



THE AUDITOR-GENERAL  
ANNUAL REPORT  
2005-2006



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

7 September 2006

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 2006.

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

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee'.

Ian McPhee  
Auditor-General



# HIGHLIGHTS

Highlights for 2005–2006 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 237 recommendations in our performance audit reports to improve agency performance and accountability, of which 235 (99 per cent) were agreed or agreed with qualification.
- We continued to work closely with Parliamentary committees, particularly the Joint Committee of Public Accounts and Audit, to assist with their inquiries.
- Our client surveys again provided very positive feedback on the work of our Assurance and Performance audit services.
- We continued to invest in resources and tools to enhance the coverage and quality of financial statements audits, including the purchase and implementation of new audit software.
- A new three year Workplace Agreement was negotiated and accepted by over 80 per cent of staff who voted.
- We achieved IT security certification (I-RAP) for the ANAO network – a first in the APS.
- We continued to host visitors from many countries as part of our commitment to assisting with the development of the auditing profession internationally. We also commenced a three year project funded by AusAID to develop the capacity of the Indonesian Board of Audit in the areas of financial and performance audit.

## AREAS OF FOCUS FOR THE COMING YEAR

The major areas of focus for the coming year are set out below.

- Delivery of a range of timely and relevant products on topics that provide the greatest opportunity for improvement in administration across the Australian Public Service.
- Identification of initiatives to improve strategies for the retention and attraction of staff.
- Review of our business performance with a view to improving the way we operate and, in the longer term, reducing our reliance on contractors in auditing public sector agencies and authorities in order to improve the retention of our corporate knowledge.
- Assessment of our business priorities in light of the rising costs of running our business that increases over the period of the forward estimates.
- Implementation of our Workforce Plan to optimise our work environment.
- Review of our performance indicators to ensure they support business directions.
- Implementation of our Information Technology Strategic Plan which will provide new systems to facilitate a range of audit and audit administrative processes.

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# 1

## FOREWORD BY THE AUDITOR-GENERAL



*Ian McPhee PSM  
Auditor-General for Australia*

### CONTRIBUTING TO BETTER PUBLIC ADMINISTRATION

The Parliament looks to the Auditor-General and the Australian National Audit Office (ANAO) for assurance in relation to financial reporting by public sector entities and government, and in relation to the efficiency and effectiveness of program administration. We also contribute, through our audit recommendations, to improvements in public sector performance. In this regard, entities and the ANAO each has a role in contributing to parliamentary and public confidence in public administration. And, while the roles of public sector entities and the ANAO may differ, contributing to better public sector performance is common ground.

As the external auditor of the Executive Government, I appreciate the challenges for public sector entities of managing in this increasingly complex and demanding public sector environment. Therefore, our reports endeavour to capture, in a balanced way, the appropriate context and significant issues that bear on the administration of a program or an entity. To meet the Parliament's expectation we report on areas where there may be shortcomings in public administration, but importantly we also report areas where program administration works well.

While it is important that there is a co-operative working relationship with agencies, there will be occasions where a difference of opinion is held. In such situations, both positions are reported to the Parliament.

## ROLE AND RESPONSIBILITIES

As Auditor-General, I undertake my role as the external auditor for all Australian Government controlled entities with the strong organisation and support of the ANAO. I have delegated some of my powers to my senior staff to allow for the efficient functioning of the ANAO. This includes the authority to sign the audit opinions on a range of public sector entities.

The effectiveness of the Office of Auditor-General is based on two important foundations—the special relationship between the Auditor-General and Parliament, and my independence provided for under the *Auditor-General Act 1997*. This allows me to provide independent assurance to the Parliament, the Government and the public generally on the financial statements, financial administration and accountability of Australian Government public sector entities.

## OUR AUDIT PRODUCTS

In order to meet the expectations of the Parliament and, more broadly, the Australian public, the ANAO is continually reviewing its approach to ensure that our audit coverage provides an effective and independent review of the performance and accountability of public sector entities. The ANAO seeks to ensure that our audit coverage is well targeted and addresses priority areas to maximise our contribution to improved public administration.

In fulfilling our goal of contributing to better public administration, the ANAO uses three broad audit products:

- Financial statements audits which provide independent assurance to the Parliament, the Executive, boards, chief executives and the public on the financial performance and position of Australian Government public sector entities. These audits are conducted, as appropriate, under the *Financial Management and Accountability Act 1997* or the *Commonwealth Authorities and Companies Act 1997*;

- A program of performance audits which provide independent assurance on the administration of government programs by public sector entities, and recommendations directed to improving public sector administration and accountability—these audits can be agency specific or across agencies; and
- Guidance on, and examples of, better practice through our *Better Practice Guides (BPGs)*, and our participation in seminars and conferences. Additionally, in 2006, the ANAO commenced publishing our newsletter *AuditFocus* which is designed to distil key messages from recent audits for busy public sector executives.

During 2005–2006 the ANAO issued:

- 246 financial statement audit opinions;
- 2 financial statement related reports;
- 50 performance audits; and
- 3 Better Practice Guides.

With our available resources we are seeking to lift the performance of Australian Government agencies and provide assurance to the Parliament on their financial performance and position.

## FINANCIAL STATEMENT AUDITS

The ANAO audits the financial statements of entities ranging in size and complexity from Telstra and the Department of Defence to very small entities such as the Criminology Research Council and the Australian Sports Foundation.

These financial statement audits provide for an independent examination of the financial accounting and reporting of public sector entities. The results are presented in an audit report, which expresses the auditor's opinion on whether the financial statements as a whole and the information contained therein, fairly reflect the results of each entity's operation and its financial position. The disclosures and management representations made in the financial statements by the entity are assessed against relevant accounting standards, and legislative and other reporting requirements. Importantly, all audits are conducted against the ANAO Auditing Standards, which incorporate auditing standards applied by the auditing profession in Australia.

Audits undertaken by the ANAO act as a catalyst for improvement and provide a stimulus to management for resolution of issues, where this is warranted, and aim to assist audit committees in their role of facilitating sound financial management. The ANAO continues the practice of discussing contemporary issues and developments that impact on public sector management, particularly financial reporting and governance.

The interim phase of our 2005–2006 financial statement audits<sup>1</sup> has again showed that entities generally have appropriate financial management and control regimes in place. Nevertheless, our work in this area and a number of our performance audits suggest that implementation of these regimes continue to require improvement particularly in areas such as financial management information systems, business continuity and systems access management where the scale and complexity of operations creates a particularly demanding financial management environment.

#### CONTINUED FOCUS ON LEGAL COMPLIANCE

In my last annual report and elsewhere<sup>2</sup> I foreshadowed the ANAO's intention to increase the emphasis on legislative compliance as part of our financial statement audits. While the results of our review in this area will not be completed until the audits of entities' 2005–2006 financial statements are finalised, overall, the results of our work to date are encouraging.

An important development to reinforce the current commitment to legislative compliance is the measure being implemented for the 2006–2007 year, for the chief executives of all FMA agencies to sign an annual Certificate of Compliance in relation to compliance with all financial legislation, regulations, and policy requirements issued by the Department of Finance and Administration.

While the first certification will be required by 15 October 2007 it is important that entities make a start to have processes in place to periodically attest to compliance with a range of legislative, policy and procedural requirements, and advise of any departures. An increasing number of entities have introduced, or are considering the implementation of, a control self assessment process in relation to legislative compliance.

While there is a key role for audit committees to play in overseeing legislative compliance across the general government sector, ultimately, the responsibility for the maintenance of a compliant framework lies with each chief executive.

#### PERFORMANCE AUDITS

Our performance audits report objectively on the state of particular aspects of public administration and our recommendations are framed to assist agencies in achieving better outcomes and improved performance.

To be effective, this requires agreement with, and commitment by, agencies to implement those recommendations within a reasonable time period. With this in mind, we work co-operatively with agencies to gain genuine acceptance of our recommendations. Our preferred approach is to encourage agencies to take any necessary remedial action on identified matters during the course of an audit

<sup>1</sup> ANAO Audit Report No. 48 2005–2006, *Interim Phase of the Audit of Financial Statements of General Government Sector Entities for the Year Ending 30 June 2005*.

<sup>2</sup> Audit Report No.21 2005–2006 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2005*.

by acknowledging, and reinforcing, timely implementation of initiatives developed by them and/or suggested by the ANAO. Senior ANAO officers meet formally and informally with agency senior management throughout the year to discuss strategic directions and audit related issues.

As our effectiveness is largely related to the extent to which our recommendations are accepted and fully implemented, we are attentive to any statements by individual chief executives or Ministers about action being taken by portfolio agencies on performance audit and other audit recommendations.

Additionally, the ANAO works closely with the various audit committees of public sector organisations to monitor the implementation of its recommendations.

1

## CONTRIBUTION TO THE PARLIAMENT

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

The committees continued to be supportive of audit findings. The JCPAA reviews all audit reports and conducts public inquiries into selected audit reports. The ANAO gives evidence at these inquiries and assists the JCPAA in its review work. The JCPAA indicated its support for the audit reports reviewed, noted agencies' advice of implementation of the ANAO recommendations, and made recommendations consistent with those made by the ANAO.

The JCPAA tabled *Report 404 Review of Auditor-General's Reports 2003-2004 Third & Fourth Quarters and First and Second Quarters of 2004-2005* in October 2005. The report reviewed audit reports on intellectual property policies, greenhouse programs, the Dairy Industry Adjustment Package, client service in the Family Court and Federal Magistrates Court, federal airport leases; Centrelink customer debt, the Standard Defence Supply System upgrade, special appropriations, container examination facilities, non-prescription medicinal product, and the 2003-2004 financial statements for Australian Government entities.

The JCPAA also conducted inquiries in respect of a number of ANAO audits and the reports examined by the JCPAA in 2005-2006 are listed in the body of the Annual Report.

Additionally, the House of Representatives Standing Committee on Environment and Heritage reviewed Audit Report No.22 2005-2006 *Cross-Portfolio Audit of Green Office Procurement*. The House of Representatives Standing Committee on Economics, Finance and Public Administration is reviewing Audit Report No.25 2005-2006 *ASIC's Implementation of Financial Services Licences*.



#### ANAO AUDITS UNDERTAKEN AT THE REQUEST OF THE PARLIAMENT OR MINISTERS

During 2005–2006, I undertook the following three audits which had been requested by the Parliament:

- the administration of the Regional Partnerships Program (requested by the Senate Finance and Public Administration References Committee);
- processes for receiving and referring for investigation statutory reports of suspected breaches of the *Corporations Act 2001* (requested by the Joint Committee on Corporations and Financial Services); and
- Australian Pesticides and Veterinary Medicines Authority (requested by the Parliamentary Secretary to the Minister for Agriculture, Fisheries and Forestry).

Reports on these audits are expected to be tabled in 2006–2007.

In addition, in June 2006 I was asked by the Minister for Transport and Regional Services to conduct a performance audit of Airservices Australia's administration of a contract with the Government of the Solomon Islands. I agreed to do this and expect this audit to be concluded by the end of 2006.

#### BETTER PRACTICE GUIDES

To complement the ANAO's statutory functions, the ANAO periodically publishes Better Practice Guides on aspects of public administration. These Guides are well received as useful reference documents contributing to better public sector administration. Our future work programs will continue to include the preparation of new Guides as well as the updating of existing Guides as necessary.

The preparation of annual financial statements by all public sector entities is an important mechanism by which they meet their financial accountability obligations. To assist agencies we recently published a guide titled *Preparation of Financial Statements by Public Sector Entities* and I am confident this Guide will assist entities to improve the overall timeliness and quality of their financial statements. This in turn will assist the ANAO in the conduct of the audit of these statements.

#### MONITORING OUR PERFORMANCE

As in previous years, an independent survey was completed during the year to obtain feedback from our clients about the quality of performance audit processes and outcomes from senior public entity managers responsible for the audited activities. In the latest survey (February 2006) agencies rated the ANAO's conduct of performance audits positively. Some key indicators were that:

- the audit teams demonstrated the professional knowledge and audit skills required to conduct the audit;
- the audit teams' conduct was characterised by integrity, and an ethical approach to their task; and
- 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.

## CHALLENGES

### AN INCREASINGLY COMPLEX ENVIRONMENT

Public administration continues to evolve, including through:

- more innovative ways to deliver government programs;
- ‘whole-of-government’ approaches;
- the growing convergence of the public and private sectors; and
- the adoption of new technologies including e-government.

Apart from the challenges for agencies, such an environment places demands on the ANAO in auditing the range of entities, programs, governance arrangements and delivery methods.

Public sector entities are also dealing with a period of significant change in financial reporting requirements, primarily arising from the adoption in Australia of international financial reporting standards. Further changes are likely as the Australian Accounting Standards Board considers a range of on-going public sector specific issues as part of its formal work program. In addition, developments aimed at harmonising Australian accounting standards with the requirements of Government Finance Statistics are expected to result in revised reporting arrangements for the Australian Government, particularly at the whole-of-government level. The work on harmonisation is particularly important as it will eliminate the source of some confusion to users of current budget and financial reports caused by the adoption of different accounting bases.

Assimilating the new requirements has been a challenge for preparers, users and auditors of financial reports, particularly in the current environment where specialist skills are at a premium. The ANAO has worked closely with Finance to anticipate the more significant financial reporting issues for 2005–2006 with the aim of streamlining the preparation of entities’ financial statements and the audits thereof.

### STAFFING ISSUES

For some time, the key professional accounting bodies in Australia have been drawing attention to the acute shortage of staff in the field of auditing and accounting. The ANAO continues to invest in its recruitment and retention strategies in this difficult market environment and is also contributing to an Australian Public Sector-wide review of attraction, recruitment and retention of accountants within the Australian Public Sector.

While there has been a slight improvement in the ANAO’s staff retention, the demand for staff with accounting qualifications is likely to continue for some time to come. It is a challenging period for the

Office as we seek to replace the experience of those staff who are pursuing their careers elsewhere or who have retired. As an interim measure, the ANAO has increased the number of contractors working with us to ensure we fulfil our performance and financial statement auditing obligations.

The ANAO's annual staff survey again confirmed that movement out of the Office was predominately to pursue career opportunities, and this will continue. This is often a result of staff developing their skills while at the ANAO thus making them marketable to other employers. I was pleased to see that the staff survey continues to indicate our staff are satisfied with their job in the organisation and recognise the wider contribution they make to improving public administration.

Against this background the ANAO has strengthened its workforce planning and is actively formalising the retention and attraction of staff to ensure that we have the capability and capacity to provide the services the Parliament expects.

#### FUNDING

The ANAO's funding in 2005–2006 was \$63.866 million, including \$1.061 million provided in additional estimates and \$0.915 million in the 2006–2007 Budget. The additional amounts were for the increased auditing costs associated with the adoption of the Australian Equivalent to the International Reporting Standards and the increased requirements relating to auditing the financial statement of the Department of Defence. I appreciate the support of the Government and the Parliament for these additional resources.

The ANAO advised the JCPAA that budget allocation for 2006–2007 of \$64.002 million was sufficient however, we would need to monitor the budget position and market conditions throughout the year to determine the impact of cost pressures. As indicated earlier, cost pressures are being driven by an increasingly competitive market for qualified accountants and auditors as well as increased requirements of the Australian Auditing Standards.

The JCPAA has voiced its concern that the ANAO must be properly resourced, given the importance of its work. The JCPAA will be kept fully informed of the results of our analysis of our ongoing budgetary requirements.

#### TO CONCLUDE

We have been through a demanding year but we have delivered on our goals in informing the Parliament and the public on the issues arising from our audit coverage. I would like to acknowledge the professionalism and commitment of my staff in achieving our goals and undertaking the work associated with meeting our ambitious audit program.

Finally, I would also like to acknowledge the contribution made by Michael Coleman, our independent auditor for the last seven years, and advise that Geoff Wilson has been appointed as our new independent auditor.



## 2

## REPORT OVERVIEW

### THE AUDITOR-GENERAL'S ROLE AND RESPONSIBILITIES

The Auditor-General, through the ANAO, provides an independent review of the performance and accountability of Australian Government public sector agencies and entities. Through the delivery of an integrated range of high quality audit products that are timely, cost-effective and consistent with public sector values, we aim 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 outcomes described below are directly related to our role and vision.

*Improvement in public administration*—independent assessment of the performance of selected Australian Government 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.



*The Auditor-General Ian McPhee, with Steve Chapman, the Deputy Auditor-General.*

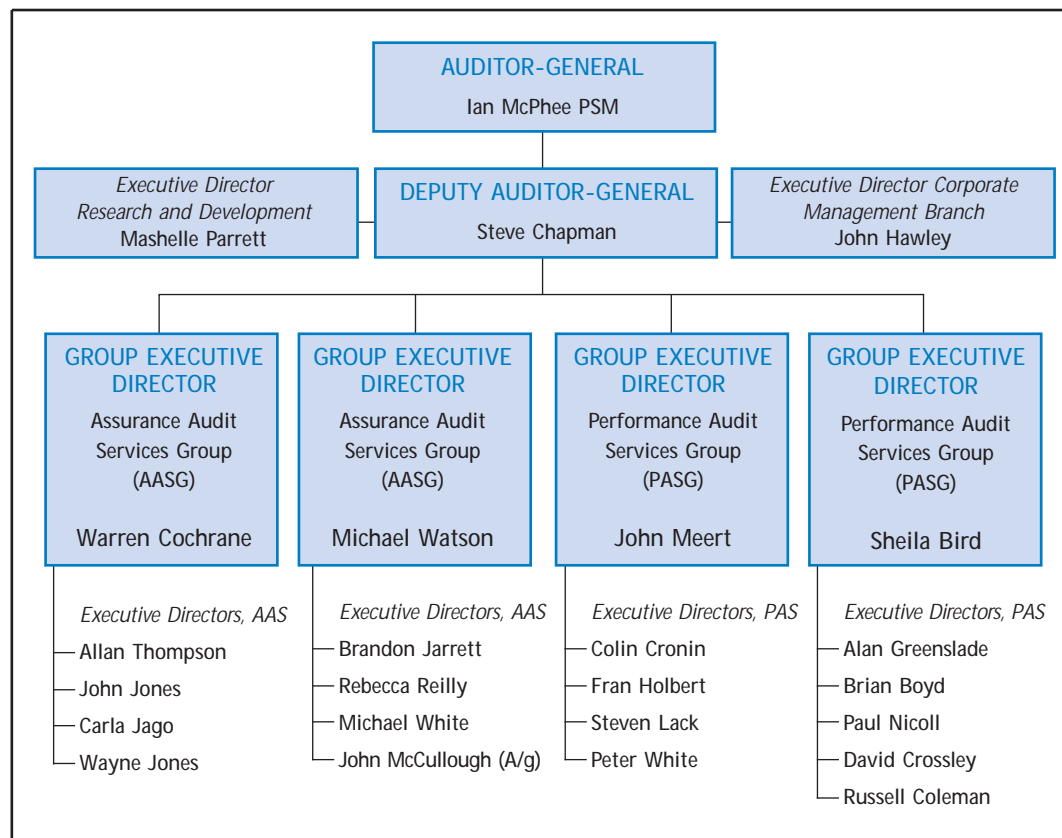
## ORGANISATION

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 contributes to improved financial management and public accountability through the timely delivery of cost-effective assurance audit services. The Performance Audit Services Group (PASG) contributes to improved 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 1 July 2006, is shown in Figure 1.

2

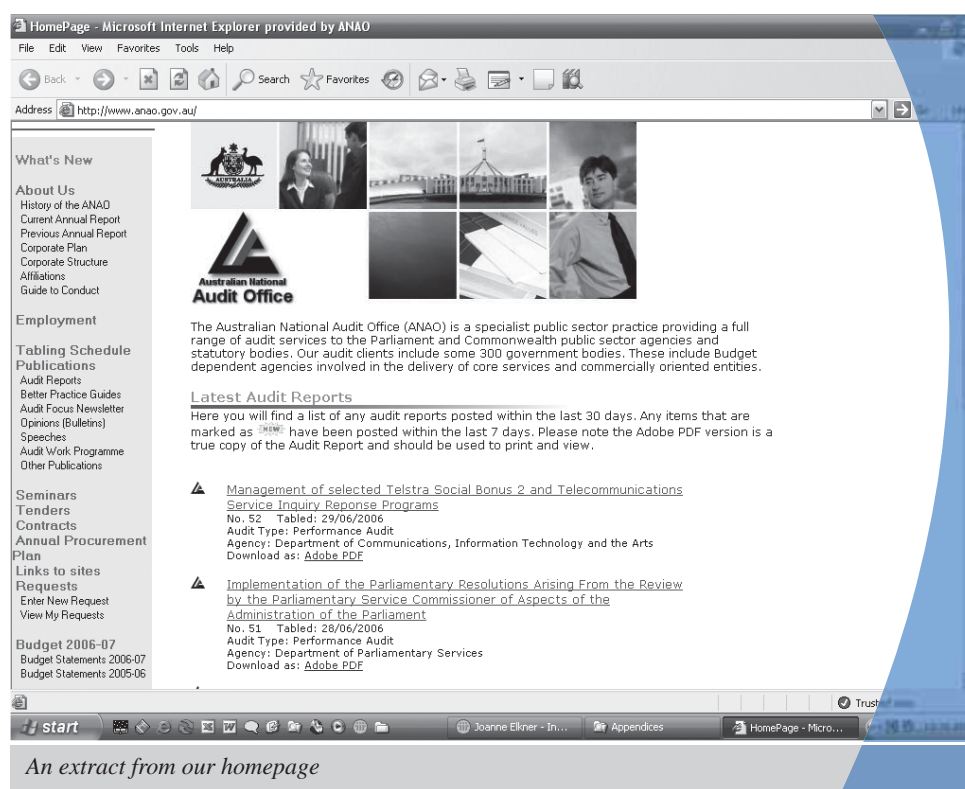
FIGURE 1: ORGANISATION AND SENIOR MANAGEMENT STRUCTURE AS AT 1 July 2006<sup>1</sup>



<sup>1</sup> There was a minor organisational change commencing 1 July 2006 that largely affected branch arrangements in PASG. The new arrangements are reflected in this diagram.

### 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.



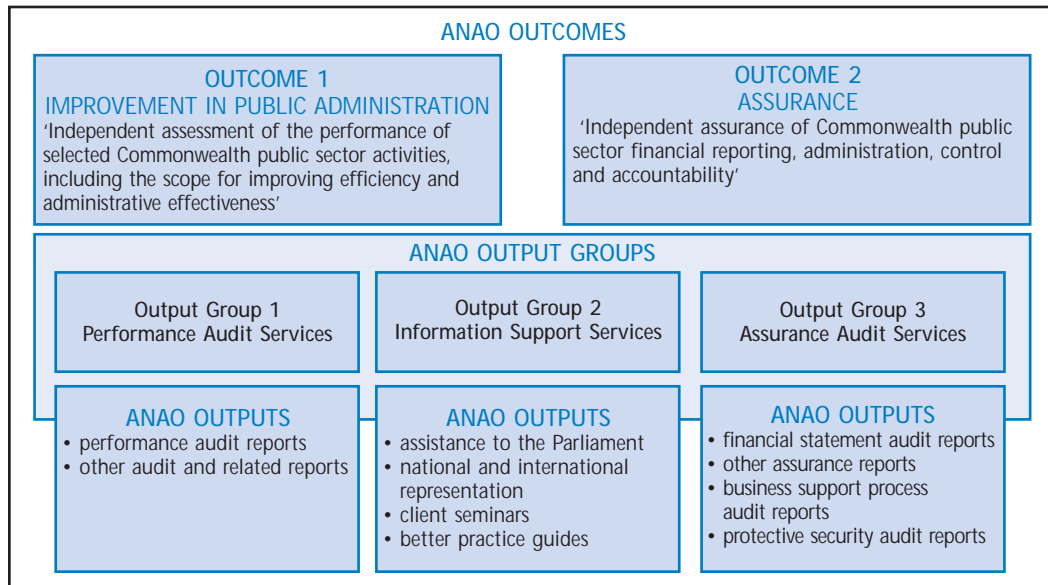
### THE ANAO'S OUTCOME-OUTPUT FRAMEWORK

The following explanation relates the Outcome-Output framework, as set out in the ANAO 2005–2006 Portfolio Budget Statements (PBS), to the actual achievement for the year. Figure 2 shows current outputs and their relationships through output groups to our outcomes.

The three output groups contribute in varying degrees to the achievement of our outcomes. The next major section of this report, 'Reporting on Performance', outlines each of our output groups and details the performance of those groups in achieving the outcomes. The financial resources for 2005–2006, 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 2005–2006 are set out at Appendix 2, which also includes a commentary on our financial performance for the financial year.

FIGURE 2: THE ANAO'S OUTCOME–OUTPUT FRAMEWORK



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## FINANCIAL SUMMARY

The ANAO's overall financial position remained sound during 2005–2006 as a result of continued prudent management. At the same time, the ANAO has met its primary business targets, including the production of 57<sup>2</sup> performance audit and audit related products, and the effective completion of its financial statement audit responsibilities.

The ANAO continues to have sufficient assets to meet ongoing liabilities and commitments, including employee entitlements and asset replacement. More detailed information on our financial position is outlined in the 2005–2006 Financial Results Summary at Appendix 2.

The change in the financial results for 2005–2006 compared with those for 2004–2005 is primarily due to:

- increases in employee expenses flowing from the then Certified Agreement; and
- increases in direct audit costs due to the rising costs within the accounting labour market, increased financial statement auditing within the Department of Defence and the auditing of the adoption of the Australian Equivalents to the International Reporting Standards by Australian Government public sector entities.

<sup>2</sup> Comprising: 46 performance audits; 3 business support process audits; 1 protective security audit; 3 better practice guides; 2 financial statement related reports; and 2 triple bottom line reports.

