centenary House Royal Commission	22 100	Panel	B
Mallesons Stephen Jaques	Centrelink Performance Audit on Value Creation	11 500	Panel	B
Mallesons Stephen Jaques	General Matters	12 300	Panel	B
Mallesons Stephen Jaques	Section 48 Advice	28 900	Panel	B
Market Attitude Research Services Pty Ltd	Conduct Focus Groups on Forms Design	22 000	Direct Sourcing	C
Mike Garrett	Workforce Planning Audit	19 302	Direct Sourcing	B
Minter Ellison	DIMIA Detention Services	18 700	Panel	B
OBS Pty Ltd	Consultancy to review the ANAO Intranet.	30 357	Direct Sourcing	C
Origin Consulting (ACT)	ARPANSA Cost Recovery	49 000	Panel	B
Orima Research Pty Ltd	Conduct 2005 Parliamentary Survey	49 500	Panel	C
Orima Research Pty Ltd	Conduct and report on ANAO Staff Survey 2004–05	27 500	Panel	C
Orima Research Pty Ltd	Conduct Client Survey for the 2003–04 Audit Cycle	29 300	Panel	C
Orima Research Pty Ltd	Conduct Agency Surveys 2003–04	25 000	Panel	C
Orima Research Pty Ltd	Conduct Agency Surveys 2004–05	25 000	Panel	C
Orima Research Pty Ltd	Conduct Surveys in two National Universities	19 806	Panel	C
Orima Research Pty Ltd	Green Office Procurement Survey	13 320	Panel	C
Sigma Management Science Pty Limited	Document Management System Consultancy	20 000	Direct Sourcing	C
Sigma Management Science Pty Limited	IT Strategic Advice	27 720	Direct Sourcing	B
Strategic Legal Services	Assist with BPG on Contract Management	122 578	Open Tender	B
Towers Perrin	Provide actuarial advice for Defence audit	11 000	Direct Sourcing	B
	TOTAL	1 374 775		

Note 1. Explanation of selection process terms drawn from the Commonwealth Procurement Guidelines (January 2005):

Open Tender. A procurement procedure in which a request for tender is published inviting all businesses that satisfy the conditions for participation to submit tenders.

Select Tender. A procurement procedure in which the procuring agency selects which potential suppliers are invited to submit tenders in accordance with the mandatory procurement procedures.

Direct Sourcing. A procurement process, available only under certain defined circumstances, in which an agency may contact a single potential supplier or suppliers of its choice and for which conditions for direct sourcing apply under the mandatory procurement procedures.

Panel. An arrangement under which a number of suppliers, usually selected through a single procurement process, may each supply property or services to an agency as specified in the panel arrangements.

Note 2. Justification for decision to use consultancy:

A—skills currently unavailable within agency;

B—need for specialised or professional skills; or

C—need for independent research or assessment.

A comparison of the total value of consultancy contracts valued at \$10 000 or more over the years 2002–03 to 2004–05 is set out below.

TABLE A6–2: CONSULTANCY CONTRACTS VALUED AT \$10 000 OR MORE 2002–03 TO 2004–05

Year	Amount (\$Million)
2002–03	1.305
2003–04	2.343
2004–05	1.375

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

AAS	Assurance Audit Services
AASB	Australian Accounting Standards Board
AASG	Assurance Audit Services Group
ACAG	Australasian Council of Auditors-General
ADF	Australian Defence Force
AEIFRS	Australian Equivalents to International Financial Reporting Standards
AIRPD	Australian-Indonesian Partnership for Reconstruction and Development
ANAO	Australian National Audit Office
APRA	Australian Prudential Regulation Authority
APS	Australian Public Service
ARPANSA	Australian Radiation Protection and Nuclear Safety Agency
ASOSAI	Asian Organisation of Supreme Audit Institutions
ATO	Australian Taxation Office
ATSIS	Aboriginal and Torres Strait Islander Services
AUASB	Auditing and Assurance Standards Board
AusAID	Australian Agency for International Development
AWA	Australian Workplace Agreement

BEFR	Budget Estimates and Framework Review
BPG	Better Practice Guide
BSP	Business Support Process
CA	Chartered Accountant
CAC Act	Commonwealth Authorities and Companies Act 1997
CEI	Chief Executive Instruction
CFCG	Commonwealth Fraud Control Guidelines
CMB	Corporate Management Branch
CPA	Certified Practising Accountant
CRF	Consolidated Revenue Fund
CSIRO	Commonwealth Scientific and Industrial Research Organisation
EAP	Employee Assistance Program
EBOM	Executive Board of Management
ESD	Ecologically Sustainable Development
FBT	Fringe Benefits Tax
FMA Act	Financial Management and Accountability Act 1997
FOI	Freedom of Information
FRC	Financial Reporting Council
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office (United States)
GBE	Government Business Enterprise
GFS	Government Finance Statistics
GWG	Global Working Group
HR	Human Resource
HRIS	Human Resource Information System
HVAC	Heating, Ventilation and Air Conditioning

IAASB	International Auditing and Assurance Standards Board
ICAA	Institute of Chartered Accountants in Australia
ICT	Information and Communications Technology
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
INTOSAI	International Organisation of Supreme Audit Institutions
ISA	International Standards on Auditing
ISACA	Information Systems Audit and Control Association
ISS	Information Support Services
IT	Information Technology
JCPAA	Joint Committee of Public Accounts and Audit
KRA	Key Result Area
OH&S	Occupational Health and Safety
PASG	Performance Audit Services Group
PBS	Portfolio Budget Statement
PDS	Personal Development Scheme
R&D	Research and development
SAIs	Supreme Audit Institutions
SDSS	Standard Defence Supply System
SES	Senior Executive Service
TBL	Triple Bottom Line
WCF	Workplace Consultative Forum







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