The ANAO's Independent Auditor found that our 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 our control environment was sound.

The financial resources summary for the ANAO in 2005–2006 is set out in the tables below.

## RESOURCES FOR OUTCOMES

TABLE 1: FINANCIAL RESOURCES SUMMARY

<b>Summary—ANAO by outcome</b>	<b>\$'000</b>
	<b>Actual</b>
	<b>2005–2006</b>
Outcome 1	20 807
Outcome 2	43 326
<b>Subtotal Outcomes</b>	<b>64 133</b>
<b>Revenue from other sources</b>	<b>(1 450)</b>
<b>TOTAL PRICE FOR OUTCOMES</b>	<b>62 683</b>
<b>Revenue from Government (Appropriation) for Departmental Outputs</b>	<b>63 866</b>
<b>Operating Surplus</b>	<b>1 183</b>
 <b>Summary – By Output Group</b>	 <b>\$'000</b>
	<b>Actual</b>
	<b>2005–2006</b>
Output Group 1 (Performance Audit Services)	19 136
Output Group 2 (Information Support Services)	2 426
Output Group 3 (Assurance Audit Services)	42 571
<b>Subtotal Outcomes</b>	<b>64 133</b>
<b>Revenue from other sources</b>	<b>(1 450)</b>
<b>TOTAL PRICE FOR OUTCOMES</b>	<b>62 683</b>
<b>Revenue from Government (Appropriation) for Departmental Outputs</b>	<b>63 866</b>
<b>Operating Surplus</b>	<b>1 183</b>
<b>Average Staffing Level</b>	<b>313</b>



TABLE 2: RESOURCES FOR OUTCOME 1

## Outcome 1—Improvement in Public Administration

	\$'000 Budget 2005–2006	\$'000 Actual 2005–2006	\$'000 Variance	\$'000 Budget 2006–2007
<b>Price of Departmental Outputs</b>				
Output 1.1 Performance Audit Reports	19 426	19 136	286	19 556
Output 1.2 Other Audit and Related Reports	-	-	-	-
Subtotal Output Group 1	19 426	19 136	286	19 556
<b>Output Group 2 (Information Support Services)</b>				
Output 2.1 Assistance to the Parliament	570	444	128	561
Output 2.2 National and International Representation	210	168	43	193
Output 2.3 Client Seminars	-	-	-	-
Output 2.4 Better Practice Guides	951	1 059	(111)	1 044
Subtotal Output Group 2	1 731	1 671	60	1 798
<b>Output Group 3 (Assurance Audit Services)</b>				
Output 3.1 Financial Statement Audit Reports	-	-	-	-
Output 3.2 Business Support Process Audit Reports	-	-	-	-
Output 3.3 Protective Security Audit Reports	-	-	-	-
Output 3.4 Other Attest Reports	-	-	-	-
Subtotal Output Group 3	-	-	-	-
<b>Subtotal Output Groups</b>	21 157	20 807	346	21 354
<b>Revenue from other sources</b>	(281)	(285)	4	(281)
<b>TOTAL PRICE FOR OUTCOME 1</b>	<b>20 876</b>	<b>20 522</b>	<b>350</b>	<b>21 073</b>
<b>Revenue from Government (Appropriation) for Outputs</b>	21 157	20 684	473	21 354

TABLE 3: RESOURCES FOR OUTCOME 2

## Outcome 2—Assurance

	\$'000 Budget 2005–2006	\$'000 Actual 2005–2006	\$'000 Variance	\$'000 Budget 2006–2007
<b>Price of Departmental Outputs</b>				
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	42	59	(16)	48
Output 2.2 National and International Representation	96	149	(53)	90
Output 2.3 Client Seminars	8	16	(5)	10
Output 2.4 Better Practice Guides	500	531	(33)	250
Subtotal Output Group 2	646	755	(107)	398
Output Group 3 (Assurance Audit Services)				
Output 3.1 Financial Statement Audit Reports	38 175	39 255	(1 086)	38 559
Output 3.2 Business Support Process Audit Reports	1 965	1 565	400	1 721
Output 3.3 Protective Security Reports	189	70	120	200
Output 3.4 Other Attest Reports	1 723	1 681	(117)	1 770
Subtotal Output Group 3	42 052	42 571	(683)	42 250
<b>Subtotal Output Groups</b>	<b>42 698</b>	<b>43 326</b>	<b>(790)</b>	<b>42 648</b>
<b>Revenue from other sources</b>	<b>(1 003)</b>	<b>(1 165)</b>	<b>162</b>	<b>(1 036)</b>
<b>TOTAL PRICE FOR OUTCOME 2</b>	<b>41 049</b>	<b>42 161</b>	<b>(628)</b>	<b>41 612</b>
<b>Revenue from Government (Appropriation) for Outputs</b>	<b>42 698</b>	<b>43 182</b>	<b>(484)</b>	<b>42 648</b>

# 3

## REPORTING ON PERFORMANCE

### AUSTRALIAN NATIONAL AUDIT OFFICE

The ANAO's Scorecard provides an overview of performance based on the performance information contained in the 2005–2006 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 our outcomes are also discussed. These sections relate primarily to the impacts (outcomes) that our outputs have on the Parliament, public sector entities and public sector administration in general. Both quantitative and qualitative measures are used to assess the performance.

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

These sections are followed by an overview and report on our internal management, called 'Management and Accountability'.

## 2005–2006 PORTFOLIO BUDGET STATEMENTS 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 expressed satisfaction with ANAO products and services. <sup>1</sup>
Public sector entities acknowledge the value added by ANAO products and services.	90% value role of ANAO	AASG 93% <sup>2</sup> PASG 88% <sup>3</sup>
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 <sup>1</sup> .
Performance information by output component		
Output group 1: Performance Audit Services	Target	Actual
Number of performance audit reports to be produced.	44	46
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%	99% or 235 of 237 recommendations were either agreed, or agreed with qualification. Two were disagreed. <sup>4</sup>
Quality assurance results indicate all reviewed audits meet ANAO Auditing Standards.	100% of audits reviewed	100% of audits reviewed. The review found that there was room for improvement in documenting planning and fieldwork phases of performance audits.
Full costs of audit products and services are recorded and reported.	100%	100%

<b>Output Group 2: Information support services</b>	<b>Target</b>	<b>Actual</b>
Number of audit products to be produced (better practice guides).	4	3 The fourth guide was published in August 2006.
Number of client seminar series.	2	2
Percentage completed in accordance with budgeted timeframe.	100%	100%
Seminar topics meet the needs of participants.	75% satisfaction level.	93% <sup>5</sup>
<b>Output Group 3: Assurance audit services</b>	<b>Target</b>	<b>Actual</b>
Number of financial statement audit opinions to be issued.	260	246 <sup>6</sup>
Number of audit products produced (6 business support process audits and one protective security audit).	7	4 (3 business support process audits and 1 protective security audit).  Another three business support process audits are in progress.
Financial statement related reports.	2	2 <sup>7</sup>
Number of other audit opinions.	2	2 <sup>8</sup>
Timeliness of issuing financial statement audit opinions.	100%	79% issued on, or within two days of signing the financial statements.
Percentage completed in accordance with agreed timeframes (financial statements).	100%	76%. This was largely attributed to difficulties in managing the preparation of the financial statements. To help promote improvement in this process, we published a comprehensive better practice guide on the preparation of financial statements in April 2006.
Quality assurance results indicate all reviewed audits meet ANAO Auditing Standards.	100%	100% of audits reviewed. Documentation of audit risks and related audit approaches were identified as areas for improvement.
Full costs of audit products and services are recorded and reported.	100%	100%

Notes: 1. Parliamentary Survey, May 2005 (a biennial survey).

2. AASG Client Survey, June 2006.

3. PASG Client Survey, February 2006.

4. These recommendations often include several parts to ensure clarity. Of the 237 full recommendations 211 (89 per cent) were fully agreed in all parts, 24 (10 per cent) were agreed overall, but with some qualification or minor disagreement. One full recommendation was disagreed and one disagreed in the majority of its parts.

5. Seminar feedback forms.

6. The actual number of audit opinions is dependent on government decisions on entity structures.

7. Not reported separately in the 2005-2006 PBS.

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

## 2005–2006 BUSINESS PLAN SCORECARD

As well as the targets set in the Portfolio Budget Statements, our 2005–2006 Business Plan included a number of additional targets, which are set out below.

Activity	Target	Actual
Staff satisfaction is at an acceptable level.	>70%	71% <sup>1</sup>
Staff turnover is at an agreed level.	<18% turnover	19% <sup>2</sup> ANAO operates in a highly competitive market for accounting skills. Recruitment and retention strategies are being implemented.
Public sector organisation acknowledge understanding and skills of ANAO staff through client satisfaction surveys.	90% of agencies rate ANAO staff skills as '4' or above. <sup>3</sup>	PASG 88% (28% strongly agreed – '5' rating, and 60% agreed – '4' rating) <sup>3</sup> AASG 95% (31% strongly agreed – '5' rating, and 64% agreed – '4' rating) <sup>3</sup>
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.	80% surveyed considered the new skills acquired improved on the job performance. <sup>1</sup>
Staff acknowledge ANAO Values and Behaviours are exhibited in the workplace.	85%	89% <sup>1</sup>
Implementation of Business Plan action items within agreed timeframes and standards.	100%	All projects have been completed with some, as in the case of the Workforce Plan, being progressively implemented.

Notes: 1. ANAO Staff Survey, May 2006.

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

3. A rating of '4' means respondents agree and a rating of '5' means they strongly agree.

## OUTPUT GROUP 1

### PERFORMANCE AUDIT SERVICES

Output Group 1 comprises performance audit reports and other performance audit and related products.

The following summarises the ANAO's performance in producing these outputs in 2005-2006. Details of financial resources for performance audit services are set out in Tables 1 and 2 of 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 fully owned 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).

Typically performance audits examine resource use, information systems, performance measures, monitoring systems and legal compliance. Audits are conducted in accordance with ANAO Auditing Standards. Our performance audit reports are tabled in the Parliament.

In seeking to improve administration, performance audits identify better practices, when observed, which may then be incorporated into 'better practice' guides for dissemination throughout the Australian Government public sector. These guides are discussed under Output Group 2.

Because of the size, complexity and diversity of most Australian Government entities, a performance audit usually examines selected segments of their operations. General (cross-portfolio or cross-agency) performance audits examine the same issue or activity in a number of entities and the findings 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.

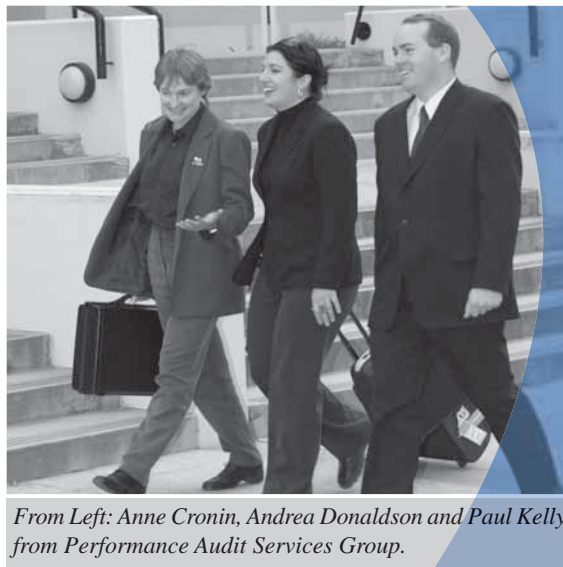
#### PERFORMANCE AUDIT WORK PROGRAM

The ANAO's *Audit Work Program*<sup>1</sup> 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 Program*. This process is to ensure that our 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 program and in evaluating and assessing potential financial statement issues to be addressed during the course of financial statement audits.

Audit activity is planned having regard to business risks; financial materiality; program significance; audit impact; visibility of the program; the extent of recent audit coverage; and broad themes derived from the audit work planning process.

The performance audit themes identified in the 2005–2006 *Audit Work Program* are set out below.

- security;
- economic management;
- service delivery and whole-of-government approach;
- health and ageing;
- IT and its use across agencies;
- governance arrangements; and
- project management.



*From Left: Anne Cronin, Andrea Donaldson and Paul Kelly from Performance Audit Services Group.*

<sup>1</sup> Available on the ANAO's website <<http://www.anao.gov.au>>



## PERFORMANCE AUDIT OUTCOMES BY THEMES

Below are examples of audit outcomes against the various audit themes. The main issues raised in the audit reports are summarised by themes in Appendix 4.

### SECURITY

Security is an area of continuing concern and sensitivity. Several audit reports tabled during the year concerned this theme. One audit assessed the effectiveness of the key evaluation methods used to review the efficacy of the Australian Government's national counter-terrorism coordination arrangements. It also examined the effectiveness of the links between the key evaluation methods and how those methods contribute to continuous improvement. A review of passenger processing addressed one of the elements of Australia's border control – whether travellers to Australia have a valid passport and visa. A follow-up audit of quarantine and biosecurity effectiveness found substantial progress had been made in implementing recommendations made previously by the ANAO and JCPAA. This audit identified that the quantity of prohibited material undetected at airports and mail centres had decreased substantially since the last audit.

### ECONOMIC MANAGEMENT

Building on previous work in the general area of economic management, a follow-up audit of bank prudential supervision found that progress had been made in implementing previous ANAO recommendations and that a new risk rating process and supervision framework had been implemented. However, an audit of Australian financial services licensing found that important regulatory risks were not systematically addressed until after the end of the transition period from the previous licensing system. In post-sale management of privatised rail business contractual rights and obligations, departments were found not to have adequately assessed whether value for money was being achieved for the Commonwealth when entering into contracts with the privatised rail provider. Although difficult to quantify, the cash economy and the revenue risk it poses require more attention to secure better compliance in business-to-consumer cash dealings and to show the impact of compliance activities on targeted cash economy industries. Green procurement was also reviewed, highlighting significant shortcomings in agencies' application of whole-of-life costing and managing environmental impacts of procurement decisions.

### SERVICE DELIVERY AND WHOLE-OF-GOVERNMENT APPROACH

An ongoing challenge for Australian Government agencies is to meet increasing expectations of the government and the Australian community to provide high quality and cost effective services. An audit of management of job placement and matching services for job seekers considered the extent to which Government systems facilitate matching of job seekers to vacancies. A follow-up audit of Commonwealth State housing agreement administration found improved systems for performance and financial information used to measure whether housing assistance was targeted to those most in need. An audit of the roads to recovery program demonstrated the importance of program management and accountability mechanisms giving reasonable assurance that road projects are undertaken in accordance

with the scope and timelines proposed by local government authorities. A follow-up audit of petroleum and tobacco excise collections found that substantial quantities of tobacco are diverted into the illegal market from Australia's tobacco plantations, an issue that is now being addressed.

#### HEALTH AND AGEING

A strong primary care system is a key element in providing quality care in treating illness and preventing health problems through early intervention. An audit assessed administration of primary care funding through a review of funding agreements, monitoring arrangements, payments, and support for administrators. It found good progress in providing guidance to officers who administer funding agreements and that approaches are being strengthened by developing an information system to support agreement administration. A follow-up audit on administration of the 30 per cent private health insurance rebate found that administration of the rebate is effective but there are opportunities for improving agencies' administration. An audit of coordination and monitoring roles under the Commonwealth State disability agreement found that these roles were undertaken effectively but that performance monitoring and reporting need to improve in order to gauge whether expenditure under the agreement is improving the quality of life of people with a disability.

#### IT AND ITS USE ACROSS AGENCIES

The Commonwealth has a significant investment in information technology (IT) to support program objectives. Government policy provides for agencies to use the Internet to deliver appropriate programs and services. Although agencies increasingly rely on the Internet, an audit of Internet security found that, of the agencies audited, most had insufficient Internet security. Improvements could be made in email filtering, managing Internet security and developing system security plans. A protective security audit of IT security management concluded that audited entities had identified relevant Government policies, practices and procedures for protecting information but there were opportunities for improving their policies and procedures on IT security management practices, risk assessment processes, identification of physical and environmental controls for managing IT equipment and reporting network security practices. Another audit, of Centrelink's large and complex IT systems that support its extensive business operations, found that Centrelink's electronic customer records are generally sufficiently accurate and complete to support effective administration of social security programs for which Centrelink is responsible. Australian Taxation Office management of high risk refunds (HRRs) and controls over IT systems to process activity statement refunds to taxpayers was examined.

#### GOVERNANCE ARRANGEMENTS

Governance arrangements continue to be a key consideration for good public service administration and this year our reports covered a range of governance issues. An audit of private health insurance regulation concluded that the regulator's overall governance and organisation supported the performance of its legislative functions and that its administrative effectiveness was sound. The Government's arts support program, Artbank, was reviewed and it was found that it was meeting its charter by acquiring contemporary art for rental and display in public places but that governance arrangements

and operational matters could be improved. An examination of the management of net appropriation agreements revealed widespread shortcomings and that agencies have given inadequate attention to effective arrangements that support additions to annual appropriations and expenditure of those amounts. Our work on the contract tender processes for immigration detention services provided useful observations about governance arrangements for large procurement projects. The audit of arrangements for aid funds under the Australia-Indonesia partnership for reconstruction and development, found progress had been made in a number of important areas, such as in establishing high-level overview arrangements, but that risk management and procurement arrangements required strengthening.

### PROJECT MANAGEMENT

Project management is the application of knowledge, skills, tools and techniques to a range of activities in order to meet task requirements. It focuses on producing a defined output by a certain time, to a defined quality and with a given level of resources so that planned outcomes are achieved. It is an aspect of research grant management. An audit of research grants management concluded that statutory requirements were met in administering grants for basic and applied research but that effectiveness, transparency and accountability of grants administration could be improved. Several audits were completed as part of our strategy to examine Defence projects that manage and upgrade weapon systems and associated equipment. These included an audit of lessons learnt from the Jindalee Operational Radar Network Project's acquisition and acceptance phase. Another concerned the Orion maritime patrol aircraft fleet upgrade project, which found that the project encountered delays and difficulties but met performance objectives. An audit of management of Defence's Tiger armed reconnaissance helicopter project found that the project encountered difficulties delivering the required capability for the specified price and within the required time frame.

3

### INCLUSION OF AGENCY COMMENTS IN AUDIT REPORTS

Maintaining a relationship of professional co-operation with the audited body during an audit is of crucial importance to the ANAO. To facilitate this, 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 them 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 of 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 of 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 2005–2006, agency comments were included in full in the final report.

## PERFORMANCE

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

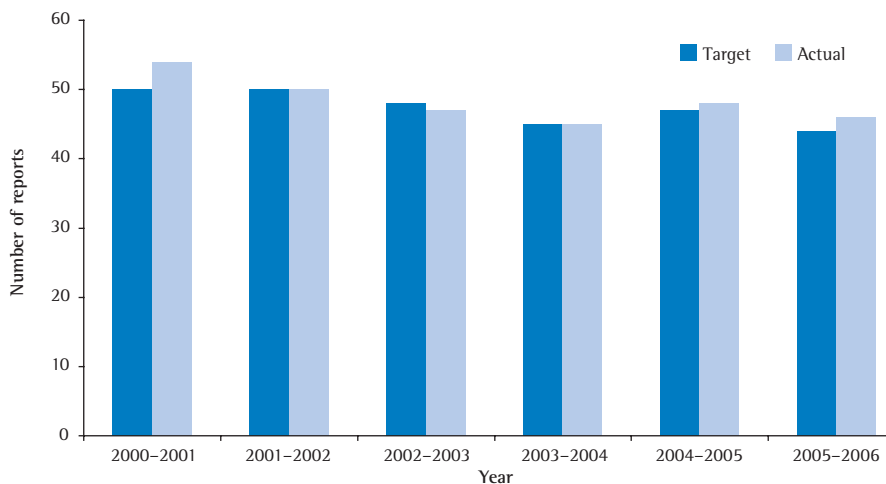
### AUDIT METHODOLOGY

Planning for enhanced working paper management for performance audit has commenced as part of a wider ANAO project to procure an electronic document record management system.

### NUMBER OF REPORTS

During the year 46 performance audit reports were produced against a target of 44 for this output. For 2004–2005 the comparable figures were 48 and 47. 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 11.7 months, with a range from 7 to 19 months. The average cost (including overhead allocation) was \$0.403 million with a range from \$0.221 million to \$0.809 million.

### COST OF PERFORMANCE AUDIT SERVICES

The performance audit reports output (Output Group 1) consumed \$19.136 million in 2005–2006 (\$21.470 million in 2004–2005).

## OTHER AUDIT AND RELATED PRODUCTS

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

### AUDIT WORK PROGRAM

During the latter half of 2005–2006 the Audit Work Program 2006–2007 was developed in consultation with the JCPAA and agencies and provided to the Prime Minister, Leader of the Opposition, Ministers, Shadow Ministers, the JCPAA and agency heads. The JCPAA takes the lead role in coordinating parliamentary input to the development of the program. The program outlines performance audits in progress at 1 July 2006 and lists performance audit topics from which audits for 2006–2007 are selected. It also sets out in summary form the work programs intended to be undertaken by the other ANAO Output Groups, namely Assurance Audit Services and Information Support Services, which are discussed later in this report.

## 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

After each performance audit report is tabled, feedback on the audit process is sought independently from the senior manager responsible for the audited program by means of a questionnaire and an interview with the responsible manager. This evaluation is performed by a firm of consultants that works to the ANAO but is independent of the performance audit teams.

In the February 2006 survey the consultancy firm reported on responses received for the 2004–2005 reporting period. Overall, the ANAO's performance was rated as consistent with the level achieved in the previous year and marginally higher than the average level recorded since the survey began in 1997–1998. In this report, 46 of the 66 selected public entity areas participated in the survey. This represents a response rate of 70 per cent, down on last year's 80 per cent. The reduced response rate

is largely explained by the finding that 16 of the 20 who did not respond to the survey were involved in cross agency performance audits. We have found that there is a tendency for auditees involved in cross agency audits not to become involved in client surveys as they have much less contact with the ANAO compared with single agency audits.

In terms of overall performance, agencies rated the ANAO's conduct of performance audits positively. Some key results are set out below:

- 88 per cent of respondents considered that the audit team demonstrated that they had the professional knowledge and audit skills required to conduct the audit;
- 84 per cent of respondents considered that the audit teams' conduct was characterised by integrity, and an ethical approach to their task; and
- 88 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 404 Review of Auditor-General's Reports 2003-2004 Third and Fourth Quarters; and First and Second Quarters of 2004-2005* in October 2005. The report reviewed audit reports on intellectual property policies, greenhouse programs, the Dairy Industry Adjustment Package, client service in the Family Court and Federal Magistrates Court, federal airport leases; Centrelink customer debt, the Standard Defence Supply System Upgrade, special appropriations, container examination facilities, non-prescription medicinal product, and entities' financial statements for 2003-2004.

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

The JCPAA also held hearings into a number of ANAO audits. The relevant JCPAA reports had not been completed by the end of June 2006. The reports examined by the JCPAA in 2005–2006 are listed below:

Audit Report No.22 2004–2005 *Investment of Public Funds*;

Audit Report No.42 2004–2005 *Commonwealth Debt Management (Follow-up audit)*;

Audit Report No.30 2004–2005 *Regulation of Commonwealth Radiation and Nuclear Activities*;

Audit Report No.31 2004–2005 *Centrelink's Customer Feedback Systems-Summary Report* (ANAO Report Nos.32–36 inclusive) and Audit Report No.40 2004–2005 *The Edge Project*;

Audit Report No.45 2004–2005 *Management of Selected Defence System Program Offices*;

Audit Report No.50 2004–2005 *Drought Assistance*;

Audit Report No.51 2004–2005 *DEWR's oversight of Job Network services to job seekers*;

Audit Report No.58 2004–2005 *Helping Carers: the National Respite for Carers Program, Department of Health and Ageing*;

Audit Report No.3 2005–2006 *Management of the M113 Armoured Personnel Carrier Upgrade Project, Department of Defence*;

Audit Report No.6 2005–2006 *Implementation of Job Network Employment Services Contract 3*;

Audit Report No.2 2005–2006 *Regulation of the Office of the Gene Technology Regulator*;

Audit Report No.11 2005–2006 *BSP Senate Order for Departmental and Agency Contracts*;

Audit Report No.17 2005–2006 *Administration of the Superannuation Lost Members Register*;

Audit Report No.21 2005–2006 *Audits of the Financial Statements of Australian Government Entities for the period ended 30 June 2005*;

Audit Report No.23 2005–2006 *IT Security Management*;

Audit Report No.27 2005–2006 *Management and Reporting on Expenditure on Consultants*;

Audit Report No.28 2005–2006 *Management of Net Appropriation Agreements* ;

Audit Report No.29 2005–2006 *Integrity of Electronic Customer Records*;

Audit Report No.31 2005–2006 *Roads to Recovery*;

Audit Report No.32 2005–2006 *Tender for Detention Centre Contract*; and

Audit Report No.34 2005–2006 *Advance Passenger Processing*.



The House of Representatives Standing Committee on Environment and Heritage reviewed Audit Report No.22 2005–2006 *Cross-Portfolio Audit of Green Office Procurement*. The Committee commented positively on the report. The Chairman noted that the report was very comprehensive and enlightening for members of the Committee.

The House of Representatives Standing Committee on Economics, Finance and Public Administration will be reviewing Audit Report No.25 2005–2006 *ASIC's Implementation of Financial Services Licences* in the coming year.

In addition a submission was prepared and evidence was provided to the Senate Legal and Constitutional References Committee's inquiry into the administration and operation of the *Migration Act 1958*.

We also provided a submission and gave evidence to the Joint Standing Committee on Migration's review of Audit Report No.1 2005–2006 *Management of Detention Centre Contracts – Part B*.

#### ANAO AUDITS UNDERTAKEN BY FORMAL REQUEST OF THE PARLIAMENT OR MINISTERS

Audit Report No. 11 of 2005–2006 *The Senate Order for Departmental and Agency Contracts (Financial Year 2004–2005 Compliance)* was conducted at the request of the Senate. This audit examined FMA Act agencies' compliance with the Senate Order for Departmental and Agency Contracts, first issued on 20 June 2001. The audit was the seventh audit in a series of audits commencing with Audit Report No.33 2001–2002. The eighth audit is currently in progress.

Audit Report No.19 2005–2006 *Managing for Quarantine Effectiveness—Follow-up* was undertaken at the request of the JCPAA.

An audit of implementation of the Parliamentary resolutions arising from the *Review by the Parliamentary Service Commissioner of Aspects of the Administration of the Parliament* arose from advice by the JCPAA in 2003 that administration of the parliamentary departments represented an audit priority of the Parliament.

Three audits were requested by the Parliament and accepted by the Auditor-General:

- administration of the Regional Partnerships Program (requested by the Senate Finance and Public Administration References Committee);
- processes for receiving and referring for investigation statutory reports of suspected breaches of the *Corporations Act 2001* (requested by the Joint Committee on Corporations and Financial Services); and
- Australian Pesticides and Veterinary Medicines Authority (requested by the Parliamentary Secretary to the Minister for Agriculture, Fisheries and Forestry).

In addition, the Minister for Transport and Regional Services requested a review of Airservices Australia's administration of a contract with the Government of the Solomon Islands.



## CONTRIBUTION TO PUBLIC SECTOR ENTITIES

Implementation of recommendations made in audit reports is not mandatory and they must stand on their merits. A major outcome from the ANAO's performance audit work is improvement in management and administration of major Australian Government programs brought about by entities' acceptance and implementation of 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 the way an area of public service is being conducted.

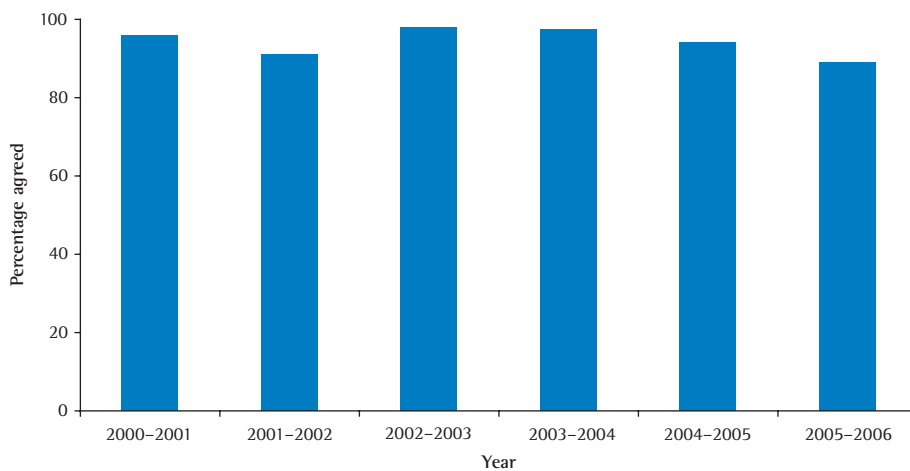
### AGREEMENT TO RECOMMENDATIONS

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 we make genuine efforts to achieve this result. However, irreconcilable differences will occur on some occasions and when this happens, agency comments are included in full in the final report.

For 2005-2006 we made 237 recommendations in our audit reports to improve agency performance and accountability. These recommendations are sometimes broken down into components for clarity such that it is possible to agree with parts of one recommendation and disagree with other parts. Of the 237 recommendations 211 (89 per cent) were fully agreed in all parts, 24 (10 per cent) were agreed overall, but with some qualification or a minor disagreement. One full recommendation was disagreed and one disagreed in the majority of its parts.

This is similar to last year's result where 94 per cent of our recommendations were fully agreed and six per cent were agreed with qualification. Figures for the last six years are shown in Figure 4.

FIGURE 4: AGREEMENT TO RECOMMENDATIONS IN PERFORMANCE AUDIT REPORTS



### FINANCIAL IMPACT

Three reports tabled in 2005–2006 indicated that savings could be made by implementing audit recommendations. Audit Report No.22 2005–2006 *Cross-Portfolio Audit of Green Office Procurement* estimated annual savings of almost \$10 million could be achieved if agencies were more proactive in energy and water conservation in particular. Audit Report No.27 2005–2006 *Reporting of Expenditure on Consultants* estimated annual savings of at least \$2.6 million could be achieved from rationalising reporting mechanisms. Audit Report No.31 2005–2006 *Roads to Recovery* identified costs of between \$8.4 million and \$19.4 million resulting from delays in the use of funds for roadworks by local governments. The audit found that better matching of program payments to local government would eliminate these costs in the second Roads to Recovery Program, which commenced on 1 July 2005.

### QUALITY ASSURANCE

The ANAO continued its program of quality assurance reviews of selected performance 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 and Assurance Standards. Interim results of the review of audits tabled in 2005–2006 found that across the audits examined there was general compliance with these standards. It was found there was room for improvement in documenting planning and fieldwork phases of performance audits.

A Peer Review arrangement for performance audits involving Australia and the 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. During 2005 a New Zealand team reviewed two ANAO performance audits. The team reported to the Auditor-General that:

- the audits had followed the prescribed procedures and processes;
- the audits had been conducted in a manner consistent with sound auditing practice;
- the reports were of a high quality, tackling complex subjects through a highly professional and robust audit approach; and
- there were opportunities for improvement by building on existing ANAO practice.

Steps are being taken to address the improvement opportunities identified by the Peer Review.

## 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 Outputs Group 2 in 2005–2006 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, and benefits from, the work or experience of the global auditing community.

#### ASSISTANCE TO PARLIAMENT

Consistent with past practice, the ANAO continued to liaise closely with the Parliament by providing briefings to Ministers, Shadow Ministers, other members of Parliament, Parliamentary Committees and their staff on audit reports tabled in the Parliament.

The assistance to Parliament output cost \$0.503 million in 2005–2006 (\$0.333 million in 2004–2005).

#### 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. Our emphasis is to identify, assess and articulate good practice from our 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 2005–2006, three BPGs were published against a target of four, noting that the fourth guide was published in August 2006. Our BPGs continue to be well-received by entities, other audit offices and professional organisations.

## BPGS PUBLISHED IN 2005-2006

The three BPGs published in 2005-2006 are described below.

*User-Friendly Forms: Key Principles and Practices to Effectively Design and Communicate Australian Government Forms* (January 2006). This Guide aims to increase the useability and effectiveness of forms provided by agencies to individuals, to support service delivery and to satisfy other government objectives. It is intended as a reference for people responsible for the design and testing of Australian Government forms.

*Administration of Fringe Benefit Tax* (February 2006). This Guide outlines better practices for administration of FBT and provides practical guidance on managing a range of benefits commonly provided by Australian Government entities. It is intended to complement, not be a substitute for, existing Tax Office FBT guidance.

*Preparation of Financial Statements by Public Sector Entities* (April 2006). This Guide was prepared to assist entities in meeting their financial reporting responsibilities. It discusses factors that contribute to the successful preparation of an entity's financial statements, as well as providing examples and checklists of documents typically generated as part of the financial statement process.

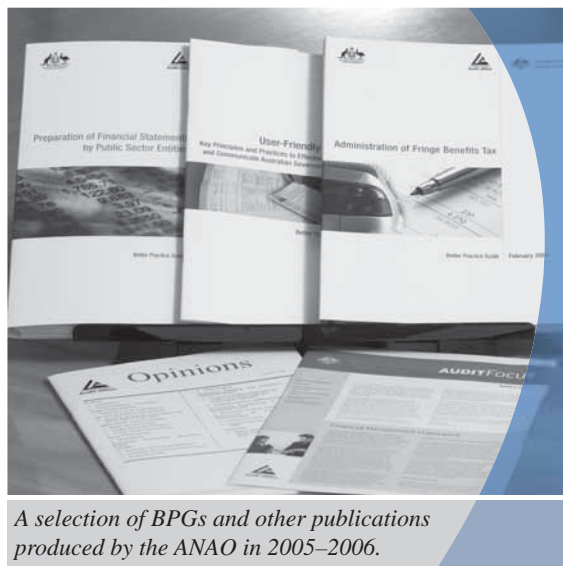
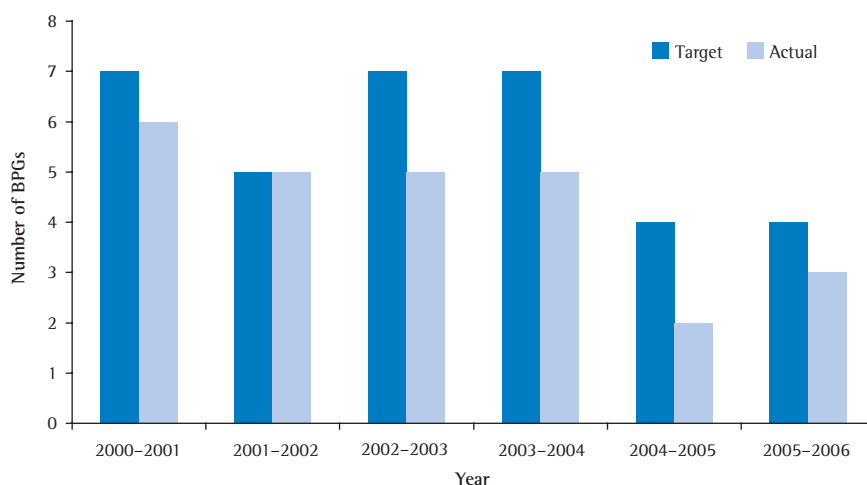


Figure 5 shows this years' result compared to the number of BPGs produced over the last six years.

FIGURE 5: NUMBER OF BPGS PRODUCED



## COST

BPGs cost \$1.590 million in 2005–2006 (\$0.349 million in 2004–2005). 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 an increase in the number of BPGs from two in 2004–2005, to three in 2005–2006 and includes the cost of three further guides underway.

## INCREASING AWARENESS OF BPGS AND RELATED PRODUCTS

During 2005–2006, ANAO officers continued to participate in a number of APS forums, seminars and conferences to increase awareness of various BPGs and other audit reports. We encourages entities to use BPGs to review their own arrangements and practices.

## 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 staff typically attend international conferences and workshops, participate in short-term placements and prepare research papers.

The ANAO is a member of the INTOSAI Professional Standards Committee and the INTOSAI Working Group on Privatisation. We contribute to this Working Group by sharing information on our own experiences and commenting on draft documents. A representative from the ANAO attended a Working Group meeting in Brazil in September 2005.

A Performance Audit Sub-committee of the Professional Standards Committee was established after approval by the INTOSAI Governing Board in November 2005. The mandate for the subcommittee includes developing standards and guidelines for performance auditing and monitoring developments and reforms in regard to performance audit. We accepted a nomination to represent ASOSAI on the Performance Audit Sub-committee in February 2006. We provided feedback on the development of the formation process, draft terms of reference and work plan.

In January 2006 INTOSAI invited the ANAO to participate as a member of the newly established *Task Force on the Accountability and Audit of Disaster and Related Aid*. The first full meeting of the Task Force took place in Geneva in March 2006, which was attended by the Deputy Auditor-General. The discussion covered a range of issues including: goals; the use of Development Assistance Databases for the tracking of aid flows (supported by the United Nations Development Program); the added value of geographical information systems for auditing aid flows; and the Financial Tracking Service of the United Nations Office for the Coordination of Humanitarian Affairs.

We also accepted an invitation to be a member of the Indonesian Audit Office's (BPK) advisory board. The Advisory Board will assist the BPK in enhancing its capacity and capability to audit the management of international donor funding. In April 2006, the Auditor-General attended the inaugural meeting of the Advisory Board to BPK on its Tsunami-funds audit strategy. As part of our continuing dialogue



*Alan Thompson (far left), Paul Nicoll (second from the left) and Steve Chapman (third from the right), with three senior members of the Indonesian Board of Audit.*

with Indonesia, a delegation of three senior members of the Indonesian Board of Audit visited the ANAO in February 2006. Shortly after, two senior ANAO officers visited the Board of Audit to identify priorities for capacity building.

The Auditor-General is the only Australian representative 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. 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. The Auditor-General attended meetings of the Board during the year.

The ANAO contributes to the development of other audit offices by hosting a number of international visitors throughout the year. During this year, we hosted 34 short-term visits for 319 delegates, from a number of countries including Thailand, Brazil, South Africa, Korea, China, Vietnam, United Kingdom, Indonesia and Papua New Guinea. Overall, delegates provided very positive feedback on their visit.

In addition, we have a senior officer seconded to the Papua New Guinea (PNG) Audit Office as our contribution to the PNG Enhanced Co-operation Program.

Our international staff exchange program with the Office of the Comptroller and Auditor-General of Ireland and the Office of the Auditor-General of Canada continued this year. More information on these exchanges may be found under 'Management of Human Resources' in the 'Management and Accountability' section of this report.

### NATIONAL REPRESENTATION

At the national level, the ANAO is a member of the Australasian Council of Auditors-General (ACAG). ACAG comprises the Auditor-General of each Australian State and Territory, Fiji, New Zealand and Papua New Guinea. ACAG's objective is to promote public sector auditing in the Australasian region through an exchange of experiences, ideas, training initiatives and cooperation. We contribute to ACAG's work by attending business meetings, preparing papers, participating in information exchanges, peer reviews and training. We also hosted an ACAG meeting in Canberra in May 2006.

As a member of the Australian Auditing and Assurance Standards Board, the Auditor-General attended Board meetings during 2005–2006.

### COST

The national and international representation output cost \$0.317 million in 2005–2006 (\$0.587 million in 2004–2005).

### CLIENT SEMINARS AND ADVICE

In addition to its primary role of providing independent assurance and advice to the Parliament, we also seek to support and advise audit clients where this complements our primary role and is within our 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 2005–2006 in Canberra, Sydney and Melbourne. The first series was conducted in February and March 2006 and the second series in June 2006. As in previous years, these seminars generated a great deal of interest and were well received by attendees. Seminar feedback forms from the February and March 2006 seminars revealed that 93 per cent of participants were satisfied that the seminar had met their needs.



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

#### ANAO NEWSLETTERS

The ANAO produces two newsletters, namely *Opinions* and *AuditFocus*, to provide technical information and audit related items of general interest. These are described in more detail below.



*Ruth Cully from the Research and Development Branch*

#### OPINIONS

*Opinions* is a newsletter that provides audit clients with information on developments in financial reporting and disclosure, together with details of recent performance audit reports and better practice guides. It also lists audits scheduled for completion in the near future. *Opinions* has a wide distribution including Chief Executives, Chief Financial Officers, Heads of Internal Audit and other audit offices. Editions of *Opinions* were published in August and December 2005, and in March 2006.

#### AUDITFOCUS

Due to its broad mandate, the ANAO is in a unique position to observe public sector administration—what works and what doesn't. During the year we commenced the production of the newsletter *AuditFocus*, which captures the lessons from our audit work that are likely to be of general interest and application. During 2005–2006, two editions of the newsletter were published and included articles on a range of issues including compliance with the APS financial framework, maintaining proper records, project and contract management, effective management of regulatory functions, managing conflicts of interest and information technology issues. We expect to publish *AuditFocus* three times a year; copies are available on the ANAO website.

#### COST

The client seminars and advice output cost \$0.016 million in 2005–2006 (\$0.015 million in 2004–2005).

#### CONTRIBUTION TO OUTCOMES

In 2005–2006, 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 audits;
- 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 our outcomes.

#### FINANCIAL STATEMENT AUDIT REPORTS

The ANAO 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 some financial statement audits to senior ANAO staff based on a risk assessment of each audit. In addition to the audit opinion on financial statements, we provide 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. We also provide 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 entities 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.

#### FINANCIAL STATEMENT AUDIT – PERIOD ENDED 30 JUNE 2005

In December 2005, Audit Report No 21<sup>1</sup> was tabled that summarised the final result of the audits of the financial statements of Australian Government entities for the period ended 30 June 2005,<sup>2</sup> including the Consolidated Financial Statements of the Australian Government. A commentary was provided on

<sup>1</sup> Audit Report No.21 2005–2006 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2005*.

<sup>2</sup> For the year ending 2005–2006, the audit cycle is completed around the end of the calendar year 2006. This means we can only report the results of 2004–2005 financial audit cycle in this report.

a number of contemporary issues relating to key developments in the financial reporting and auditing framework impacting the Australian Government and its reporting entities. Also outlined were the results of the review of the triple bottom line reports for the Department of Families, Community Services and Indigenous Affairs and the Department of the Environment and Heritage.

There was a reduction in the number of material general Government Sector Entities that provided clearance to the Department of Finance and Administration by the 30 July deadline (76 per cent, down from 88 per cent in 2003–2004). This was largely attributed to difficulties in managing the preparation of the financial statements. To help promote improvement in this process, we published a comprehensive better practice guide on the preparation of financial statements in April 2006.<sup>3</sup>

The December 2005 report also summarises the final results of the audits of the financial statements, providing details about 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.

The report revealed 18 breaches of the Constitution, largely in relation to reliance placed on ineffective section 31 agreements for the authority to retain and spend revenue from independent sources. Additional statutory disclosures were included in the audit reports of 18 entities, relating to expenditure of receipts generated by entities that had not been properly authorised for spending due to either the ineffectiveness or absence of the necessary instrument (and agreement made under Section 31 of the FMA Act). Further, a breach of section 48 was reported as a result of deficiencies in the accounts and records of the Department of Defence.



*ANAO Financial Statement Auditors, from left: Martin Fox, Niti Mehta and Lorena Skipper.*

The report also summarised progress and some of the difficulties encountered in the implementation of Australian Equivalents to International Financial Reporting Standards (AEIFRS). The first stage of the process to adopt AEIFRS was for entities to produce and have audited a restated AEIFRS compliant balance sheet; schedules of administered assets and liabilities; and accounting

<sup>3</sup> *Preparation of Financial Statements by Public Sector Entities* (April 2006).

policy notes at 1 July 2004. The report highlighted a number of common areas of impact and areas of significant financial impact based on the results of work done by entities. Some of the difficulties encountered by entities during this phase included:

- the allocation of resources to manage the transition to AEIFRS;
- the identification of key changes; and
- management's oversight and involvement in this process.

Australian Accounting Standards also required disclosure in the 2004–2005 financial statements of the effects of the adoption of AEIFRS for the reporting period starting 1 July 2005. We reported that 96 per cent of material general government sector entities complied with this requirement. The report identified some significant adjustments estimated and reported by the Department of Finance and Administration, the Australian Office of Financial Management and Centrelink. We also stated that the Department of Defence had been unable to quantify the impact of transitioning to AEIFRS due to the scale and complexity of the matters involved.

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 such issues as:

- opportunities for improvement within the financial statement preparation process;
- the need to develop, implement, test and document comprehensive business continuity plans;
- deficiencies in the performance of key reconciliations;
- shortcomings in access security within the HRMIS and the FMIS; and
- deficiencies in the robustness of IT control environments.

### INTERIM FINANCIAL STATEMENT AUDIT – PERIOD ENDED 30 JUNE 2006

In June 2006, Audit Report No 48<sup>4</sup> was tabled which presented the results of the interim phase of the 2005–2006 financial statement audits. The audits encompassed a review of governance arrangements related to entities' financial management responsibilities, and an examination of internal control, including information technology system controls for all portfolio departments and other major General Government Sector (GGS) entities that represent 95 per cent of total GGS revenues and expenses. The reviews are designed to assess the reliance that can be placed on internal controls to prepare complete and accurate information for financial reporting purposes.

<sup>4</sup> Audit Report No 48 2005–2006 *Interim Report of the Audit of Financial Statements of General Government Sector Entities for the Year Ending 30 June 2006*.

## 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 conducting an audit of an entity's financial statements, we focus on specific elements of the control environment. The main elements reviewed are:

- senior executive group arrangements;
- audit committee arrangements;
- systems of authorisation, recording and procedures; and
- a financial performance management regime.

A large majority of entities have established key elements of control environments which provide a sound basis for effective financial management. In particular, there is an increasing awareness of the importance of audit committees; entities fully understanding their own operations; and the risks in achieving corporate objectives. However, issues associated with legacy systems and the implementation of new systems have also been noted. Some inconsistencies still remain in the application and execution of better practice approaches to compliance with the financial framework and service arrangements between Australian Government bodies.

In assessing entities' risk management processes, we identified some inconsistencies in the application and execution of sound practice in business continuity and fraud control management.

## INFORMATION TECHNOLOGY SYSTEMS

The Australian Government has a substantial investment in information technology (IT), with the delivery of many government programs and services critically dependant upon technology. Because of this significance, the ANAO regularly assesses the effectiveness of information system controls supporting the financial statement reporting process. The focus this year was on: IT governance; business continuity management; IT security; and (where applicable) the SAP financial system.<sup>5</sup> Each of these areas of focus are discussed below.

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<sup>5</sup> SAP is a proprietary financial management information system widely used in the Australian Government Public Sector.

## IT GOVERNANCE

IT governance is a well established discipline in the majority of entities, with current practices assisting management to provide direction for the use and alignment of IT and the management of IT risks. Most entities have established IT strategic steering committees and have implemented appropriate structures to facilitate the direction, evaluation and monitoring of IT activities. However, a number of entities have yet to effectively integrate IT risk management processes into their overall corporate risk management framework.

## BUSINESS CONTINUITY

The majority of entities have continued to make improvements in their business continuity management practices. Some 75 per cent of entities provide continuity awareness training through staff induction programs and a similar number record and report on incidents that affect the availability of IT systems. However, a significant number of entities have not incorporated technology risk assessment into their continuity frameworks and do not conduct regular and integrated testing of their continuity arrangements. Further, some 40 per cent of entities have yet to fully develop disaster recovery plans for all key business systems and a number have not established processes to regularly monitor and assess the currency and effectiveness of their plans.

## IT SECURITY

The majority of entities have also continued to make improvements in their IT security management practices. Some 90 per cent of entities have developed an IT security management framework that is supported by organisational security policies and practices. A similar number of entities regularly conduct formal security awareness briefings and perform intrusion testing. However, a number of entities still have weaknesses in the area of monitoring of access privileges, performing regular assessments of IT security, and implementing incident detection and escalation procedures.

## SAP FINANCIAL SYSTEM

The SAP financial system is utilised by many large agencies and is a highly configurable application. Almost all entities have improved application security through restricting access to powerful software that allows system information to be changed and implementing better user access administration, although most entities could strengthen the monitoring of user access. We have observed improved and strengthened system controls for some entities (generally those reported on last year), while others still had poorly configured controls and/or controls not compliant with internal policy and procedures.

We will continue to review IT governance, business continuity and IT security controls given their importance to the availability, confidentiality and integrity of information. The establishment and maintenance of a strong IT control environment assists entities to manage and mitigate the risks associated with the increasing use and dependence on technology. Controls also provide ongoing assurance over the reliability of reported financial information.

## 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 included:

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



*Vandana Singh and Matthew Plum of IT Audit.*

Overall, the interim phase of the audit found that 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 reconciliations, revenue and debt management, employment and related entitlements processing, payment processing, asset processing and management and documentation of policies and procedures.

In addition, the large number of control weaknesses relating to IT controls, such as the management of user and systems access, IT security and change controls, indicates that increased management attention is required to provide assurance that entities have appropriate information systems controls in place.

## INTERIM 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, or financial reporting 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, or financial reporting 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 2005–2006, excluding the Department of Defence (Defence) and the Defence Materiel Organisation (DMO), 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 in both 2005–2006 and 2004–2005 is three;
- the total number of ‘A’ category audit issues is nine in both 2005–2006 and 2004–2005;
- the number of entities with no category ‘A’ or ‘B’ audit issues was seven in 2005–2006, up from six in 2004–2005;
- the total number of ‘B’ category audit issues across all entities, increased from 59 in 2004–2005 to 67 in 2005–2006, due largely to a small deterioration in performance by a number of entities and the fact that no findings were reported last year for the Department of Human Services as the interim audit was not completed when the report was being prepared; and
- five entities reported an improvement in the number of ‘B’ category audit issues, seven entities showed a deterioration in their position, and eight entities remained in the same position.

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

## INTERIM AUDIT CONCLUSIONS

The results of the interim phase of the audit for entities covered in the interim report indicated that the effectiveness of control activities over business and accounting processes have generally been maintained at a reasonable level, although the total numbers of moderate audit findings increased in 2005–2006 (excluding Defence and DMO). The audit findings suggested that entities need to pay more attention to the controls underpinning their financial management frameworks, particularly in the areas of business continuity and information systems.

A number of issues, which influence our ability to provide positive assurance about an entity’s internal control environment, were also identified in this year’s interim phase. These issues included:

- shortcomings in the management of compliance with financial legislation;
- issues relating to arrangements for entities to work collaboratively on a whole-of-Government basis;
- the level of integration of risk management with corporate planning and budgeting;



- the level of development of a business continuity framework and implementation of disaster recovery plans and processes;
- weaknesses in fraud control planning and mechanisms;
- concerns over control self assessment practices;
- the adoption of the Australian Equivalent of International Financial Reporting Standards in 2005–2006; and
- other significant issues that are applicable to a number of entities include the complexities inherent in accounting for estimates and the tight reporting deadlines for Australian Government entities.

## AUDIT METHODOLOGY

The ANAO continues to utilise a risk based methodology in undertaking our 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.

As part of our commitment to improved service and enhanced products a new methodology and enabling technology was purchased in 2005–2006. This methodology and enabling technology is currently being utilised on five financial statement audits in a pilot program during the 2005–2006 audit cycle. Upon satisfactory completion of the pilot program, it is proposed that the new methodology and enabling technology will be utilised by all our financial statement audit staff for the 2006–2007 audit cycle. Methodologies utilised by the ANAO are supported by comprehensive training programs.

## CLIENT SURVEY

An independent survey was completed in May 2006 to gain feedback from entities on the conduct of the audit of their 2004–2005 financial statements<sup>6</sup>. Of the entities that were included in the survey, 91 responses were received. The survey results received were very positive and indicated a high degree of satisfaction with the performance of the ANAO in auditing entities 2004–2005 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
- 93 per cent of entities agreed that the ANAO's financial statement audit services make a valuable contribution to the organisation.

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<sup>6</sup> Due to timing of the financial statement audit cycle, this data relates to the 2004–2005 financial year.



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. We are 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.

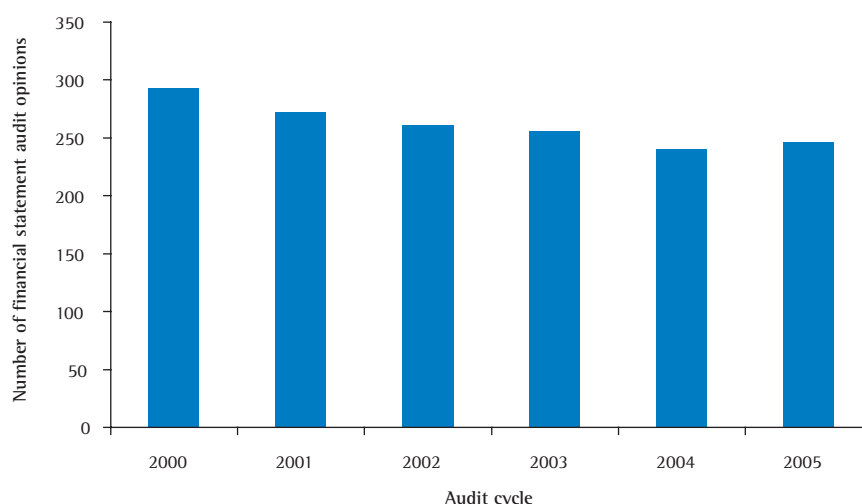
## PERFORMANCE

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 2004–2005 financial statement audit cycle, in comparison to previous periods, is illustrated in Figure 6.<sup>7</sup>

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



During the 2004–2005 audit cycle we issued 246 audit opinions. This compares with 240 opinions in the 2003–2004 audit cycle. Separate reports were also provided to Ministers on the results of all financial statement audits.

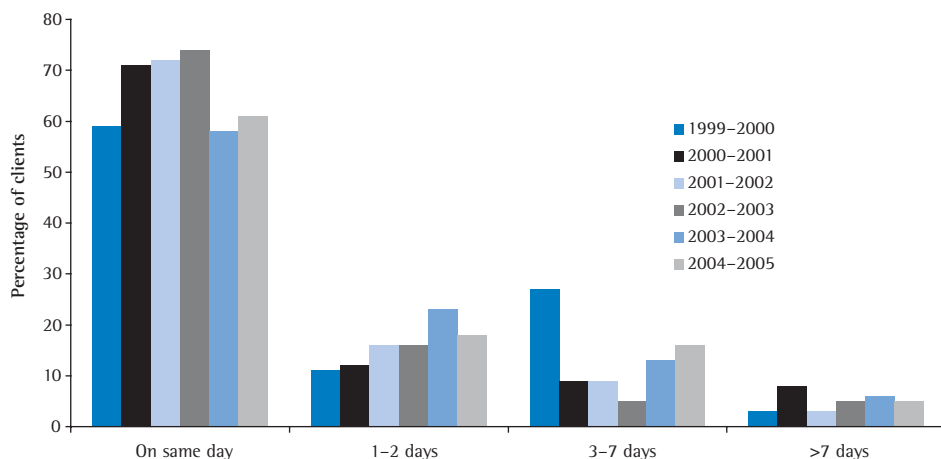
### TIMELINESS OF ISSUING OPINIONS

Issuing audit opinions on the day the financial statements are signed, or shortly thereafter, assists agencies in meeting their own management and annual report commitments. For the audit cycle, 79 per cent of opinions were issued on the day the financial statements were signed or within two days, compared to 81 per cent for the previous audit cycle.

<sup>7</sup> For the year ending 2005–2006, the audit cycle is completed around the end of the calendar year 2006. This means we can only report the results of 2004–2005 financial audit cycle in this report.

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.<sup>8</sup> The Budget Estimates and Framework Review (BEFR) sets delivery targets for entity financial statements. For the 2004–2005 financial year, 76 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. This compared to 73 per cent in 2003–2004.

#### COST OF FINANCIAL STATEMENT AUDITS

Financial statement audits (Output Group 3.1) for the 2005–2006 financial year required approximately 198 000 hours and consumed \$39.255 million of resources (190 000 hours and \$35.616 million respectively in 2004–2005). The increase in hours required to complete the audits was primarily a result of increased auditing complexities and the introduction of AEIFRS.

#### COST OF ASSURANCE AUDIT SERVICES

Overall, the Assurance Audit Services Group charged 222 347 hours in 2005–2006, generating \$30.114 million in notional cost recovery and actual revenue against actual costs of \$29.308 million (218 912 hours in 2004–2005 generating \$27.804 million in notional cost recovery and actual revenue against actual costs of \$27.462 million).

<sup>8</sup> Due to the timing of the financial statement audits cycle, this data relates to the 2004–2005 financial year.

## AUDIT FEES

Commonwealth authorities and companies and their subsidiaries that are subject to the *Commonwealth Authorities and Companies Act 1997* are liable to pay fees for the audit of their financial statements. These fees are based on a scale determined by the Auditor-General under section 14 of the *Auditor-General Act 1997*.

In determining audit fees, we continue 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. Audit fees were recovered, either notionally or actually, in 2005–2006.<sup>9</sup>

## BUSINESS SUPPORT PROCESS (BSP) AUDITS

Business Support Process (BSP) audits examine business processes that support the delivery of outputs provided by public sector entities. In a formal sense, BSPs are performance audits and are normally conducted in a selection of entities, under the provisions of section 18 of the Act. This section provides for the examination of a particular aspect of the operations of the whole or part of the Australian Government sector.

These audits are designed to examine 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 Better Practice Guides. (See Output Group 2.)



From left Bill Bonney and Russell Eade from Business Support Process Audits.

<sup>9</sup> Section 14 also requires the Auditor-General to include in the ANAO Annual Report, details of the basis on which the Auditor-General determined the audit fees that applied during the financial year concerned.

## 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

The three BSP audit reports listed below were tabled during 2005–2006 against a target of six reports (the remaining three reports are underway). Each of these reports is summarised in Appendix 4.

- Audit Report No.11 2005–2006 *The Senate Order for Departmental and Agency Contracts (Calendar Year 2004 Compliance)*;
- Audit Report No.16 2005–2006 *The Management and Processing of Leave*; and
- Audit Report No.37 2005–2006 *The Management of Infrastructure Plant and Equipment Asset*.

## AVERAGE TIMEFRAMES AND COSTS OF THE TABLED REPORTS

The average time taken to complete the tabled BSP audit reports was 10 months with a range from 8 months to 14 months.

The average cost of the tabled BSP audit reports was \$0.234 million with a range from \$0.203 million to \$0.440 million.

## COST OF THE BSP AUDIT PROGRAM

The BSP audit reports output consumed \$1.565 million in resources in 2005–2006 (\$1.507 million in 2004–2005).

## PROTECTIVE SECURITY AUDITS

Protective security audits are a separate category of BSP audits and as such are regarded as performance audits. These audits are undertaken under section 18 of the Act. The audits examine particular aspects of security, including information security, personnel security and physical security.

## PERFORMANCE

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

## NUMBER OF PROTECTIVE SECURITY REPORTS

One protective security audit report, Audit Report No.23 2005–2006, *IT Security Management*, was tabled during 2005–2006, against a target of one. The report of the audit is summarised at Appendix 4.

## TIMEFRAME AND COST OF THE TABLED REPORT

The length of time taken to complete the tabled report was 15 months at a cost of \$0.333 million.

### COST

The protective security audit reports output consumed \$0.070 million in resources in 2005–2006 (\$0.397 million in 2004–2005). The variation in costs reflects the fact that the majority of the costs of the audit tabled in 2005–2006 were incurred in the previous year.

## OTHER ATTEST REPORTS

The ANAO also provided assurance services to entities on matters outside the scope of the annual financial statement audit. Entities can request the ANAO to undertake reviews of aspects of their activities on a cost recovery basis and a number of entities, as part of their own corporate governance arrangements, are seeking reviews or audits of their half-year financial statements. In addition, these services included grant acquittal certificates, performance information verification and other special purpose engagements. Of particular interest this year was our verification of the triple bottom line<sup>10</sup> reports for the Department of Families, Community Services and Indigenous Affairs and the Department of the Environment and Heritage.

### COST

The cost of the other attest output for 2005–2006 was \$1.681 million (\$1.625 million in 2004–2005).

## CONTRIBUTION TO OUTCOME 2—ASSURANCE

Through the conduct of financial statement 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.

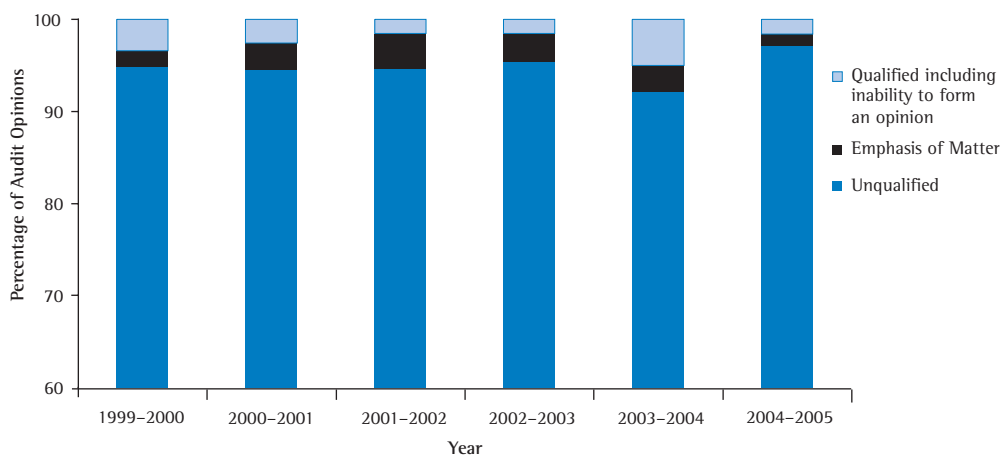
<sup>10</sup> Triple Bottom Line (TBL) focuses on reporting and making decisions explicitly taking into consideration information on economic, environmental and social performance. As such TBL can be seen as both an internal management tool as well as an external reporting framework.

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

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

The need to *qualify* an audit opinion can arise for a number of reasons outside the control of the ANAO. However, we work 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 current audit cycle was 97 per cent.

FIGURE 8: PERCENTAGE OF UNQUALIFIED OPINIONS<sup>11</sup>



## OTHER ASSURANCE AUDIT REPORTING

The financial statement audit opinions are complemented by the assessments provided in the biannual reports to the Parliament covering the control structures of material reporting entities (June); 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 contributed to Output 2.

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 senior management of agencies. Such reports provide an assessment of the internal controls in operation and make recommendations designed to improve the entity's control environment. 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.

<sup>11</sup> The 'emphasis of matter' references are provided in unqualified reports to draw the reader's attention to important matters that aid understanding of the financial statements.

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

The 2005–2006 Interim Phase report discussed earlier in this chapter provides a summary of the financial accounting and information technology 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 our ability to provide positive assurance about an entity's internal control environment are also addressed in this section.

### PARLIAMENTARY INTEREST

The Joint Committee of Public Accounts and Audit (JCPAA) is reviewing Audit Report No. 21 of 2005–2006, *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2005*. The JCPAA is also undertaking an inquiry into financial reporting and equipment acquisition at the Department of Defence and the Defence Materiel Organisation. Further, the JCPAA is undertaking a joint review of Audit Report No. 11, *The Senate Order for Departmental and Agency Contracts (Financial Year 2004-2005 Compliance)*; Audit Report No. 27, *Reporting of Expenditure on Consultants*; and Audit Report No. 23, *IT Security Management*. At the time of preparing this report, these inquiries were in progress.

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### DEVELOPMENTS IN THE AUDITING PROFESSION

Developments, nationally and internationally, designed to improve the quality and comparability of entity financial reports will influence the accounting treatments and disclosures in the financial statements of Australian Government entities for 2005–2006 and subsequent years. Key developments include:

- the adoption of the Australian Equivalent of the International Financial Reporting Standards in 2005–2006;
- the development by the Australian Accounting Standards Board (AASB) of a strategy for addressing public sector accounting issues; and
- the issue of an exposure draft for an accounting standard for financial reporting of general government sectors by governments, involving harmonisation of accounting standards with the requirements of Government Finance Statistics.

In addition, Auditing Standards issued by the Australian Auditing and Assurance Standards Board (AUASB) are being enhanced to improve the quality of auditing through:

- the upgrading of these standards in preparation for making them legally enforceable for the purposes of the *Corporations Act 2001* from 1 July 2006; and
- the continuing harmonisation of these standards with International Standards on Auditing (ISAs).

As a result of previous ANAO audits, JCPAA reviews and efforts by the Department of Finance and Administration (Finance), entities are now including an increased consideration of legal and compliance risks as part of their overall risk management frameworks. To reinforce this current commitment to legislative compliance, Finance has implemented a requirement for the 2006–2007 year, for the Chief Executives (CEs) of all FMA agencies to sign an annual Certificate of Compliance. The Certificate requires agencies to focus on its existing responsibilities under the FMA Act and satisfy itself and its responsible Minister that these responsibilities have been discharged.

### QUALITY ASSURANCE

In 2005–2006 the Research and Development Branch quality assurance review program included a selection of:

- 2004–2005 financial statements audits;
- the planning phase, of a selection of 2005–2006 financial statement audits; and
- AEIFRS opening balance audits.

The main areas highlighted by the review that required attention were related to the planning and aligning of resources to audits. The results of these reviews are provided to the Executive Board of Management and action is underway to respond to the results of the review program.



# 4

## 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 2006 the membership of the Board comprised:

- Ian McPhee, Auditor-General (Chair);
- Steve Chapman, Deputy Auditor-General;
- John Meert, Group Executive Director, Performance Audit Services;
- Sheila Bird, Group Executive Director, Performance Audit Services;
- Warren Cochrane, Group Executive Director, Assurance Audit Services;
- Michael Watson, Group Executive Director, Assurance Audit Services;
- John Hawley, Executive Director, Corporate Management Branch; and
- Rachel Harris, Chief Finance Officer.



*The Executive Board of Management as at 30 June 2006, from left Rachel Harris, John Meert, Warren Cochrane, Ian McPhee, John Hawley, Sheila Bird, Michael Watson and Steve Chapman.*

The Board established three 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 2005–2006. At 30 June 2006 its membership comprised:

- Will Laurie, Chair and External Independent Member;
- Bruce Jones, External Independent Member;
- Steve Chapman, Deputy Auditor-General;
- Michael Watson, Group Executive Director, Assurance Audit Services; and
- Brian Boyd, Executive Director, Performance Audit Services.

Observers include: Geoff Wilson, Independent Auditor; Internal Auditors from *Acumen Alliance*, Nick Sheppard and Mark Maskell; John Hawley, Executive Director Corporate Management Branch; and Rachel Harris, Chief Finance Officer.

## INFORMATION STRATEGY COMMITTEE

The Information Strategy Committee assists EBOM with strategic advice and policy business proposals on matters relating to information management and information and communications technology. At 30 June 2006 the membership of this committee comprised:

- Steve Chapman (Chair), Deputy Auditor-General;
- 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.

## REMUNERATION COMMITTEE

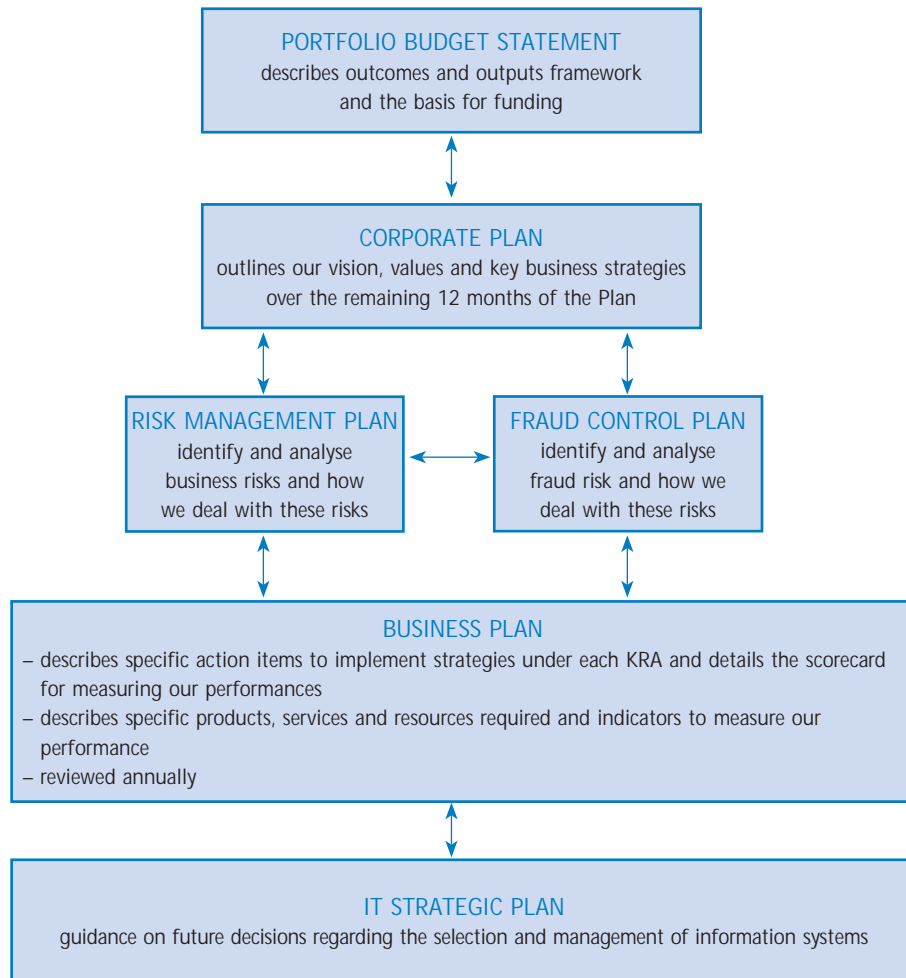
The Remuneration Committee is an advisory body for EBOM for the delivery and application of the ANAO remuneration policy and a decision-making body for determining individual remuneration arrangements. At 30 June 2006, the membership of this committee comprised:

- Steve Chapman (Chair), Deputy Auditor-General;
- Michael Watson, Group Executive Director, Assurance Audit Services;
- Warren Cochrane, Group Executive Director, Assurance Audit Services;
- Sheila Bird, Group Executive Director, Performance Audit Services;
- John Meert, Group Executive Director, Performance Audit Services; and
- John Hawley (Secretariat), Executive Director, Corporate Management Branch.

## 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 2004–2007 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. Services are delivered by focussing on the following four Key Result Areas (KRAs):

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

## BUSINESS PLAN

The Business Plan is a three-year rolling plan that is updated annually.

The current 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.

## RISK MANAGEMENT PLAN

The Risk Management Plan and individual plans for each of the Service Groups, Corporate Management Branch and Research and Development Branch, are updated at least annually. 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.



*Devini Jayawardane and Cable Dohnt from Corporate Management Branch*

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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?

Our reputation for probity, accuracy, efficiency and ethical behaviour are among our most valued characteristics as an Office and all business risks identified in our Risk Management Plan are linked in some way to an overarching reputational risk. Our more serious individual business risks are now monitored by EBOM each month as a standing agenda item. The 2006-2007 Risk Management Plan is derived from Joint Standard AS/NZS 4360: 2004 and was completed in June 2006.

#### FRAUD CONTROL PLAN

A comprehensive Fraud Risk Assessment and Fraud Control Plan is maintained in accordance with the requirements of the *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 into one consolidated document. As with our business risks, our major concern is a risk to our reputation as a result of fraudulent activity. Accordingly, 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. The 2006–2008 Fraud Control Plan was completed in June 2006. Our more serious fraud risks are now monitored by EBOM each month as a standing agenda item.

The requirements of the CFCG have been implemented and we have 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 AND TECHNOLOGY STRATEGIC PLAN

The IT Strategic Plan is a three year plan designed to guide future decisions regarding the selection and management of information services and associated technology. It is linked to our Corporate and Business Plans by providing a framework to facilitate business operations to enable us to achieve our objectives in the four key result areas set out in our Corporate Plan. The 2006–2008 IT Strategic Plan was approved in June 2006.

#### MAINTENANCE OF APPROPRIATE ETHICAL STANDARDS

The ANAO has a reputation for high professional and ethical standards and it is essential to the success of our work that we maintain this status. A guide to conduct, which includes ANAO values and behaviour, is promulgated to all staff, and also forms part of our induction training.

The *ANAO Guide to Conduct* provides information on the conduct expected of all ANAO employees in carrying out their responsibilities, including interacting with clients, fellow employees and other stakeholders. The 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*. It 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*. Additionally, the Guide reflects our 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 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 our financial statements (see Appendix 2) and selected performance audits.

The Act also provides for the Governor-General to appoint an Independent Auditor, on the recommendation of a Minister. The Minister must not make a recommendation to the Governor-General unless the JCPAA has approved the proposal.

Michael Coleman's term as the ANAO's Independent Auditor ended in November 2005; he was replaced by Geoff Wilson, National Managing Partner KPMG Audit and Risk Advisory Services.

Mr Wilson provided an unqualified audit opinion of the ANAO's financial statements for the year ended 30 June 2006. There were no external performance audits conducted in 2005–2006.

### INTERNAL AUDIT

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

Audits completed in 2005–2006 included reviews of:

- salary sacrifice;
- protective security;
- the *Auditor-General Act 1997*;
- asset management;
- flex and toil leave;
- IT security;
- internal audit recommendations made in 2004–2005; and
- compliance with administrative procedures.

Audits in progress at 30 June 2006 are set out below:

- system under development audit for the HR system upgrade;
- system under development audit for *TeamMate* implementation; and
- review of time recording.

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. All recommendations were agreed and action has either been taken or is in progress to address them.

## DECISIONS BY COURTS AND TRIBUNALS

There have been no decisions by courts or tribunals affecting the ANAO during 2005–2006.

## 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 our staffing profile is provided at Appendix 1, Tables A1–1, A1–2, A1–3 and A1–4. During the past year we have built on previous work designed to enhance the management of our workforce. The key initiatives are described below.



## ATTRACTION AND RETENTION OF STAFF

Accounting skills remain in strong demand in the private sector and as a result there were difficulties in attracting talented and suitably qualified people over the past year. In addition to previous measures to improve the attraction and retention, a working group was established to implement a range of key initiatives aimed at the attraction and retention of staff. These initiatives include:

- engaging an external recruitment agency to focus on providing appropriate candidates;
- a review of the advertising and marketing strategy;
- widening the market search to include overseas sources;
- expanding the undergraduate program;
- expanding the secondment program for AASG and PASG staff; and
- conducting special evening sessions for prospective candidates.

The Remuneration Committee conducted a review of all staff remuneration with a view to ensuring fairness in the application of our remuneration policy. A remuneration model is also being developed, in consultation with the Workplace Consultative Forum, to guide future decisions on staff remuneration.

## STAFF INDUCTION

To facilitate a smooth and effective induction into the ANAO, all new staff are provided with the following:

- an induction package before they join the ANAO;
- a self-paced e-induction program which is required to be undertaken in their first few days at the ANAO;
- a presentation of Business Knowledge Modules by supervisors within their first month at the ANAO; and
- specific work area training and service group induction modules and checklists within the first six months at the ANAO.

## MATURING WORKFORCE

Older staff are recognised and valued at the ANAO and we provide the following information to assist in considering employment options:

- a maturing workforce paper outlining short and long term strategies to be implemented;
- an information brochure setting out our approach to managing an 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 WORKPLACE AGREEMENT 2006–2009

A new three year Workplace Agreement was negotiated with staff, effective from 1 June 2006. The agreement is an employee collective agreement between management and staff, in keeping with previous agreements. The agreement was negotiated with staff under the new Work Choices legislation. The key elements of the agreement are:

- salary increases totalling 12 per cent over the life of the agreement;
- an ongoing assessment regime that provides incentives for sustained performance;
- continuation of five weeks annual leave and an extension of carer's leave to include five days from sick leave credits;
- access to paid compassionate leave; and
- further flexibility in working conditions to support our audit program and to facilitate a better balance between work and personal life.

Australian Workplace Agreements (AWA) are available to all staff. For those staff employed on AWAs, employment packages are tailored to meet individual and organisational requirements.

### PERFORMANCE AND ASSESSMENT SCHEME

The ANAO has a four-tier Performance Assessment Scheme. This scheme provides timely feedback to staff on their overall work performance and individual development, while at the same time providing a mechanism to recognise and reward those who have attained high levels of performance. The Scheme requires the preparation of a formal report and rating in November of each year with a mid-cycle review in April. Minor changes as a result of the new Workplace Agreement will be implemented in the coming year.

A summary of ratings for the reporting year are set out in Table 4. It should be noted that there are some staff not included in the Performance Assessment Scheme, for example, graduates and those staff who do not meet minimum service criteria.

TABLE 4: SUMMARY OF PERFORMANCE ASSESSMENT RATING FOR THE PERIOD ENDING 31 OCTOBER 2005

Rating	Outstanding	More than fully effective	Fully effective	Unsatisfactory	Total
ANAO Bands 3 and 4 (Exec level 1 and 2)	9	50	53	2	114
ANAO Bands 1 and 2 (APS 1-6)	2	56	68	1	127
Total	11 (5%)	106 (44%)	121 (50%)	3 (1%)	241

#### STAFF SURVEY

The annual staff survey allows us to assess a range of personnel issues and report on targets and strategies from our Corporate and Business Plans. This year's survey achieved a 68 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 career planning for staff, staff turnover and staff mobility expectations. Overall, 71 per cent of respondents indicated they were satisfied with their work, which meets our Business Plan target of greater than 70 per cent.

#### SES CONFERENCES

SES conferences provide the executive and senior management with a forum to consider business issues away from the distractions of the normal work environment.

Two SES conferences were conducted over the reporting year. The conference in November 2005 focussed on the theme of integration and ways of achieving efficiencies by improving, for example, communication between functional groups as well as better work practices and more efficient use of resources. The March 2006 conference addressed, among other things, staff retention, risk management and the forthcoming business plan, including key projects for the coming year.

#### WORKPLACE CONSULTATIVE FORUM

The Workplace Consultative Forum (WCF) plays an important role in facilitating consultation on a range of operational and strategic issues affecting staff in the workplace. In 2005-2006 the WCF comprised three staff elected representatives, three union members and three management representatives.

The WCF met twice during the year, down from six meetings in 2004-2005. The frequency of meetings was less than in 2004-2005 due to the emphasis placed on developing the new Workplace Agreement.

## SES REMUNERATION

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

## PERFORMANCE PAY

In 2005–2006, a total of \$0.656 million in performance bonuses was paid to eligible ANAO staff (\$0.819 million in 2004–2005). Aggregated information on performance pay is set out in Appendix 1, Table A1–8.

## LEARNING AND PROFESSIONAL DEVELOPMENT

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

Learning and professional development in the ANAO is managed through an integrated learning and development program which forms part of human resource management framework. The key elements of the program consist of:

- an annual Professional Development Calendar that lists available courses;
- a Personal Development Scheme that includes an Individual Development Plan;
- individual staff and work group development opportunities; and
- a suite of targeted in-house technical and management courses;

All in-house and external courses are posted on the ANAO Corporate Calendar. To enable longer term planning, these courses are notified approximately twelve months in advance of the presentation dates.

The Learning and Development Framework Policy is underpinned by a Capabilities Framework, and as such, is based on the skills and knowledge identified 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 that came from attending substantive courses or learning opportunities, such as conferences or professional seminars. The overall result of these assessments is reported in our scorecard in the section, “Reporting on Performance”.

#### PERSONAL DEVELOPMENT SCHEME

The Personal Development Scheme is an element of the ANAO performance management regime and 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 formal and structured process for assessment against the ANAO capabilities to determine individual staff development needs, including academic studies, and future career options. Identified training and development 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 groups are encouraged and supported to take responsibility for their own professional development through opportunities that are tailored to meet their specific training needs including any technical requirements.

#### STAFF SEMINAR SERIES

The Staff Seminar Series provides an opportunity for staff to engage with a wide range of senior professionals who present their perspectives on topical issues. Four sessions were presented this year by: the President of the Administrative Review Council; the Clerk of the Senate; the Australian Public Service Commissioner and the Chief Financial Officer for Australian Government Financial Reporting.

#### SECONDMENT/EXCHANGE PROGRAM

The secondment and exchange program provides an opportunity for staff to work in other organisations to enhance their skills and knowledge by sharing experiences, information and knowledge. This arrangement is also a reward mechanism for sustained high performance and forms part of our retention strategy.

#### PLACEMENT IN APS AGENCIES

A total of six staff members were seconded over the reporting year on a full cost-recovery basis. Five staff members from Assurance Audit Services worked in finance areas of selected agencies set out in Table 5. These placings facilitated a better understanding of the working environment and finance operations in these agencies. One staff member from Performance Audit Services was engaged in non-audit work experience in a line area of the Department of Employment and Workplace Relations.

#### PLACEMENT IN PARLIAMENTARY COMMITTEES/DEPARTMENTS

Two Performance Audit staff were selected for short term placement with the Joint Committee of Public Accounts and Audit and the Department of the Senate. These placements were intended to improve the individual's understanding of the Parliamentary process and foster stronger relationships between the ANAO and Parliamentary committees and departments.

## EXCHANGE PLACEMENT – CANADA AND IRELAND

The exchange placements program with the Office of the Auditor-General of Canada and the Office of the Comptroller and Auditor-General of Ireland continued this year. The placements involved staff members from the Assurance Audit Services Group working overseas for a four to eight week period, with reciprocal arrangements as set out 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 placements have enabled us to reduce the use of contractors at peak periods. A similar program for the Performance Audit Services Group has been established with the Office of the Auditor-General of Canada, to commence in August 2006.

TABLE 5: SUMMARY OF STAFF SECONDMENTS AND EXCHANGES DURING 2005-2006

Secondments/Exchanges to the ANAO	From
John McCullough	Office of the Auditor-General of Canada (3 years)
Michelle St-Jean	Office of the Auditor-General of Canada
Chantal Archambault	Office of the Auditor-General of Canada
Secondments/Exchanges from the ANAO	To
Joe Rodrigo	Office of the Auditor-General of Canada
Gil Kensitt	Office of the Auditor-General of Canada
Huyen Tran	Office of the Auditor-General of Canada
Lorena Skipper	Office of the Comptroller and Auditor General of Ireland
Martin Simon	Office of the Comptroller and Auditor General of Ireland
Charles Strickland	Department of Agriculture, Fisheries and Forestry
Robert Ford	Department of Health and Ageing
Suzannah Ridley	Australian Taxation Office
Kaija Barclay	Therapeutic Goods Administration
Lauren Pickles	Australian Customs Service
Mark Simpson	Department of Employment and Workplace Relations
Natalie Whiteley	Joint Committee of Public Accounts and Audit
Rebecca Manen	Department of the Senate

## UNDERGRADUATE PROGRAM AND ICAA ACHIEVERS PROGRAM

In 2005-2006 we continued to build on the undergraduate program with the University of Canberra, Australian National University and The Institute of Chartered Accountants of Australia (ICAA), and a total of seven accounting students were engaged to undertake vacation employment with Assurance Audit Services Group. The longer-term objective of this program is to have high performing undergraduates apply for positions in the ANAO's annual graduate intake.

## PROFESSIONAL QUALIFICATIONS AND REPRESENTATION

## STUDIES ASSISTANCE

During 2005–2006, 70 staff members were supported with their study programs. Of these, 48 students participated in the ICAA or CPA Australia programs, while the remaining students undertook programs directly related to information technology, vocational, or post-graduate university study. Those who completed their CPA and ICAA programs and other tertiary studies during the year, with assistance from the ANAO, are set out in Table 6.

TABLE 6: SUMMARY OF STUDIES COMPLETED BY STAFF MEMBERS

Staff Member	Studies Completed
Garry Sutherland	CPA
Sonia Domitrak	CPA
Suzannah Ridley	CPA
Tracey Rankin	CPA
Theresa Williams	CPA
Daniel Walker	ICAA
Andrew Sibraa	Graduate Diploma in Applied Finance and Investment
Ben Ismay	Bachelor of Commerce (Accounting)
Deborah Jackson	MBA
Kirsty Stuart	Graduate Certificate in Performance Auditing
Peter McVay	Graduate Certificate in Sustainability
Sally Ramsey	Graduate Certificate in Performance Auditing
Sharon Haines	MBA
Matthew Plum	CISA

## REPRESENTATION

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

- The Auditor-General, Ian McPhee, is a member of the Auditing and Assurance Standards Board (AUASB) 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). He is a Fellow of both CPA Australia and the ICAA in Australia and also a member of the International Organisation of Supreme Audit Institutions (INTOSAI) Professional Standards Committee and the INTOSAI Privatisation Committee;
- The Deputy Auditor-General, Steve Chapman, is the President of the ACT CPA Australia Divisional Council for 2006, as well as a member of the INTOSAI Tsunami Task Force;
- Michael Watson is the Vice Chairman the ACT Regional Council of the Institute of Chartered Accountants Australia;

- Paul Hinchey is 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); and
- Summer McPhee, Ann Towers and Cha Jordanoski are members of the ACT CPA Young Professional Network Committee.

A full list of papers and presentations by the Auditor-General and senior ANAO officers in 2005–2006 is set out in Appendix 5.

#### NOTABLE ACHIEVEMENTS

Dr Paul Nicoll from Performance Audit Services has written a book in a private capacity titled *Audit in a Democracy. The Australian Model of Public Sector Audit and its Application to Emerging Markets*, Ashgate, UK, 2005. The book was released in December 2005.

The book explores the role of public sector audit in emerging democracies and developing countries. It provides an account of the relationship between the public sector auditor, the legislature and executive government. In particular, it introduces public sector audit's capacity to assess government agencies' compliance with the law and their management of programs. The book is not an audit manual, rather it shows how elected legislatures can use public sector audit to hold executive government accountable for its use of taxpayer moneys.

CPA Australia recently launched their CPA Careers DVD. This DVD provides students with an insight into the career opportunities in a career in accounting. Cha Jordanoski from Assurance Audit Service Group features on this DVD.

#### GRADUATE CERTIFICATE IN PERFORMANCE AUDIT AND EVALUATION

The Graduate Certificate in Performance Auditing was established by the University of Canberra in collaboration with the ANAO. The first students were enrolled in 2001, and in 2005 the University revised the Graduate Certificate course into a mainstream course for those students seeking study in the performance audit and evaluation fields.

The Graduate Certificate in Performance Audit and Evaluation comprises two units in performance audit and evaluation, and two elective units. Two ANAO performance auditors, Sally Ramsey and Kirsty Stuart, graduated from the Graduate Certificate course in 2005. The Course is designed for students to complete part-time over two semesters and provides:

- a critical appreciation of the contribution of performance audit and evaluation to public accountability and management improvement;



- knowledge and skills applicable to a wide range of audit and evaluation projects, including compliance audits, efficiency audits and effectiveness reviews; and
- an opportunity for graduates in a variety of disciplines to extend their knowledge of public sector organisations and related processes.

## GRADUATES

Thirteen graduates commenced employment with the ANAO on 30 January 2006. After completing a one-week induction program, graduates were placed into work areas in the assurance audit service group. During their first 12 months, all graduates participated in an intensive development program, which included technical training, people management, and a range of general training and skill development.



*The 2006 Graduate intake. Standing from left to right: Pamela Foster (Graduate Coordinator), Kenneth Weir, Jennifer Dwyer, Lucinda Kelly, Le Thai, Hui Zhi Cheung, Michelle Hodge, Christine Murton, and Stuart Wall. Seated from left to right: Ross Tsokas, Matthew Geysen, Robert Hayes, Callum Jarratt,*

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## 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 includes such areas as client service, people management, business management, and audit management and innovation. The award system comprises in order of importance: The Auditor-General's Annual Awards for Outstanding Achievement; the National Australia Day Council's medallion; and the Auditor-General's Certificates of Appreciation.

### THE AUDITOR-GENERAL'S ANNUAL AWARDS FOR OUTSTANDING ACHIEVEMENT

The Auditor-General's Annual Outstanding Achievement Awards for 2006, were awarded to the following members of staff:

- Carolyn Cooper, Lorena Skipper, Serena Buchanan, Julie McNamara, and Allan Thompson, members of the AASG Resources Team—for *playing a key role in a competitive labour market in ensuring the optimal use of in-house staff and contractors so that the ANAO could meet its audit obligations.*

- Peter McVay and Cameron Mathie, members of the Green Procurement Audit Team—for the production of the Green Procurement Audit Report which will significantly improve public administration in the area of environment sustainability. The report was highly commended by the Secretary, Department of the Environment and Heritage and the House of Representatives Environment Committee.



Winners of the Auditor-General's Annual Outstanding Achievement Awards. Left to right: Tracy Kendall, Margaret Knox, Carolyn Cooper, Julie McNamara, Allan Thompson, Christina Brauer, Cameron Mathie, Lorena Skipper, Peter McVay, and Serena Buchanan. Absent: Mary-Ann Kava.

- Margaret Knox, Christina Brauer, Tracey Kendall, and Mary-Ann Kava as members of the Personnel Team—for the upgrading of the existing PeopleSoft payroll system while continuing to provide high quality payroll services using the old system. The project was completed on time and within budget.

#### NATIONAL AUSTRALIA DAY COUNCIL MEDALLIONS

The Auditor-General presented the 2006 National Australia Day Council medallions to the following members of staff:

Carolyn Cooper—for her valuable contribution to people, resource and relationship management in AASG and the delivery of high quality audits over a number of years.

Anne Neilson—for her valuable contribution over a number of years to the ANAO's record management function by providing exceptional service to her clients in the Service Groups and always being of assistance to her work colleagues.

Tina Long—for her significant contribution to the improvement in public administration as the audit manager of a number of important performance audits in the Defence and Finance portfolios.

Rebecca Reilly—for her valuable professional and personal contribution to the AASG Service Group at various levels over a number of years, and for her contribution to the well being of ANAO staff in her role as the Convenor of the Social Club.

## WORKPLACE DIVERSITY

The ANAO is committed to promoting and supporting social justice, equity and diversity in the workplace by recognising and promoting in its people a range of abilities and skills, and also valuing those with different languages, cultures and backgrounds. The ANAO Workplace Diversity Program sets out policies, priorities, responsibilities and performance information, for all staff. We also have a network of trained Diversity Contact Officers to provide support and advice to staff as required. 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 is responsible for guiding the ANAO in respect of health and welfare awareness and convened on four occasions in 2005-2006. 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.

Free influenza vaccinations were again provided to all staff who wished to participate in this initiative. We also provided 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. OH&S issues are promoted through the frequent circulation of information bulletins and hazard alerts via email and hard copy. These documents, along with our OH&S policies, are also available to all staff through the intranet.



*Winners of the National Australia Day Council Medallions. From left: Tina Long, Anne Neilson, Rebecca Reilly and Carolyn Cooper.*

#### INCIDENTS DURING 2005–2006

During 2005–2006, there were four minor compensation claims as a result of three motor vehicle accidents and one injury sustained at work. Two incidents were reported under the *Occupational Health & Safety (CE) Act 1991*. These incidents were potentially hazardous situations both of which occurred in an office environment. There were no serious injuries. There were no tests, directions or notices given under sections 30, 45, 46 or 47 of this Act.

#### EMPLOYEE ASSISTANCE PROGRAM

The Employee Assistance Program (EAP), provides access to confidential professional counselling services for staff and their families. This service is offered to assist staff with any personal or work-related problems.

#### COMMONWEALTH DISABILITY STRATEGY

The 2005–2007 ANAO Workplace Diversity Program, together with our 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 our 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 our 2005–2007 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.* Staff members are asked if they have any special requirements to enable them to fully participate in the program when registering.
- *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 their induction processes.
- *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 our Workplace Agreement and internal fair treatment procedures. Alternatives are available to staff, including internal counselling through Diversity Contact Officers and external counselling through the Employee Assistance Program.

Reporting of disability matters is undertaken as part of our annual Staff Survey, the Workplace Diversity Program and under our OH&S policies framework. We have four members of staff with reported disabilities in 2005–2006 and we ensure that the necessary measures are in place to enable them to carry out their duties.

## OTHER MANAGEMENT ISSUES

A range of other management activities and services are undertaken in support of our 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 2005–2006 new consultancy contracts were entered into amounting to total expenditure of \$1.530 million. In addition, 11 ongoing consultancy contracts were active during the 2005–2006 year, involving total expenditure of \$0.543 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 services is described below. This section includes contracts let in 2005–2006 or during a previous reporting period for which the contract is still current. All tenders and contractual arrangements are carried out in accordance with the Commonwealth Procurement Guidelines and contracts are subject to evaluation. We are satisfied that our procedures meet our business needs and provide good value for money.

#### 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

A panel of four legal firms provides legal services under an agreement from April 2004 to April 2007. The panel comprises the *Australian Government Solicitor*, *Mallesons Stephen Jacques*, *Minter Ellison* and *Phillips Fox*. The current panel provides timely and cost effective legal advice to the ANAO across a wide spectrum of issues.

#### PUBLISHING SERVICES

*Canprint Communications Pty Ltd* is the external service provider for all audit report publishing services under a contract 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 our report publishing arrangements.

## RECRUITMENT ADVERTISING

During 2005–2006, the ANAO spent \$0.089 million on recruitment advertising. Details of advertising expenditure are set out in Table 5.

TABLE 7: DETAILS OF ADVERTISING EXPENDITURE

Firm	Purpose	\$ million
HMA Blaze	recruitment	0.066
TMP Worldwide	recruitment	0.008
Cantlie Recruitment Services Pty Ltd	recruitment	0.011
John Fairfax Publications Pty Limited	recruitment	0.004
Total		0.089

## 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 on the ANAO 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

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 our administrative operations. The impact of our audits is discussed below under the heading 'Contribution to ESD'.

We continue to support the Australian Greenhouse Office's Working Energy Program. During the year we continued to develop our 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 ANAO's premises. The contract stipulates that the contractor must achieve specified annual savings in energy costs and consumption.

The major new initiative this year was the introduction of a comprehensive recycling regime which includes recycling of:

- organic waste that is sent to a local worm farm;
- paper waste; and
- all fluorescent globes and toner cartridges.

Our aim is to reduce our waste to landfill to the lowest practical level. Our waste removal service provider will not be equipped to weigh our waste for some time, but as a guide, the frequency of pick up for general waste has reduced from five days a week to two days a week as a direct result of this initiative.

#### 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, our 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.19 2005-2006 *Managing for Quarantine Effectiveness- Follow Up*; and
- Audit Report No.22 2005-2006 *Cross Portfolio Audit of Green Procurement*.

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 document published.

## DISCRETIONARY GRANTS

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

## ASSESSMENT OF EFFECTIVENESS OF ASSETS MANAGEMENT

The ANAO has a comprehensive assets management policy set out in Auditor-General Instructions and supporting procedural rules. High value assets are subject to rigorous whole-of-life management including formal tendering for acquisition, scheduled maintenance and detailed accounting of disposal or return at end of life. Our asset management practices are designed to protect the interests of the Commonwealth.

## ASSESSMENT OF PURCHASING AGAINST CORE POLICIES AND PRINCIPLES

As for asset management, the ANAO has comprehensive procurement guidelines set out in Auditor-General Instructions and supporting Procedural Rules which are derived directly from the *Commonwealth Procurement Guidelines*. All purchasing is bound by these Procedural Rules under the underlying principle of “value for money” and are routinely the subject of internal audit. In addition, all contractual performance is subject to evaluation by the relevant ANAO client. Our procurement practices are designed to protect the interests of the Commonwealth.

## EMERGENCY AND BUSINESS CONTINUITY PLANS

The ANAO has a comprehensive Business Continuity Plan (BCP) supported by an emergency evacuation plan. The evacuation plan was tested successfully twice in the past year. A large turnover of key BCP personnel required that a familiarity exercise be conducted to allow newly appointed officials to test their knowledge in a low stress environment. This exercise was conducted in May 2006.



# 5

## APPENDICES

1. ANAO Staffing Overview
2. 2005–2006 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 2005–2006
5. Addresses and Papers by The Auditor-General and ANAO Senior Officers
6. Procurement Activities
7. Contact Directory
8. Compliance Index



## APPENDIX 1

## ANAO STAFFING OVERVIEW

TABLE A1-1: STAFFING PROFILE AS AT 30 JUNE 2006

Classification	ACT	NSW	Total	
			30 June 2006	30 June 2005
SES Band 3	1		1	1
SES Band 2	5		5	4
SES Band 1	20		20	20
Exec 2	82	2	84	72
Exec 1	34		34	46
APS 6	53	7	60	47
APS 5	37		37	46
APS 4	40	1	41	34
APS 3	15		15	12
APS 2	2		2	4
APS 1	1		1	1
Graduate	13		13	28
Undergraduate	3		3	1
Total	306	10	316	316

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 2006

Location	30 June 2006		30 June 2005	
	Audit	Mgt	Audit	Mgt
ACT	239	50	239	50
NSW	9	1	9	1
Sub-total	248	51	248	51
TOTAL	299		299	

Note: 1. Excludes 17 inoperative staff.

2. The numbers appear identical, however there are differences in the staff levels that make up the totals under each category.

TABLE A1-3: PAID FULL-TIME, PART-TIME AND NON ONGOING STAFF AS AT 30 JUNE 2006

Classification	Full-time		Part-time		Non ongoing		Total	
	M	F	M	F	M	F	M	F
SES Band 3	1						1	
SES Band 2	3	1					4	
SES Band 1	15	4					15	4
Exec 2	37	31	4	6	2		43	37
Exec 1	14	13	2	2	1	1	17	16
APS 6	20	29	1	6	1		22	35
APS 5	13	24				1	13	25
APS 4	16	21		2	1		17	23
APS 3	1	9				5	1	14
APS 2						2		2
APS 1	1						1	
Graduate	8	5					8	5
Undergraduate					1	2	1	2
Sub-total	129	137	7	16	6	11	143	163
Total	266		23		17		306	

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

TABLE A1-4: ANALYSIS OF WORKPLACE DIVERSITY GROUPS WITHIN SALARY LEVELS  
2005-2006

Salary Range	Women	NESB1	NESB2	ATSI	PWD
Below \$40,129 (includes APS 1 and Undergraduates)	2	1	-	-	-
\$40,129 to \$52,117 (includes APS 2-3 and Graduates)	18	3	2	-	1
\$52,118 to \$65,229 (includes APS 4-5)	52	10	2	1	-
\$65,230 to \$89,251 (includes APS 6-Exec 1)	52	13	3	-	-
\$89,252 and above	47	5	9	-	3
TOTAL STAFF: 316	171 (54%)	32 (10%)	16 (5%)	1 (<1%)	4 (1%)

Note 1: 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	Total Losses	Gains
ACT	14	35	1	2	-	52	52
NSW	-	-	1	-	-	1	0
TOTAL	14	35	2	2	-	53	52

TABLE A1-6: EXPENDITURE ON STAFF TRAINING

Description	2005-2006	2004-2005	2003-2004	2002-2003	2001-2002
Net eligible training expenditure (excluding salaries)	993 236	847 755	608 791	622 967	808 418
Total number of person-days spent by staff on eligible training programs	2 044	1 898	1 763	1 591	1 566
Total number of staff participating in eligible training programs	319	280	274	266	246

TABLE A1-7: BASIS OF EMPLOYMENT OF STAFF

Level	Basis of Employment of Staff	
	Employment under Certified Agreement	Employment under AWA
SES		24
Non SES Staff	251	41
Sub-total	251	65
TOTAL	316	

TABLE A1-8: PERFORMANCE PAYMENTS

Classification	Number	Total for classification \$	Average Payment \$	Minimum payment \$	Maximum payment \$
SES	22	126 554	5 752	1 000	10 000
EXEC 2	75	244 493	3 259	443	10 482
EXEC 1	37	97 455	2 633	411	7 510
APS 6	48	78 828	1 642	112	5 238
APS 5	42	68 532	1 631	299	4 176
APS 4	18	29 653	1 647	292	2 940
APS 1-3	10	10 847	1 084	432	2 735
TOTAL	252	656 362			



## APPENDIX 2

### 2005–2006 FINANCIAL RESULTS COMMENTARY AND FINANCIAL STATEMENTS

#### 2005–2006 FINANCIAL RESULTS COMMENTARY

#### ANAO 2005–2006 FINANCIAL STATEMENTS

Independent Auditor's Report

Statement by Auditor-General

Statement of Financial Performance

Statement of Financial Position

Statement of Cash Flows

Schedule of Commitments

Schedule of Administered Items

Notes to and forming Part of the Financial Statements

## 2005–2006 FINANCIAL RESULTS COMMENTARY

### INTRODUCTION

The Australian National Audit Office's operations are largely funded through parliamentary appropriations. 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 2005–2006. The ANAO continues to have sufficient cash reserves to meet its ongoing commitments.

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

TABLE A2-1: SUMMARY OF FINANCIAL PERFORMANCE

Operating statement	2005–2006 \$000	2004–2005 \$000	Variance \$000	Variance %
Total operating revenues	65 316	62 201	3 115	5.0
Total operating expenses	64 133	60 266	3 867	6.4
Net Surplus	1 183	1 935	(752)	(38.9)
Balance Sheet				
Total assets	24 463	23 973	490	2.0
Total liabilities	20 859	21 258	(399)	(1.9)
Net assets	3 604	2 715	889	32.7
Equity	3 604	2 715	889	32.7

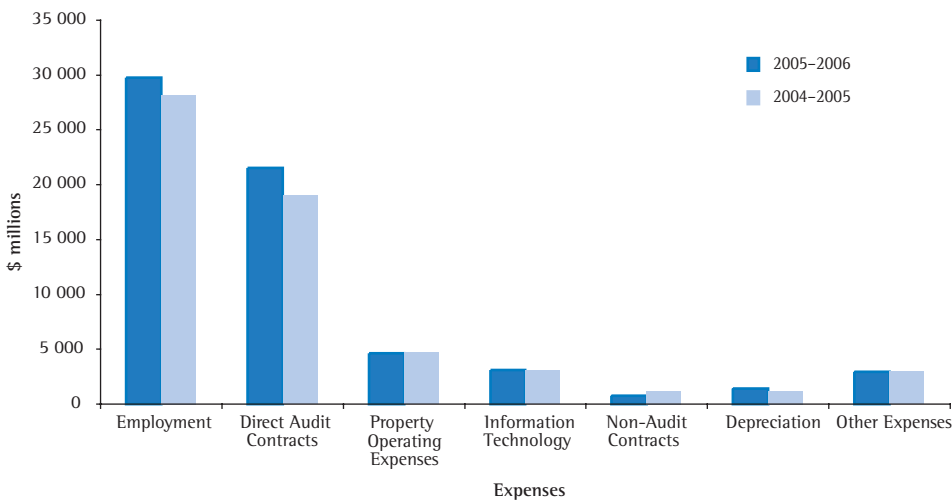


DETAILED ANALYSIS

OPERATING EXPENSES

Total operating expenses for the year ended 30 June 2006 were \$3.867 million (6.4%) more than for 2004–2005. This increase in costs is due mainly to employment costs and audit related costs, which rose by 5.6 per cent and 13.2 per cent respectively. The increase in employment costs reflects the impact of increased staff numbers and the wage rises in the ANAO’s Workplace Agreement. The increase in audit costs is due to increased costs in the accounting labour market; increased financial statement auditing within the Department of Defence; and the auditing of the adoption of the Australian Equivalents to the International Reporting Standards (AEIFRS) by the Commonwealth. Other costs remained stable. A breakdown of total operating expenses into major expense categories is shown in Figure A2–1.

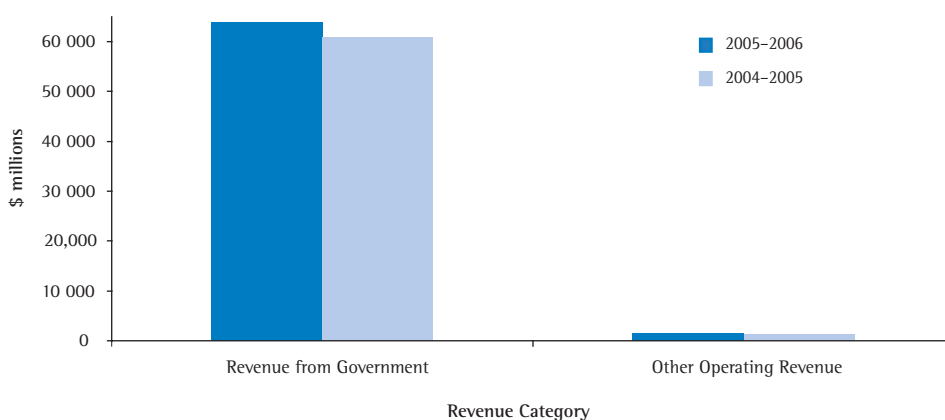
FIGURE A2-1: OPERATING EXPENSES



## OPERATING REVENUE

The increase in total operating revenues is due to the increase in revenues from Government. Revenues from Government increased to provide for the auditing of the adoption of the AEIFRS; additional auditing of the Department of Defence; and auditing of additional agencies. A breakdown of operating revenue is provided in Figure A2-2.

FIGURE A2-2: OPERATING REVENUE



## BALANCE SHEET SUMMARY

The ANAO's balance sheet position remains sound although AEIFRS adjustments for lease accounting have created an accumulated deficit position. The operating surplus of \$1.183 million, as well as continued tight management of balance sheet items, has resulted in an improvement in the accumulated deficit and equity position of the ANAO, which stands at \$3.604 million (2004-2005: \$2.715 million).

Total assets increased due to investment in software and a larger appropriation receivable balance. These increases offset the decrease in infrastructure, plant and equipment balance as a result of an operational change from owning computer equipment to leasing it.

The increase in liabilities was predominantly due to the increase in trade creditors and accruals for contract auditor costs. There was a minor increase in employee entitlements in line with increases in pay rates from the ANAO's then Certified Workplace Agreement.

## ADMINISTERED FUNDS FINANCIAL SUMMARY

Audit fees billed to Commonwealth authorities and companies for non-discretionary audit work have increased from 2004-2005. The increase is due to higher contract audit costs and is in line with the additional funding received by the ANAO in 2005-2006 additional estimates. Table A2-2 details the administered financial results.

TABLE A2-2: ADMINISTERED FUNDS

Administered Revenue and Expenses	2005-2006 \$000	2004-2005 \$000
Sale of goods and services	13 153	11 807
Cash transferred to the Official Public Account	11 762	11 198
Administered Assets and Liabilities		
Financial Assets	4 570	3 322
Equity and Liabilities	4 570	3 322

## NET OUTLAYS TO GOVERNMENT

The ANAO received appropriations totalling \$63.866 million (2004-2005: \$60.810 million) and generated \$13.153 million in the sale of goods and services, the net outlay by Government was \$50.713 million (2004-2005: \$49.003 million).



## ANAO 2005-2006 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;
- Income Statement, Balance Sheet, Statement of Changes in Equity and Statement of 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 2006.

The Auditor-General is responsible for preparing financial statements that give a true and fair presentation of the financial position and performance of the Australian National Audit Office and that comply with accounting standards, other mandatory financial reporting requirements in Australia, and the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*. The Auditor-General is also responsible 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.



While 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*, Finance Minister's Orders, 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 results of its operations 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 of the Australian National Audit Office:

- a) have been prepared in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*; and
- b) give a true and fair view of the Australian National Audit Office's financial position as at 30 June 2006 and of its financial performance and cash flows for the year then ended, in accordance with:
  - (i) the matters required by the Finance Minister's Orders; and
  - (ii) applicable Accounting Standards and other mandatory financial reporting requirements in Australia.

Geoff Wilson  
Independent Auditor

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

Canberra,  
25 July 2006

Australian National Audit Office

STATEMENT BY THE AUDITOR-GENERAL AND CHIEF FINANCE OFFICER

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In our opinion, the attached financial statements for the year ended 30 June 2006 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

25 July 2006



Rachel Harris  
Chief Finance Officer

25 July 2006



**Australian National Audit Office**  
**INCOME STATEMENT**  
**for the year ended 30 June 2006**

	Notes	2006 \$'000	2005 \$'000
<b>Revenue</b>			
Revenues from Government	4A	63,866	60,810
Goods and services	4B	1,450	1,391
<b>TOTAL REVENUE</b>		<b>65,316</b>	<b>62,201</b>
<b>EXPENSES</b>			
Employees	5A	29,781	28,197
Suppliers	5B	32,306	30,333
Depreciation and amortisation	5C	1,203	1,198
Net loss from sale of assets	5D	58	26
Write-down and impairment of assets	5E	161	3
Finance expenses	5F	624	509
<b>TOTAL EXPENSES</b>		<b>64,133</b>	<b>60,266</b>
<b>OPERATING RESULT</b>		<b>1,183</b>	<b>1,935</b>

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

# THE AUDITOR-GENERAL ANNUAL REPORT 2005-2006

## Australian National Audit Office BALANCE SHEET as at 30 June 2006

	Notes	2006 \$'000	2005 \$'000
<b>ASSETS</b>			
<b>Financial Assets</b>			
Cash and cash equivalents	6A	834	950
Receivables	6B	19,693	18,921
Other financial assets	6C	40	4
<b>Total Financial Assets</b>		<b>20,567</b>	<b>19,875</b>
<b>Non-Financial Assets</b>			
Infrastructure, plant and equipment	7A/B	1,921	3,020
Intangibles	7C	1,010	225
Other non-financial assets	7D	965	853
<b>Total Non-Financial Assets</b>		<b>3,896</b>	<b>4,098</b>
<b>TOTAL ASSETS</b>		<b>24,463</b>	<b>23,973</b>
<b>LIABILITIES</b>			
<b>Payables</b>			
Suppliers	8A	9,462	9,991
Other payables	8B	190	190
<b>Total Payables</b>		<b>9,652</b>	<b>10,181</b>
<b>Interest Bearing Liabilities</b>			
Other interest bearing liabilities	9	1,360	1,882
<b>Total interest bearing liabilities</b>		<b>1,360</b>	<b>1,882</b>
<b>Provisions</b>			
Employee provisions	10A	8,889	8,603
Other provisions	10B	958	592
<b>Total Provisions</b>		<b>9,847</b>	<b>9,195</b>
<b>TOTAL LIABILITIES</b>		<b>20,859</b>	<b>21,258</b>
<b>NET ASSETS</b>		<b>3,604</b>	<b>2,715</b>
<b>EQUITY</b>			
Contributed equity		4,929	4,929
Reserves		423	717
Retained surpluses/(accumulated deficits)		(1,748)	(2,931)
<b>TOTAL EQUITY</b>		<b>3,604</b>	<b>2,715</b>
<b>Current assets</b>		<b>21,341</b>	<b>20,409</b>
<b>Non-current assets</b>		<b>3,122</b>	<b>3,564</b>
<b>Current liabilities</b>		<b>14,584</b>	<b>12,627</b>
<b>Non-current liabilities</b>		<b>6,275</b>	<b>8,631</b>

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

**Australian National Audit Office  
STATEMENT OF CASH FLOWS  
for the year ended 30 June 2006**

<b>OPERATING ACTIVITIES</b>	<b>Notes</b>	<b>2006 \$'000</b>	<b>2005 \$'000</b>
<b>Cash received</b>			
Goods and services		1,457	1,413
Appropriations		63,255	59,864
Net GST received from ATO		-	320
<b>Total cash received</b>		<b>64,712</b>	<b>61,597</b>
<b>Cash used</b>			
Employees		29,641	28,248
Suppliers		34,073	32,018
Net GST paid to ATO		49	-
<b>Total cash used</b>		<b>63,763</b>	<b>60,266</b>
<b>Net cash from or (used by) operating activities</b>	<b>11</b>	<b>949</b>	<b>1,331</b>
<b>INVESTING ACTIVITIES</b>			
<b>Cash received</b>			
Proceeds from sale of infrastructure, plant and equipment		110	-
<b>Total cash received</b>		<b>110</b>	<b>-</b>
<b>Cash used</b>			
Purchase of infrastructure, plant and equipment		200	1,124
Purchase of intangibles		975	163
<b>Total cash used</b>		<b>1,175</b>	<b>1,287</b>
<b>Net cash from or (used by) investing activities</b>		<b>(1,065)</b>	<b>(1,287)</b>
<b>FINANCING ACTIVITIES</b>			
<b>Cash received</b>		<b>-</b>	<b>-</b>
<b>Cash used</b>		<b>-</b>	<b>-</b>
<b>Net cash from or (used by) financing activities</b>		<b>-</b>	<b>-</b>
<b>Net increase or (decrease) in cash held</b>		<b>(116)</b>	<b>44</b>
Cash at the beginning of the reporting period		950	906
<b>Cash at the end of the reporting period</b>		<b>834</b>	<b>950</b>

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

Australian National Audit Office  
**STATEMENT OF CHANGES IN EQUITY**  
 for the year ended 30 June 2006

	Accumulated Results		Asset Revaluation Reserve		Contributed Equity/Capital		Total Equity	
	2006	2005	2006	2005	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Opening Balance</b>	<b>(2,931)</b>	<b>(4,866)</b>	<b>717</b>	<b>809</b>	<b>4,929</b>	<b>4,929</b>	<b>2,715</b>	<b>872</b>
Adjustment for errors	-	-	-	-	-	-	-	-
Adjustment for changes in Accounting policies	-	-	-	-	-	-	-	-
<b>Adjusted Opening Balance</b>	<b>(2,931)</b>	<b>(4,866)</b>	<b>717</b>	<b>809</b>	<b>4,929</b>	<b>4,929</b>	<b>2,715</b>	<b>872</b>
<b>Income and Expense</b>								
Revaluation adjustment	-	-	(294)	(92)	-	-	(294)	(92)
<b>Sub-total income and expenses recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>(294)</b>	<b>(92)</b>	<b>-</b>	<b>-</b>	<b>(294)</b>	<b>(92)</b>
Net Operating Result	1,183	1,935	-	-	-	-	1,183	1,935
<b>Total income and expenses recognised directly in equity</b>	<b>(1,748)</b>	<b>(2,931)</b>	<b>423</b>	<b>717</b>	<b>4,929</b>	<b>4,929</b>	<b>3,604</b>	<b>2,715</b>
<b>Transactions with Owners</b>								
<b>Distributions to owners</b>								
Returns on Capital	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-
Returns of Capital	-	-	-	-	-	-	-	-
<b>Contributions by Owners</b>								
Appropriation (equity injection)	-	-	-	-	-	-	-	-
Restructuring	-	-	-	-	-	-	-	-
<b>Sub-total Transactions with Owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Transfers between equity components</b>								
	-	-	-	-	-	-	-	-
<b>Closing balance at 30 June</b>	<b>(1,748)</b>	<b>(2,931)</b>	<b>423</b>	<b>717</b>	<b>4,929</b>	<b>4,929</b>	<b>3,604</b>	<b>2,715</b>

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 2006

BY TYPE	2006 \$'000	2005 \$'000
<b>Capital commitments</b>		
Infrastructure, plant and equipment	158	3,182
<b>Total capital commitments</b>	<b>158</b>	<b>3,182</b>
<b>Other commitments</b>		
Operating leases	17,539	24,412
Other commitments	25,192	27,829
<b>Total other commitments</b>	<b>42,731</b>	<b>52,241</b>
<b>Commitments receivable</b>	<b>(5,399)</b>	<b>(7,435)</b>
<b>Net Commitments by Type</b>	<b>37,490</b>	<b>47,988</b>
<b>BY MATURITY</b>		
<b>Capital commitments</b>		
One year or less	158	1,659
From one to five years	-	1,523
Over five years	-	-
<b>Total capital commitments</b>	<b>158</b>	<b>3,182</b>
<b>Operating lease commitments</b>		
One year or less	7,811	6,932
From one to five years	9,728	17,480
Over five years	-	-
<b>Total operating lease commitments</b>	<b>17,539</b>	<b>24,412</b>
<b>Other commitments</b>		
One year or less	18,352	16,383
From one to five years	6,840	11,446
Over five years	-	-
<b>Total other commitments</b>	<b>25,192</b>	<b>27,829</b>
<b>Commitments receivable</b>	<b>(5,399)</b>	<b>(7,435)</b>
<b>Net commitments by maturity</b>	<b>37,490</b>	<b>47,988</b>

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

NB: Commitments are GST inclusive where relevant

1. Operating leases included for 2005-06 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 \$1.626 million (2004-05: \$2.184 million)
Leases of computer equipment	The ANAO entered an operating lease for general computer equipment during 2005-06. The contract is for three years and concludes on 19 December 2008. There are no options to extend although any equipment leased in the final year of the agreement will continue under the agreement for three years. The prices included in the Product Catalogue are adjusted monthly and lease fees are locked in at the time of ordering. There are no other restrictions imposed by the lease arrangement.

2. Other commitments comprise: contract audit services \$15.936 million (2004-05: \$26.719 million) and other corporate contracts totalling \$9.255 million (2004-05: \$1.110 million).

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



Australian National Audit Office SCHEDULE OF ADMINISTERED ITEMS			
	Notes	2006 \$'000	2005 \$'000
<b>Income Administered on Behalf of Government</b> <i>for the year ended 30 June 2006</i>			
<b>Revenue</b>			
<b>Non-taxation Revenue</b>			
Goods and services (audit fees)	16	13,153	11,807
<b>Total Revenue Administered on Behalf of Government</b>		<b>13,153</b>	<b>11,807</b>
<b>Assets Administered on Behalf of Government</b> <i>as at 30 June 2006</i>			
<b>Financial Assets</b>			
Cash and cash equivalents	17	-	-
Receivables (audit fees)	17	3,167	3,026
Work in progress	17	1,403	296
<b>Total Assets Administered on Behalf of Government</b>		<b>4,570</b>	<b>3,322</b>
<b>Liabilities Administered on Behalf of Government</b> <i>as at 30 June 2006</i>			
<b>Payables</b>			
GST payable	18	229	372
Other payables	18	-	-
<b>Total Liabilities Administered on Behalf of Government</b>		<b>229</b>	<b>372</b>
Current assets		4,570	3,323
Non-current assets		-	-
Current liabilities		229	372
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	2006 \$'000	2005 \$'000
<b>Administered Cash Flows</b> <i>for the year ended 30 June 2006</i>			
<b>Operating Activities</b>			
<b>Cash Received</b>			
Rendering of services (audit fees)		11,762	11,198
<b>Total Cash Received</b>		<u>11,762</u>	<u>11,198</u>
<b>Cash Used</b>			
GST paid to the Australian Taxation Office		1,069	1,018
Cash to the Official Public Account		10,693	10,180
<b>Total Cash Used</b>	19	<u>11,762</u>	<u>11,198</u>
<b>Net Cash (used in)/from Operating Activities</b>		<u>-</u>	<u>-</u>
<b>Administered Commitments</b> as at 30 June 2006			
<b>Net Administered Commitments</b>		<u>-</u>	<u>-</u>

**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 2006**

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Note	Description
1	Summary of Significant Accounting Policies
2	The Impact of the transition to AIFRS from previous AGAAP
3	Events after the Balance Sheet Date
4	Income
5	Operating Expenses
6	Financial Assets
7	Non-Financial Assets
8	Payables
9	Interest Bearing Liabilities
10	Provisions
11	Cash Flow Reconciliation
12	Executive Remuneration
13	Remuneration of Auditors
14	Average Staffing Levels
15	Financial Instruments
16	Income Administered on Behalf of Government
17	Assets Administered on Behalf of Government
18	Liabilities Administered on Behalf of Government
19	Administered Reconciliation Table
20	Administered Contingent Liabilities
21	Administered Financial Instruments
22	Appropriations
23	Specific Payment Disclosures
24	Reporting of Outcomes

Australian National Audit Office  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
for the year ended 30 June 2006

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

**1.1 Objectives of the Australian National Audit Office**

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

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

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

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

Through the conduct of 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.

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

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 oversighted 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 the preparation of the financial statements in Note 1.2 applies to both agency and administered items.

**1.2 Basis of Preparation of the Financial Statements**

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 1 July 2005)*);
- b. Australian Accounting Standards issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period; and
- c. Interpretations issued by the Urgent Issues Group that apply for the reporting period.

This is the first financial report to be prepared under Australian Equivalents to International Financial Reporting Standards (AEIFRS). The impacts of adopting AEIFRS are disclosed in Note 2.

The Income Statement and Balance Sheet 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 2006**

**1.2 Basis of Preparation of the Financial Statements (cont'd)**

Assets and liabilities are recognised in the Balance Sheet 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 20).

Revenues and expenses are recognised in the Income Statement 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 1.18.

**1.3 Statement of Compliance**

The financial report complies with Australian Accounting Standards, which include Australian Equivalents to International Financial Reporting Standards (AEIFRS).

Australian Accounting Standards require the ANAO to disclose Australian Accounting Standards that have not been applied, for standards that have been issued but are not yet effective.

The AASB has issued amendments to existing standards, these amendments are denoted by year and then number, for example 2005-1 indicates amendment 1 issued in 2005.

The table below illustrates standards and amendments that will become effective for the ANAO in the future. The nature of the impending change within the table, has been out of necessity abbreviated and users should consult the full version available on the AASB's website to identify the full impact of the change. The expected impact on the financial report of adoption of these standards is based on the ANAO's initial assessment at this date, but may change. The ANAO intends to adopt all of the standards upon their application date.

Title	Standard affected	Application date*	Nature of impending change	Impact expected on financial report
2005-1	AASB 139	1 Jan 2006	Amends hedging requirements for foreign currency risk of a highly probable intra-group transaction.	No expected impact
2005-4	AASB 139, AASB 132, AASB 1, AASB 1023 and AASB 1038	1 Jan 2006	Amends AASB 139, AASB 1023 and AASB 1038 to restrict the option, of the ANAO, to fair value through profit or loss and makes consequential amendments to AASB 1 and AASB 132.	No expected impact
2005-5	AASB 1 and AASB 139	1 Jan 2006	Amends AASB 1 to allow an entity to determine whether an arrangement is, or contains, a lease.  Amends AASB 139 to scope out a contractual right to receive reimbursement (in accordance with AASB 137) in the form of cash.	No expected impact  No expected impact
2005-6	AASB 3	1 Jan 2006	Amends the scope to exclude business combinations involving entities or business under common control.	No expected impact
2005-9	AASB 4, AASB 1023, AASB 139 and AASB 132	1 Jan 2006	Amended standards in regards to financial guarantee contracts.	No expected impact

\* Application date is for annual reporting periods beginning on or after the date shown.

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**1.3 Statement of Compliance (cont'd)**

<b>Title</b>	<b>Standard affected</b>	<b>Application date*</b>	<b>Nature of impending change</b>	<b>Impact expected on financial report</b>
2005-10	AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038	1 Jan 2007	Amended requirements subsequent to the issuing of AASB 7.	No expected impact
2006-1	AASB 121	31 Dec 2006	Changes in requirements for net investments in foreign subsidiaries depending on denominated currency.	No expected impact
	AASB 7 <i>Financial Instruments: Disclosures</i>	1 Jan 2007	Revise the disclosure requirements for financial instruments from AASB 132 requirements.	No expected impact

\* Application date is for annual reporting periods beginning on or after the date shown.

**1.4 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, at the reporting date. The revenue is recognised when:

- the amount of revenue, stage of completion and transaction costs incurred can be reliably measured; and
- the probable economic benefits with the transaction have flowed to the entity.

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 no longer probable.

**1.5 Transactions with the Government as Owner**

*Equity Injections*

No equity injections were received by the ANAO in the 2005-06 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 2005-06 financial year.



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**1.6 Employee Benefits**

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

Liabilities for short-term employee benefits (ie. wages and salaries and annual leave) are measured at their nominal amounts. The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability. Any leave where the employee has a legal right to access it immediately has been classified as current.

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 2006. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and the workplace agreement.

*Superannuation*

Employees of the ANAO are members of the Commonwealth Superannuation Scheme, the Public Sector Superannuation Scheme (PSS) or the PSS Accumulation Plan (PSSap).

The CSS and PSS are defined benefit schemes for the Commonwealth. The PSSap is a defined contribution 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.

New employees (from 1 July 2005) are eligible to join the PSSap scheme.

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

**1.7 Leases**

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

The ANAO did not have any finance leases as at 30 June 2006.

Operating lease payments are expensed on a straight line basis unless another systematic approach is more 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.

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**1.7 Leases (cont'd)**

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 *AASB 137 Provisions, Contingent Liabilities and Contingent Assets*, 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.

**1.8 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.

**1.9 Other Financial Instruments**

*Trade Creditors*

Trade creditors and accruals are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods or services have been received, irrespective of having been invoiced.

*Contingent Liabilities and Contingent Assets*

Contingent Liabilities and Contingent Assets are not recognised in the Balance Sheet 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, 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.

**1.10 Acquisition of Assets**

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

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

**1.11 Infrastructure, Plant and Equipment**

*Asset Recognition Threshold*

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

The initial cost of an asset includes an estimate of the cost of dismantling and removing the item and restoring the site on which it is located. This is particularly relevant to 'makegood' provisions in property leases taken up by the ANAO where there exists an obligation to restore the property to its original condition. These costs are included in the value of the ANAO's leasehold improvements with a corresponding provision for the 'makegood' taken up.

*Revaluations*

*Basis*

Infrastructure, plant and equipment are carried at fair value, 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.

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**1.11 Infrastructure, Plant and Equipment (cont'd)**

*Revaluations - Basis (cont'd)*

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

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

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.

Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reverses a previous revaluation decrement of the same asset class that was previously recognised through profit and loss. Revaluation decrements for a class of assets are recognised directly through profit and loss except to the extent that they reverse a previous revaluation increment for that class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

*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:

	<u>2006</u>	<u>2005</u>
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.

**1.12 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.

**1.13 Intangibles**

The ANAO's intangibles are comprised of off-the-shelf software. These assets are carried at cost.

Software is amortised on a straight-line basis over its anticipated useful life. The useful lives of the ANAO's software are 3 to 5 years (2004-05: 3 to 5 years).

All software assets were assessed for indications of impairment as at 30 June 2006. No impaired software assets were identified.



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**1.14 Inventories**

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

**1.15 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. for receivables and payables.

**1.16 Work in progress**

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

**1.17 Financial Risk Management**

The ANAO's activities expose it to normal commercial financial risk. As a result of the nature of the ANAO's business and internal and Australian Government policies, dealing with the management of financial risk, the ANAO's exposure to market, credit, liquidity and cashflow and fair value interest rate risk is considered to be low.

**1.18 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 FMOs, Accounting Standards, and Accounting Interpretations.

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 the 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 19. 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



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**Note 2 - The impact of the transition to AEIFRS from previous AGAAP**

As stated in the significant accounting policies in Note 1, these are the ANAO's first financial statements prepared in accordance with AEIFRSs.

The policies set out in Note 1 of this report have been applied in preparing the financial statements for the financial year ended 30 June 2006, the comparative information presented in these financial statements for the financial year ended 30 June 2005 and in the preparation of an opening AEIFRS balance sheet at 1 July 2004 (the ANAO's date of transition).

In preparing its opening AEIFRS balance sheet, the ANAO has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previously AGAAP). An explanation of how the transition from AGAAP to AEIFRSs has affected the ANAO's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

*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 \$630,000 was recognised for the first time as at 30 June 2005 in accordance with AGAAP. The contra entry was made to expenses.

Under AEIFRS, the cost of Leasehold Improvements should include the initial estimate of the costs of restoring the site on which it is located. Restoration costs are recognised as part of the cost of assets and as a provision at the time of the obligating event.

At transition, a provision for make-good of \$564,000 was recognised together with an adjustment to infrastructure, plant and equipment of \$94,000 and an increase in accumulated deficit of \$470,000.

*Operating Leases*

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 lessee with a rent escalation of 4% each year.

Under AEIFRS, fixed rental increases should be recognised as an expense or income on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the ANAO's benefit.

At transition, this has resulted in:

- an increase in receivables of \$499,000;
- an increase in payables of \$8,103,000; and
- a decrease in accumulated surpluses of \$7,604,000.

for the year ended 30 June 2006

**Note 2 - The impact of the transition to AIFRS from previous AGAAP**

The following table sets out the adjustments to the Income Statement of the ANAO for the year ended 30 June 2005.

	30 June 2005	
	AGAAP 2005 \$'000	AEIFRS 2005 \$'000
<b>REVENUE</b>		
Revenue from Government	60,810	60,810
Goods and services	1,468	(77)
<b>Total Revenue</b>	<b>62,278</b>	<b>62,201</b>
<b>EXPENSE</b>		
Employees	28,197	28,197
Suppliers	31,386	(1,053)
Depreciation and amortisation	1,176	22
Net loss from sale of assets	26	26
Write-down and impairment of assets	3	3
Finance expenses	1,111	(602)
<b>Total Expenses</b>	<b>61,899</b>	<b>60,266</b>
<b>Operating Result</b>	<b>379</b>	<b>1,935</b>

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*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
Accumulated surpluses as at 1 July 2004 under AGAAP	3,208
AEIFRS reconciliation:	
Rental expense	(8,103)
Rental income	499
Make good provision	(470)
Accumulated (deficit)/surpluses as at 1 July 2004 under AEIFRS	(4,866)

*Summary of transitional adjustments*

The following table sets out the adjustments to the Balance Sheet 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 AGAAP \$'000	1 July 2004 Transition Impact \$'000	AEIFRS \$'000	AGAAP \$'000	30 June 2005 Transition Impact \$'000	AEIFRS \$'000
<b>ASSETS</b>						
<b>Financial Assets</b>						
Cash and cash equivalents	906	-	906	950	-	950
Receivables <sup>(1)</sup>	17,175	499	17,674	18,499	422	18,921
Other financial assets	14	-	14	4	-	4
<b>Total Financial Assets</b>	<b>18,095</b>		<b>18,594</b>	<b>19,453</b>		<b>19,875</b>
<b>Non-Financial Assets</b>						
Infrastructure, plant and equipment <sup>(2)</sup>	2,937	94	3,031	2,948	72	3,020
Intangibles	246	-	246	225	-	225
Other non-financial assets	602	-	602	853	-	853
<b>Total Non-Financial Assets</b>	<b>3,785</b>		<b>3,879</b>	<b>4,026</b>		<b>4,098</b>
<b>Total Assets</b>	<b>21,880</b>		<b>22,473</b>	<b>23,479</b>		<b>23,973</b>

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	1 July 2004 Transition Impact \$'000	30 June 2005 Transition Impact \$'000	AEIFRS \$'000	AGAAP \$'000	AEIFRS \$'000	AGAAP \$'000	AEIFRS \$'000	AGAAP \$'000
<b>LIABILITIES</b>								
Interest Bearing Liabilities								
Other interest bearing liabilities	2,368	-	2,368	1,882	2,368	1,882	2,368	1,882
<b>Total Interest Bearing Liabilities</b>	<b>2,368</b>	<b>-</b>	<b>2,368</b>	<b>1,882</b>	<b>2,368</b>	<b>1,882</b>	<b>2,368</b>	<b>1,882</b>
Provisions								
Employee provisions	8,545	-	8,545	8,603	8,545	8,603	8,545	8,603
Other provisions <sup>(2)</sup>	-	564	564	630	564	630	564	630
<b>Total Provisions</b>	<b>8,545</b>	<b>564</b>	<b>9,109</b>	<b>9,233</b>	<b>9,109</b>	<b>9,233</b>	<b>9,109</b>	<b>9,233</b>
Payables								
Suppliers <sup>(4)</sup>	1,831	8,103	9,934	2,941	9,934	2,941	9,934	2,941
Other payables	190	-	190	190	190	190	190	190
<b>Total Payables</b>	<b>2,021</b>	<b>-</b>	<b>10,124</b>	<b>3,131</b>	<b>10,124</b>	<b>3,131</b>	<b>10,124</b>	<b>3,131</b>
<b>Total Liabilities</b>	<b>12,934</b>	<b>8,667</b>	<b>21,601</b>	<b>14,246</b>	<b>21,601</b>	<b>14,246</b>	<b>21,601</b>	<b>14,246</b>
<b>NET ASSETS</b>	<b>8,946</b>	<b>-</b>	<b>872</b>	<b>9,233</b>	<b>872</b>	<b>9,233</b>	<b>872</b>	<b>9,233</b>
<b>EQUITY</b>								
Contributed equity	4,929	-	4,929	4,929	4,929	4,929	4,929	4,929
Reserves	809	-	809	717	809	717	809	717
Accumulated surpluses/(deficits)	3,208	(8,074)	(4,866)	3,587	(4,866)	3,587	(4,866)	3,587
<b>Total Equity</b>	<b>8,946</b>	<b>(8,074)</b>	<b>872</b>	<b>9,233</b>	<b>872</b>	<b>9,233</b>	<b>872</b>	<b>9,233</b>

(1) Accounting for operating lease as a lessor on a straight-line basis.

(2) Accounting for the capitalisation of the make-good asset.

(3) Accounting for the make-good provision.

(4) Accounting for operating lease as a lessee on a straight-line basis.

The cash flow statement presented under previous AGAAP is equivalent to that prepared under AEIFRS.

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**Note 3 - Events after the Balance Sheet Date**

No events have occurred after balance date that should be brought to account or noted in the 2005-06 financial statements.

	2006	2005
	\$'000	\$'000

**Note 4 - Income**

**Note 4A: Revenues from Government**

Appropriations for outputs	63,866	60,810
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**Note 4B: Goods and services**

Audit related services	879	831
Rental income	545	545
Other	26	15
<b>Total rendering of services</b>	<b>1,450</b>	<b>1,391</b>

Rendering of services to:

Related entities	879	831
External entities	571	560
<b>Total rendering of services</b>	<b>1,450</b>	<b>1,391</b>

**Note 5 - Operating Expenses**

**Note 5A: Employee expenses**

Wages and salaries	21,738	20,801
Superannuation	4,651	4,346
Leave and other entitlements	3,002	2,769
Separation and redundancies	158	-
Other employee expenses	77	54
Worker's compensation premiums	155	227
<b>Total employee expenses</b>	<b>29,781</b>	<b>28,197</b>

**Note 5B: Suppliers**

Rendering of services - external entities	27,460	24,535
Operating lease rentals*	4,846	5,798
<b>Total supplier expenses</b>	<b>32,306</b>	<b>30,333</b>

\* These comprise minimum lease payments only.

**Note 5C: Depreciation and amortisation**

Depreciation		
Plant and equipment	512	568

Amortisation

Intangibles - Computer Software	190	184
Infrastructure (Leasehold improvements)	501	446
<b>Total amortisation</b>	<b>691</b>	<b>630</b>
<b>Total depreciation and amortisation</b>	<b>1,203</b>	<b>1,198</b>

**Note 5D: Net Loss from sale of assets**

Infrastructure, plant and equipment:		
Proceeds from disposal	(110)	-
Net book value of assets disposed	168	26
<b>Net loss from disposal of infrastructure, plant and equipment</b>	<b>58</b>	<b>26</b>

**Note 5E: Write down and impairment of assets**

**Non-financial assets**

Revaluation decrement		
Infrastructure, plant and equipment	150	-
Write down of assets		
Infrastructure, plant and equipment	11	3
<b>Total write down of assets</b>	<b>161</b>	<b>3</b>

**Note 5F: Finance expenses**

Unwinding of discount on surplus space liability	595	481
Unwinding of discount on makegood provision	29	28
<b>Total finance expenses</b>	<b>624</b>	<b>509</b>

The unwinding of discount of surplus space liability was shown as surplus space liability interest in the prior year.



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	2006 \$'000	2005 \$'000
<b>Note 6 - Financial Assets</b>		
<b>Note 6A: Cash and cash equivalents</b>		
Cash on hand	2	2
Cash at bank	832	948
<b>Total cash</b>	<b>834</b>	<b>950</b>
All cash recognised is a current asset.		
<b>Note 6B: Receivables</b>		
Goods and services	204	146
Less: Allowance for doubtful debts	-	-
	204	146
GST receivable from the Australian Taxation Office	619	558
Appropriation receivable but undrawn for existing outputs	18,291	17,681
Other	579	536
<b>Total receivables (net)</b>	<b>19,693</b>	<b>18,921</b>
Receivables is represented by:		
Current	19,502	18,601
Non-current	191	320
<b>Total receivables (net)</b>	<b>19,693</b>	<b>18,921</b>
All receivables have credit terms of net 30 days (2005: 30 days).		
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	19,693	18,921
Overdue by:		
Less than 30 days	-	-
30 to 60 days	-	-
61 to 90 days	-	-
More than 90 days	-	-
	-	-
<b>Total receivables (gross)</b>	<b>19,693</b>	<b>18,921</b>
<b>Note 6C: Other</b>		
Work in progress - audit related services	40	4
All work in progress is recognised as a current asset.		

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	2006 \$'000	2005 \$'000
<b>Note 7 - Non-Financial Assets</b>		
<b>Note 7A: Infrastructure, Plant and Equipment</b>		
<b>Leasehold improvements</b>		
- at fair value	1,160	1,567
- accumulated amortisation	-	-
<b>Total leasehold improvements</b>	<b>1,160</b>	<b>1,567</b>
<b>Plant and equipment</b>		
- at fair value	761	1,453
- accumulated depreciation	-	-
<b>Total plant and equipment</b>	<b>761</b>	<b>1,453</b>
<b>Total Infrastructure, Plant and Equipment (non-current)</b>	<b>1,921</b>	<b>3,020</b>

All revaluations are independent and are conducted in accordance with the revaluations policy stated at Note 1. In 2005-06, the 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 \$'000	Plant & Equipment \$'000	TOTAL \$'000
As at 1 July 2005			
Gross book value	1,567	1,453	3,020
Accumulated depreciation/amortisation	-	-	-
<b>Opening net book value</b>	<b>1,567</b>	<b>1,453</b>	<b>3,020</b>
Additions by purchase	64	136	200
Net revaluation increment/(decrement)	30	(137)	(107)
Depreciation/amortisation expense	(501)	(512)	(1,013)
Disposals	-	(179)	(179)
<b>As at 30 June 2006</b>			
Gross book value	1,160	761	1,921
Accumulated depreciation/amortisation	-	-	-
<b>Closing net book value</b>	<b>1,160</b>	<b>761</b>	<b>1,921</b>

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

Note 7B: Analysis of Infrastructure, Plant and Equipment (cont'd)

TABLE B - Assets at Valuation

Item	Leasehold Improvements \$'000	Plant & Equipment \$'000	TOTAL \$'000
As at 30 June 2006			
Gross book value	1,160	761	1,921
Accumulated depreciation/amortisation	-	-	-
<b>Net book value</b>	<b>1,160</b>	<b>761</b>	<b>1,921</b>
As at 30 June 2005			
Gross book value	1,567	1,453	3,020
Accumulated depreciation/amortisation	-	-	-
<b>Net book value</b>	<b>1,567</b>	<b>1,453</b>	<b>3,020</b>

Note 7C: Intangible Assets

	2006 \$'000	2005 \$'000
<b>Computer software</b>		
- at cost	1,803	2,591
- accumulated amortisation	(793)	(2,366)
<b>Total intangibles (non-current)</b>	<b>1,010</b>	<b>225</b>

TABLE A - Reconciliation of Opening and Closing Balances of Intangibles

Item	Computer Software \$'000
As at 1 July 2005	
Gross book value	2,591
Accumulated amortisation	(2,366)
<b>Opening net book value</b>	<b>225</b>
Amortisation expense	(190)
Additions	975
Write-off of fully depreciated software:	
- cost	(1,763)
- amortisation	(1,763)
As at 30 June 2006	
Gross Book Value	1,803
Accumulated amortisation	(793)
<b>Closing net book value</b>	<b>1,010</b>

Note 7D: Other Non-Financial Assets

Prepayments	965	853
All other non-financial assets are current assets.		

**Note 8 - Payables**

Note 8A: Suppliers

Trade creditors	2,814	2,129
Other accruals	6,648	7,862
<b>Total supplier payables</b>	<b>9,462</b>	<b>9,991</b>

All supplier payables are current liabilities and will be settled within 30 days. Other accruals includes supplier accruals of \$1.158 million (2004-05: \$0.812 million) and lease liabilities from the straightlining of lease expenses of \$5.490 million (2004-05: \$7.050 million). For the purpose of Note 15, other accruals have been presented as a supplier payable.



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	2006 \$'000	2005 \$'000
<b>Note 8 - Payables (cont'd)</b>		
<u>Note 8B: Other Payables</u>		
Advance rental payment	190	190
The advance rental payment is a non-current liability.		
<b>Note 9 - Interest Bearing Liabilities</b>		
<u>Other Interest Bearing Liabilities</u>		
Surplus lease space	1,360	1,882
Other interest bearing liabilities are represented by:		
Current	557	522
Non-current	803	1,360
<b>Total other interest bearing liabilities</b>	1,360	1,882
<b>Note 10 - Provisions</b>		
<u>Note 10A: Employee Provisions</u>		
Salaries and wages	430	499
Leave	7,653	7,342
Superannuation	806	762
<b>Total employee provisions</b>	8,889	8,603
Current	7,996	7,953
Non-current	893	650
<b>Total employee provisions</b>	8,889	8,603
<u>Note 10B: Other Provisions</u>		
Make good provision	958	592
The make-good provision is a non-current liability.		
	<b>Make good Provision \$'000</b>	
<b>Carrying amount at beginning of period</b>	592	
Re-estimation of make-good liability	337	
Unwinding of discount amount arising from the passage of time	29	
<b>Carrying amount at end of period</b>	958	

The ANAO currently has two agreements for the leasing of premises which have provisions that require the make good of the premises on the expiration of the lease.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
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	2006 \$'000	2005 \$'000
<b>Note 11 - Cash Flow Reconciliation</b>		
Reconciliation of cash per Balance Sheet to Statement of Cash Flows		
Cash at year end per Statement of Cash Flows	834	950
Balance Sheet items comprising above cash: 'Financial Asset - Cash'	834	950
<b>Reconciliation of net surplus to net cash from operating activities:</b>		
Net surplus/(deficit)	1,183	1,935
Depreciation/amortisation	1,203	1,198
Net write down of non-financial assets	161	3
Loss/(profit) on disposal of assets	58	26
(Increase)/decrease in net receivables	(772)	(1,247)
(Increase)/decrease in other financial assets	(36)	11
(Increase)/decrease in prepayments	(112)	(251)
Increase/(decrease) in employee provisions	286	58
Increase/(decrease) in supplier payables	(529)	56
Increase/(decrease) in other interest bearing liabilities	(522)	(486)
Increase/(decrease) in other provisions	29	28
<b>Net cash from/(used by) operating activities</b>	<b>949</b>	<b>1,331</b>

**Note 12: Executive Remuneration**

The number of senior executives who received or were due to receive total remuneration of \$130,000 or more:

	2006 No.	2005 No.
\$130 000 to \$144 999	1	-
\$145 000 to \$159 999	1	-
\$160 000 to \$174 999	3	2
\$175 000 to \$189 999	5	5
\$190 000 to \$204 999	5	7
\$205 000 to \$219 999	4	4
\$220 000 to \$234 999	2	1
\$235 000 to \$249 999	1	-
\$250 000 to \$264 999	1	1
\$265 000 to \$279 999	-	2
\$280 000 to \$294 999	-	1
\$325 000 to \$339 999	1	-
\$430 000 to \$444 999	1	-
<b>Total</b>	<b>25</b>	<b>23</b>

The aggregate amount of total remuneration of executives shown above

**\$ 5,286,575    \$ 4,793,470**

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

**-                      -**

The financial statements for 2004-05 shows 24 senior executives having been paid amounts over \$100,000 with a total remuneration of \$4,896,012. The amount shown above reflects the new disclosure requirements of 2005-06.

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	2006 \$	2005 \$
<b>Note 13 - Remuneration of Auditors</b>		
Amounts received, or due and receivable by the Independent Auditor for:		
Financial statement audit	92,700	85,800
Performance audit	-	-
	<u>92,700</u>	<u>85,800</u>

Mr Geoff Wilson, a partner from the firm of KPMG, was appointed as Independent Auditor for a three year period until 2008. Mr Wilson's appointment is a personal one and he performed no other services for the ANAO.

	No.	No.
<b>Note 14 - Average Staffing Levels</b>		
The average staffing levels for the ANAO during the year were:	<u>313</u>	<u>305</u>

Australian National Audit Office  
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Note 15 - Financial Instruments

Note 15A: 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										
			2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	%
			\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%	%
Financial Assets																	
Cash and cash equivalents	6A		-	-	-	-	-	-	-	834	950	834	950			-	-
Receivables for goods and services	6B		-	-	-	-	-	-	-	204	146	204	146			-	-
Employee related receivables	6B		-	-	-	-	-	-	-	259	114	259	114			-	-
GST receivable	6B		-	-	-	-	-	-	-	619	558	619	558			-	-
Appropriations receivable	6B		-	-	-	-	-	-	-	18,291	17,661	18,291	17,661			-	-
Work in progress	6C		-	-	-	-	-	-	-	40	4	40	4			-	-
Total			-	-	-	-	-	-	-	20,247	19,453	20,247	19,453			-	-
Total Assets																	
Financial Liabilities																	
Supplier payables	8A		-	-	-	-	-	-	-	3,972	2,941	3,972	2,941			-	-
Other payables	8B		-	-	-	-	-	-	-	190	190	190	190			-	-
Total			-	-	-	-	-	-	-	4,162	3,131	4,162	3,131			-	-
Total Liabilities																	
										20,859	21,258	20,859	21,258				

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Note 15B: Fair Values of Financial Assets and Liabilities

		2006		2005	
	Notes	Total Carrying Amount \$'000	Aggregate Net Fair Value \$'000	Total Carrying Amount \$'000	Aggregate Net Fair Value \$'000
<b>Financial Assets</b>					
Cash and cash equivalents	6A	834	834	950	950
Receivables for goods and services	6B	204	204	146	146
Employee related receivables	6B	259	259	114	114
GST receivable	6B	619	619	558	558
Appropriation receivables	6B	18,291	18,291	17,681	17,681
Work in progress	6C	40	40	4	4
<b>Total Financial Assets</b>		<b>20,247</b>	<b>20,247</b>	<b>19,453</b>	<b>19,453</b>
<b>Financial Liabilities</b>					
Supplier payables	8A	3,972	3,972	2,941	2,941
Other payables	8B	190	190	190	190
<b>Total Financial Liabilities</b>		<b>4,162</b>	<b>4,162</b>	<b>3,131</b>	<b>3,131</b>

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

Note 15C: 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 Balance Sheet.

The ANAO provides audit services to Commonwealth agencies and entities and has no significant exposure to any concentrations of credit risk.

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	2006 \$'000	2005 \$'000
<b>Note 16 - Income Administered on Behalf of Government</b>		
<b>Revenue</b>		
<b>Services</b>		
Rendering of services - Financial statement audit fees	13,153	11,807
<b>Total Revenues Administered on Behalf of Government</b>	<b>13,153</b>	<b>11,807</b>
<b>Note 17 - Assets Administered on Behalf of Government</b>		
<b>Financial Assets</b>		
<b>Cash and cash equivalents</b>		
Administered bank account - Australian National Audit Office	-	-
<b>Receivables</b>		
Receivables - Financial statement audit fees	3,167	3,026
Receivables (gross) are aged as follows:		
Current	2,096	2,480
Overdue by:		
Less than 30 days	1,007	-
30 to 60 days	64	546
61 to 90 days	-	-
More than 90 days	-	-
<b>Total receivables (gross)</b>	<b>3,167</b>	<b>3,026</b>
<b>Work in progress</b>		
Financial statement audits	1,403	296
<b>Total Assets Administered on Behalf of Government</b>	<b>4,570</b>	<b>3,322</b>
<b>Note 18 - Liabilities Administered on Behalf of Government</b>		
<b>Other payables</b>		
GST payable to Australian Taxation Office	229	372
Other payables	-	-
<b>Total other payables</b>	<b>229</b>	<b>372</b>
<b>Total Liabilities Administered on Behalf of Government</b>	<b>229</b>	<b>372</b>
All liabilities are expected to be settled within 12 months of balance date.		
<b>Note 19 - Administered Reconciliation Table</b>		
<b>Opening administered assets less administered liabilities as at 1 July</b>	<b>2,950</b>	<b>2,341</b>
Plus: Administered revenues	13,153	11,807
Transfers to the OPA	(11,762)	(11,198)
<b>Closing administered assets less administered liabilities as at 30 June</b>	<b>4,341</b>	<b>2,950</b>
<b>Note 20 - Administered Contingent Liabilities</b>		
<b>Quantifiable Administered Contingencies</b>		
There were no quantifiable Administered Contingent Liabilities as at 30 June 2006 (2005: Nil)		
<b>Unquantifiable Administered Contingencies</b>		
There were no unquantifiable Administered Contingent Liabilities as at 30 June 2006 (2005: Nil)		
<b>Remote Administered Contingencies</b>		
There were no remote Administered Contingent Liabilities as at 30 June 2006 (2005: Nil)		



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Note 21 - 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										
		2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%	%
Financial Assets																
Cash and cash equivalents	17	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Receivables for goods and services	17	-	-	-	-	-	-	-	-	3,167	3,026	3,167	3,026	-	-	-
Work in progress	17	-	-	-	-	-	-	-	-	1,403	296	1,403	296	-	-	-
Total		-	-	-	-	-	-	-	-	4,570	3,322	4,570	3,322	-	-	-
Total Assets																
Financial Liabilities																
GST payable	18	-	-	-	-	-	-	-	-	229	372	229	372	-	-	-
Total		-	-	-	-	-	-	-	-	229	372	229	372	-	-	-
Total Liabilities																
										229	372	229	372	-	-	-

Australian National Audit Office  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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Note 22 - Appropriations

Note 22A: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (CRF) for Ordinary Annual Services Appropriations

The ANAO does not receive Administered appropriations.

Particulars	Administered Expenses Outcome 1	Administered Expenses Outcome 2	Departmental Outputs	Total
<b>Year ended 30 June 2006</b>				
Balance carried from previous period	-	-	13,773,464	13,773,464
Reductions of appropriations (prior years)	-	-	-	-
<b>Adjusted Balance carried from previous period</b>				
Appropriation Act (No.1)	-	-	13,773,464	13,773,464
Appropriation Act (No.3)	-	-	61,879,000	61,879,000
Appropriation Act (No.5)	-	-	1,061,000	1,061,000
Sub-total 2005-2006 Appropriation	-	-	915,000	915,000
Appropriations to take account of recoverable GST (FMAA s30A)	-	-	63,855,000	63,855,000
Annotations to 'net appropriations' (FMAA s31)	-	-	2,063,556	2,063,556
Total appropriations available for payments	-	-	1,434,980	1,434,980
Cash payments made during the year (GST inclusive)	-	-	81,127,000	81,127,000
	-	-	(66,655,906)	(66,655,906)
<b>Balance of Authority to Draw Cash from the CRF for Ordinary Annual Services Appropriations</b>	-	-	14,471,094	14,471,094
<b>Represented by:</b>				
Cash and cash equivalents	-	-	834,227	834,227
Receivables - departmental appropriations	-	-	13,050,484	13,050,484
Receivables - GST receivable from customers	-	-	-	-
Receivables - GST receivable from the ATO	-	-	619,145	619,145
Receivables - departmental appropriations - drawing rights withheld by the Finance Minister (FMA Act s27(4))	-	-	-	-
Formal reductions of appropriations	-	-	-	-
Receivables - departmental appropriations (appropriation for additional outputs)	-	-	-	-
Payables - GST payable	-	-	(32,762)	(32,762)
Undrawn, unapplied administered appropriations	-	-	-	-
<b>Total</b>	-	-	14,471,094	14,471,094



Australian National Audit Office  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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Note 22 - Appropriations (cont'd)

Note 22A: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (CRF) for Ordinary Annual Services Appropriations (cont'd)

Particulars	Administered Expenses Outcome 1	Administered Expenses Outcome 2	Departmental Outputs	Total
<b>Year ended 30 June 2005 (comparative period)</b>				
Balance carried from previous period	-	-	17,946,656	17,946,656
Reductions of appropriations (prior years)	-	-	-	-
<b>Unspent prior year appropriations - invalid s31</b>				
Opening Balance 1999-2000 carryover from prior years included in Bill No. 2			(10,614,517)	(10,614,517)
			(5,456,000)	(5,456,000)
<b>Adjusted Balance carried from previous period</b>				
Appropriation Act (No.1)	-	-	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
Sub-total	-	-	1,412,521	1,412,521
Appropriations to take account of recoverable GST (FMAA s30A) from 18 November 2004 to 28 June 2005				
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
Sub-total	-	-	(3,128,715)	(3,128,715)
<b>Balance of Authority to Draw Cash from the CRF for Ordinary Annual Services Appropriations</b>	-	-	13,773,464	13,773,464

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Note 22 - Appropriations (cont'd)

Note 22A: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (CRF) for Ordinary Annual Services Appropriations (cont'd)

Represented by:					
Cash and cash equivalents	-	-	-	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

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**Note 22 - Appropriations (cont'd)**

Note 22B: Accrual of Authority to Draw Cash from the Consolidated Revenue Fund (CRF) for other than Ordinary Annual Services Appropriations

Particulars	Administered Outcome 1				Non-operating				Total
	SPPs	NAE	SPPs	NAE	Equity	Loans	Previous years' outputs	Admin assets and liabilities	
<b>Year ended 30 June 2006</b>									
Balance carried from previous period	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,456,000	\$ -	\$ 5,456,000
Reduction of appropriations (prior years)	-	-	-	-	-	-	-	-	-
Adjusted balance carried from previous period	-	-	-	-	-	-	5,456,000	-	5,456,000
Appropriation Act (No.2) 2005-2006	-	-	-	-	-	-	-	-	-
Appropriation Act (No.4) 2005-2006	-	-	-	-	-	-	-	-	-
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  
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Note 22 - Appropriations (cont'd)

Note 22B: Accrual 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 SPPs	Outcome 1 NAE	Outcome 2 SPPs	Outcome 2 NAE	Equity	Loans	Previous years' outputs	Admin assets and liabilities
Represented by:								
Cash and cash equivalents	-	-	-	-	-	-	-	-
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, unapplied administered appropriations	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	5,456,000	5,456,000

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**Note 22 - Appropriations (cont'd)**

Note 22B: 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			Non-operating			Total
	SPPs	NAE	SPPs	NAE	Equity	Loans	Admin assets and liabilities
<b>Year ended 30 June 2005</b>							
Balance carried from previous period	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
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	-	-	-	-	-	5,456,000	5,456,000
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**  
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Note 22C - Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund - Special Appropriations (Unlimited Amount)

<b>Auditor-General Act 1997 - Schedule 1 sections 3 and 7</b>	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
Purpose: Remuneration expenses and allowances of the office of the Auditor-General		
	<b>Outcome 1</b>	
Cash payments made during the year	194,050	201,500
Budget estimate	188,500	183,500
	<b>Outcome 2</b>	
Cash payments made during the year	194,050	201,501
Budget estimate	188,500	183,500
Total payments made	388,100	403,001
Total budget estimate	377,000	367,000

For the periods 2004-05 and 2005-06, the ANAO has not used section 28 of the FMA Act or any other legislative provision allowing for refunds to be paid.

Note 22D - Special Accounts

<b>Other Trust Monies Special Account - Special Public Monies</b>	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
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	54,060	94,211
Appropriation for reporting period	-	-
Costs recovered	-	-
GST credits (FMA s30A)	-	-
Realised investments	-	-
Other receipts - Staff contributions for salary packaging	314,543	39,952
Other receipts - Comcare receipts paid in accordance with the <i>Safety Rehabilitation and Compensation Act 1998</i> .	93,124	18,522
Available for payments	461,727	152,685
Payments made to employees	(115,740)	(56,081)
Payments made to suppliers	(170,770)	(42,544)
Repayments debited from the Special Account (s28)	-	-
Investments debited from the Special Account (FMA s39)	-	-
Balance carried to the next period	175,217	54,060
Represented by:		
Cash - transferred to the Official Public Account	-	-
Cash - held by the entity	175,217	54,060
Total	175,217	54,060

The note above discloses the transactions relating to Comcare and Salary Packaging.

The ANAO's Services for Other Government and Non-agency Bodies Special Account (Special Public Money) was not used during the 2005-06 or 2004-05 financial years.

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**Note 23 - Specific Payment Disclosures**

	2006 \$'000	2005 \$'000
<i>Departmental</i>		
No payments made under section 73 of the Public Service Act 1999 (2004-05: No payments made)	Nil	Nil
<i>Administered</i>		
No 'Act of Grace' expenses were incurred during the reporting period (2004-05: 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> . (2004-05: No waivers made)	Nil	Nil
No ex-gratia payments were made during the year (2004-05: No payments made)	Nil	Nil

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Note 24 - 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 2005-06 Budget.

Note 24A: Net Cost of Outcome Delivery

	Outcome 1		Outcome 2		Total	
	Improvement in		Assurance			
	2006	2005	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Administered expenses	-	-	-	-	-	-
Departmental expenses	20,807	21,322	43,326	38,944	64,133	60,266
<b>Total expenses</b>	<b>20,807</b>	<b>21,322</b>	<b>43,326</b>	<b>38,944</b>	<b>64,133</b>	<b>60,266</b>
Costs recovered from provision of goods and services to the non-government sector						
Administered	-	-	-	-	-	-
Departmental	285	280	285	280	570	560
<b>Total costs recovered</b>	<b>285</b>	<b>280</b>	<b>285</b>	<b>280</b>	<b>570</b>	<b>560</b>
Other external revenues						
Administered	-	-	-	-	-	-
Total Administered	-	-	-	-	-	-
Departmental	-	-	-	-	-	-
Interest on cash deposits	-	-	-	-	-	-
Revenue from disposal of assets	-	-	-	-	-	-
Goods and services revenue from related entities	-	-	880	831	880	831
Total Departmental	-	-	880	831	880	831
<b>Total other external revenues</b>	<b>-</b>	<b>-</b>	<b>880</b>	<b>831</b>	<b>880</b>	<b>831</b>
<b>Net cost/(contribution) of outcome</b>	<b>20,522</b>	<b>21,042</b>	<b>42,446</b>	<b>37,833</b>	<b>62,683</b>	<b>58,875</b>



Australian National Audit Office  
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Note 24 - Reporting of Outcomes (cont'd)

Note 24B: Major Classes of Departmental Revenues and Expenses by Output Groups and Outputs

Outcome 1	Output Group 1		Output Group 2		Total - Outcome 1	
	Performance Audit Services		Information Support Services		Improvement in Public Administration	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Departmental expenses</b>						
Employees	12,388	13,092	1,164	429	13,552	13,521
Suppliers	5,917	6,831	445	204	6,362	7,035
Depreciation and amortisation	432	482	40	15	472	497
Other expenses	399	250	22	19	421	269
<b>Total departmental expenses</b>	<b>19,136</b>	<b>20,655</b>	<b>1,671</b>	<b>667</b>	<b>20,807</b>	<b>21,322</b>
<b>Funded by:</b>						
Revenues from Government	19,020	21,093	1,664	655	20,684	21,748
Sale of goods and services	261	270	24	10	285	280
Other non-taxation revenue	-	-	-	-	-	-
<b>Total departmental revenues</b>	<b>19,281</b>	<b>21,363</b>	<b>1,688</b>	<b>665</b>	<b>20,969</b>	<b>22,028</b>
<b>Outcome 2</b>						
Outcome 2	Output Group 2		Output Group 3		Total - Outcome 2	
	Information Support Services		Assurance Audit Services		Assurance	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Departmental expenses</b>						
Employees	299	284	15,930	14,392	16,229	14,676
Suppliers	437	309	25,507	22,989	25,944	23,298
Depreciation and amortisation	14	13	717	688	731	701
Other expenses	6	11	416	258	422	269
<b>Total departmental expenses</b>	<b>756</b>	<b>617</b>	<b>42,570</b>	<b>38,327</b>	<b>43,326</b>	<b>38,944</b>
<b>Funded by:</b>						
Revenues from Government	752	606	42,430	38,456	43,182	39,062
Sale of goods and services	6	13	1,159	1,098	1,165	1,111
Other non-taxation revenue	-	-	-	-	-	-
<b>Total departmental revenues</b>	<b>758</b>	<b>619</b>	<b>43,589</b>	<b>39,554</b>	<b>44,347</b>	<b>40,173</b>

Australian National Audit Office  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
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Note 24 - Reporting of Outcomes (cont'd)

Note 24C: Major Classes of Administered Revenues and Expenses by Outcome

	Outcome 1 Improvement in Public Administration		Outcome 2 Assurance		Total	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Administered Revenue</b>						
Sale of goods and services (audit fees)	-	-	13,153	11,807	13,153	11,807
<b>Total Administered Revenues</b>	-	-	13,153	11,807	13,153	11,807
<b>Administered Expenses</b>						
<b>Total Administered Expenses</b>	-	-	-	-	-	-

## APPENDIX 3

## AUDIT REPORTS

Report title	Tabled	Cost \$
Audit Report No.1 2005–2006 Performance Audit <i>Management of the Detention Centre Contracts—Part B</i>	7/7/2005	444 659
Audit Report No.2 2005–2006 Performance Audit <i>Bank Prudential Supervision</i>	15/7/2005	265 000
Audit Report No.3 2005–2006 Performance Audit <i>Management of the M113 Armoured Personnel Carrier Upgrade Project</i>	28/7/2005	380 000
Audit Report No.4 2005–2006 Performance Audit <i>Post Sale Management of Privatised Rail Business Contractual Rights and Obligations</i>	4/8/2005	245 000
Audit Report No.5 2005–2006 Performance Audit <i>A Financial Management Framework to Support Managers in the Department of Health and Ageing</i>	11/8/2005	426 000
Audit Report No.6 2005–2006 Performance Audit <i>Implementation of Job Network Employment Services Contract 3</i>	18/8/2005	810 000
Audit Report No.7 2005–2006 Performance Audit <i>Regulation by the Office of the Gene Technology Regulator</i>	25/8/2005	411 000
Audit Report No.8 2005–2006 Performance Audit <i>Management of the Personnel Management Key Solution (PMKeyS) Implementation Project</i>	26/8/2005	275 000
Audit Report No.9 2005–2006 Performance Audit <i>Provision of Export Assistance to Rural and Regional Australia through the TradeStart Program</i>	6/9/2005	420 000
Audit Report No.10 2005–2006 Performance Audit <i>Upgrade of the Orion Maritime Patrol Aircraft Fleet</i>	23/9/2005	345 000
Audit Report No.11 2005–2006 Business Support Process Audit <i>The Senate Order for Departmental and Agency Contracts (Calendar Year 2004 Compliance)</i>	29/9/2005	163 600
Audit Report No.12 2005–2006 Performance Audit <i>Review of the Evaluation Methods and Continuous Improvement Processes for Australia's National Counter-Terrorism Coordination Arrangements</i>	13/10/2005	630 000
Audit Report No.13 2005–2006 Performance Audit <i>Administration of Goods and Services Tax Compliance in the Large Business Market Segment</i>	18/10/2005	399 900

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Audit Report No.14 2005–2006 Performance Audit <i>Administration of the Commonwealth State Territory Disability Agreement</i>	19/10/2005	465 000
Audit Report No.15 2005–2006 Performance Audit <i>Administration of the R&amp;D Start Program</i>	15/11/2005	425 000
Audit Report No.16 2005–2006 Performance Audit <i>The Management and Processing of Leave</i>	17/11/2005	258 100
Audit Report No.17 2005–2006 Performance Audit <i>Administration of the Superannuation Lost Members Register</i>	29/11/2005	282 280
Audit Report No.18 2005–2006 Performance Audit <i>Customs Compliance Assurance Strategy for International Cargo</i>	30/11/2005	353 400
Audit Report No.19 2005–2006 Performance Audit <i>Managing for Quarantine Effectiveness–Follow-up</i>	1/12/2005	380 000
Audit Report No.20 2005–2006 Performance Audit <i>Regulation of Private Health Insurance by the Private Health Insurance Administration Council</i>	6/12/2005	418 000
Audit Report No.21 2005–2006 Financial Statement Audit <i>Audit of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2005</i>	21/12/2005	440 900
Audit Report No.22 2005–2006 Performance Audit <i>Cross Portfolio Audit of Green Office Procurement</i>	22/12/2005	328 252
Audit Report No.23 2005–2006 Protective Security Audit <i>IT Security Management</i>	22/12/2005	333 211
Audit Report No.24 2005–2006 Performance Audit <i>Acceptance, Maintenance and Support Management of the JORN System</i>	23/1/2006	180 000
Audit Report No.25 2005–2006 Performance Audit <i>ASIC's Implementation of Financial Services Licences</i>	24/1/2006	520 000
Audit Report No.26 2005–2006 Performance Audit <i>Forms for Individual Service Delivery</i>	25/1/2006	421 000
Audit Report No.27 2005–2006 Performance Audit <i>Reporting of Expenditure on Consultants</i>	30/1/2006	440 000
Audit Report No.28 2005–2006 Performance Audit <i>Management of Net Appropriation Agreements</i>	31/1/2006	535 000
Audit Report No.29 2005–2006 Performance Audit <i>Integrity of Electronic Customer Records</i>	15/2/2006	415 000
Audit Report No.30 2005–2006 Performance Audit <i>The ATO's Strategies to Address the Cash Economy</i>	28/2/2006	377 000
Audit Report No.31 2005–2006 Performance Audit <i>Roads to Recovery</i>	1/3/2006	545 000

Audit Report No.32 2005–2006 Performance Audit <i>Management of the Tender Process for the Detention Services Contract</i>	2/3/2006	430 601
Audit Report No.33 2005–2006 Performance Audit <i>Administration of Petroleum and Tobacco Excise Collections: Follow-up Audit</i>	2/3/2006	218 000
Audit Report No.34 2005–2006 Performance Audit <i>Advance Passenger Processing</i>	16/3/2006	760 000
Audit Report No.35 2005–2006 Performance Audit <i>The Australian Taxation Office's Administration of Activity Statement High Risk Refunds</i>	28/3/2006	480 000
Audit Report No.36 2005–2006 Performance Audit <i>Management of the Tiger Armed Reconnaissance Helicopter Project – Air 87</i>	2/5/2006	340,000
Audit Report No.37 2005–2006 Performance Audit <i>The Management of Infrastructure, Plant and Equipment Assets</i>	3/5/2006	278 000
Audit Report No.38 2005–2006 Performance Audit <i>The Australian Research Council's Management of Research Grants</i>	4/5/2006	485 700
Audit Report No.39 2005–2006 Performance Audit <i>Artbank</i>	11/5/2006	230 000
Audit Report No.40 2005–2006 Performance Audit <i>Procurement of Explosive Ordnance for the Australian Defence Force (Army)</i>	17/5/2006	397 000
Audit Report No.41 2005–2006 Performance Audit <i>Administration of Primary Care Funding Agreements</i>	24/5/2006	375 000
Audit Report No.42 2005–2006 Performance Audit <i>Administration of the 30 Per Cent Private Health Insurance Rebate Follow-up Audit</i>	25/5/2006	290 000
Audit Report No.43 2005–2006 Performance Audit <i>Assuring Centrelink Payments – The Role of the Random Sample Survey Program</i>	31/5/2006	519 600
Audit Report No.44 2005–2006 Performance Audit <i>Selected Measures for Managing Subsidised Drug Use in the Pharmaceutical Benefits Scheme</i>	1/6/2006	385 000
Audit Report No.45 2005–2006 Performance Audit <i>Internet Security in Australian Government Agencies</i>	13/6/2006	378 000
Audit Report No.46 2005–2006 Performance Audit <i>Commonwealth State Housing Agreement Follow-up Audit</i>	14/6/2006	316 000
Audit Report No.47 2005–2006 Performance Audit <i>Funding for Communities and Community Organisations</i>	21/6/2006	698 000

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Audit Report No.48 2005–2006 Financial Statement Audit <i>Interim Phase for the Audit of Financial Statements of General Government Sector Entities for the Year Ending 30 June 2006</i>	22/6/2006	390 000
Audit Report No.49 2005–2006 Performance Audit <i>Job Placement Matching Services</i>	26/6/2006	365 000
Audit Report No.50 2005–2006 Performance Audit <i>Arrangements to Manage and Account for Aid Funds Provided under the Australia-Indonesia Partnership for Reconstruction and Development</i>	27/6/2006	250 000
Audit Report No.51 2005–2006 Performance Audit <i>Implementation of the Parliamentary Resolutions Arising from the Review by the Parliamentary Service Commissioner of Aspects of the Administration of Parliament</i>	28/6/2006	260 000
Audit Report No.52 2005–2006 Performance Audit <i>Management of selected Telstra Social Bonus 2 and Telecommunications Service Inquiry Response Programs</i>	29/6/2006	235 000

## APPENDIX 4

### MAIN ISSUES RAISED IN PERFORMANCE AUDIT, BUSINESS SUPPORT PROCESS (BSP) AUDIT AND PROTECTIVE SECURITY AUDIT REPORTS TABLED IN 2005–2006

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: *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 2005–2006*.

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

#### ANAO REPORTS EXAMINING SECURITY

*Audit Report No.12 2005–2006 Review of the Evaluation Methods and Continuous Improvement Processes for Australia's National Counter-Terrorism Coordination Arrangements.* The audit assessed the effectiveness of the key evaluation methods used to review the efficacy of the Australian Government's national counter-terrorism coordination arrangements. It also examined the effectiveness of the links between the key evaluation methods and how those methods contribute to continuous improvement. It concluded that, overall, a range of strategies and processes were in place to evaluate the national counter-terrorism coordination arrangements and to ensure that the arrangements were subject to regular evaluation and continuous improvement. The ANAO identified aspects of the evaluation strategy and continuous improvement cycle that require strengthening, better coordination and greater transparency.

*Audit Report No.18 2005–2006 Customs Compliance Assurance Strategy for International Cargo.* In an environment that is largely self-regulated, Customs Compliance Assurance Strategy aims to provide the Government and the community with confidence that industry and the international trading community are complying with legislative requirements. The audit found that Customs adopts an appropriate risk management approach and has developed and implemented systems and processes to risk assess and target high-risk consignments and non-compliant behaviour. However, the audit highlighted significant data capture and data integrity problems, a lack of systematic analysis of risks and emerging trends and a lack of readily available data to evaluate the effectiveness of compliance activities.

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



*Audit Report No.19 2005–2006 Managing for Quarantine Effectiveness—Follow-up.* The audit assessed the effectiveness of the actions taken by the Australian Quarantine and Inspection Service (AQIS) and Biosecurity Australia (BA) to strengthen the administration of quarantine, and to address recommendations from Audit Report No.47 2000–2001 *Managing for Quarantine Effectiveness* and JCPAA Report 394 *Review of Australia's Quarantine Function*. The audit found that AQIS and BA have made substantial progress in implementing the recommendations and taking other action to better protect Australia from exotic pests and diseases. In addition, AQIS has performed effectively, overall, in meeting intervention and effectiveness targets set by the Government in 2001–2002. However, management of quarantine risks posed by commercial cargo remains a key area for improvement, especially in respect to the effective targeting of risk items.

## ANAO AUDITS EXAMINING ECONOMIC MANAGEMENT

*Audit Report No.2 2005–2006 Bank Prudential Supervision Follow-up Audit.* This follow-up audit assessed progress by the Australian Prudential Regulation Authority (APRA) in implementing recommendations in Audit Report No.42 2000–2001 *Bank Prudential Supervision*. It found that APRA had implemented recommendations directed towards improving its supervisory framework. Although progress has been made towards implementing recommendations seeking to improve supervision of cross-border banking, the ANAO considered that further progress was required in relation to:

- completing implementation of the structured offshore review program that was finalised in April 2005;
- pursuing formal information sharing arrangements with overseas supervisors; and
- APRA supervisors being aware of any issues of concern relating to parents of foreign banks and overseas operations of Australian banks.

*Audit Report No.4 2005–2006 Post Sale Management of Privatised Rail Business Contractual Rights and Obligations.* The audit focused on Commonwealth administration of purchasers' rights and obligations in the agreements for the sale of the former Australian National Railways Commission. It found that the Department of Family and Community Services did not comply with the Commonwealth's financial framework when entering into contracts with the new rail provider. The Department did not adequately assess whether value for money was being achieved, in the context of increasing costs and decreasing usage. Also, the Department consistently overestimated the amount of funding it has required in respect of rail concessions, even where contracts have provided a cap on total payment. It was also found that the Department of Transport and Regional Services did not develop and document procedures for assessing purchaser capital expenditure commitments, which compromised its ability to assess purchasers' achievement of their capital expenditure obligations.

*Audit Report No.9 2005–2006 Provision of Export Assistance to Rural and Regional Australia through the TradeStart Program.* The objective of this audit was to assess the provision of export assistance and support to new and irregular exporters in rural and regional Australia through the TradeStart program. TradeStart aims to assist small-to-medium enterprises (SMEs) to begin exporting on a sustainable

basis and to convert irregular exporters to regular sustained exporting; it also considers the particular needs of regional Australia. The audit examined the program's contractual and high-level management arrangements; arrangements for managing and overseeing the TradeStart network of export advisers; processes under TradeStart for identifying and recruiting potential exporters; processes for assisting clients to export; and assessment of TradeStart performance.

*Audit Report No.15 2005-2006 Administration of the R&D Start Program.* The audit assessed the administration of the grants component of the R&D Start program by the Department of Industry, Tourism and Resources and the Industry Research and Development Board. It concluded that program delivery is generally well managed. Program governance arrangements were sound. Procedures for appraising applications generally followed grant administration better practice. The contractual arrangement between the Commonwealth and the grant recipient provides sound accountability for management of grants. Applicants to the program and grant recipients, generally, were satisfied with program administration. Recommendations were made to strengthen the program's performance management and evaluation framework, improve transparency and accountability of the process to select applications for financial support, strengthen quality assurance of the grant assessment process, and improve compliance management.

*Audit Report No.22 2005-2006 Cross Portfolio Audit of Green Office Procurement.* The audit examined the value-for-money decisions agencies make in their procurement process, with a particular focus on whole-of-life costing and environmental impacts. It concluded that there had been some better practice examples of green office procurement. However, overall there were significant shortcomings in applying whole-of-life costing and managing environmental impacts of procurement decisions. The ANAO found that agency compliance with policy requirements had improved over time in areas such as energy efficiency in buildings but agency performance in managing motor vehicle emissions, reducing and recycling waste and conserving water was variable and, in most agencies, poor. A key barrier to green procurement identified by 25 per cent of surveyed agencies was that budgetary constraints (or processes) 'do not allow green office procurement even though this might produce longer term savings'.

*Audit Report No.25 2005-2006 ASIC's Implementation of Financial Services Licences.* A single licence regime is now in place for the financial services sector. Two-thirds of all the 3738 licences granted during the two-year transition period (that ended on 10 March 2004) were granted during the last six months. ASIC successfully dealt with the late influx, and the generally poor standard of applications by reallocating resources from other activities, such as the surveillance of licensees, and by curtailing analysts' scrutiny of applications. Overall, important regulatory risks were not systematically addressed until after the end of the transition period. Recommendations primarily focused on improving: ASIC's processes for identifying and managing regulatory risks; documentation of licence processing; useability of ASIC's public licensee database; and reporting of ASIC's compliance performance.

*Audit Report No.30 2005-2006 The ATO's Strategies to Address the Cash Economy.* The ANAO noted that, although the cash economy is difficult to quantify, it places billions of dollars in revenue at risk. Managing cash economy compliance is challenging and it is unlikely that there are strategies and a set

of compliance activities that will entirely remove it. The ANAO found that the ATO has appropriate strategies, sound governance arrangements, well-developed project management processes and diverse compliance activities to target cash economy activities. The ATO had made good progress in implementing the previous ANAO Report's recommendations. Key issues for ongoing ATO attention are how to secure better compliance in business-to-consumer cash dealings and how to show the impact, over time, of compliance activities in targeted cash economy industries.

## ANAO AUDITS EXAMINING SERVICE DELIVERY AND WHOLE OF GOVERNMENT APPROACH

### *Audit Report No.6 2005-2006 Implementation of Job Network Employment Services Contract 3.*

The audit examined implementation of the third Job Network employment services contract, ESC3. Implementation was challenging, involving new policy, simultaneous procurement and a new IT system built on a new technology to a deadline. The IT system was unreliable for several months, detracting from service delivery. Low job seeker attendance at Job Network appointments also impeded implementation, causing Job Network cash flow problems. DEWR set four implementation objectives but did not monitor and report against them. The ANAO concluded that DEWR largely did not meet them. During the audit, DEWR undertook to consider improving its performance reporting.

*Audit Report No.26 2005-2006 Forms for Individual Service Delivery.* The audit examined selected agencies' management of design and review of forms that are fundamental in delivering services to individuals. The audit distilled agency practices which contributed to better form design and communication, and provided feedback to the agencies about the useability, delivery and receipt of selected forms. Forms tested included those with high volume usage, those used by young people and specialised customer groups, those for on-line reporting or completed through an interactive voice recognition telephone facility and those designed to be completed over the telephone with the assistance of a Customer Service Officer. The ANAO subsequently published a Better Practice Guide on forms design.

*Audit Report No.31 2005-2006 Roads to Recovery.* This audit examined the initial Roads to Recovery Program that provided a total of \$1.2 billion between March 2001 and June 2005 to local government for expenditure on the construction, upgrade and/or maintenance of roads. The audit demonstrated the importance of program management and accountability mechanisms giving reasonable assurance that road projects are undertaken in accordance with the scope and timelines proposed by Local Government Authorities (LGAs). Further, effective management and monitoring of program implementation is critical to achieving the outcomes expected by the Government and the community. During the course of the audit a number of issues were addressed by Department of Transport and Regional Services (DOTARS) in developing the Auslink Roads to Recovery governance arrangements. In addition, DOTARS advised the ANAO that better processes are to be adopted for Auslink Roads to Recovery.

*Audit Report No.33 2005–2006 Administration of Petroleum and Tobacco Excise Collections: Follow-up Audit.* The Australian Taxation Office (ATO) has implemented most of the 20 recommendations in Audit Report No.17 2001–2002 *Administration of Petroleum Excise Collections* and Audit Report No.55 2001–2002 *Administration of Tobacco Excise*. Seventeen recommendations have been fully implemented; the remaining three, substantially. In respect of these three, the ATO is completing their implementation. The audit identified several areas where the ATO's administration of excise could be strengthened. There are reasonable grounds to conclude that each year substantial quantities of tobacco continue to be diverted into the illegal market from Australia's tobacco plantations. During the audit the ATO initiated multi-agency approaches, involving state and federal agencies, focusing strategically on the whole of the illegal production and distribution chains.

*Audit Report No.46 2005–2006 Commonwealth State Housing Agreement Follow-up Audit.* The audit followed up Audit Report No.17 1999–2000 *Commonwealth State Housing Agreement*, which made four recommendations on financial management, performance monitoring and management procedures for the then Commonwealth State Housing Agreement. The ANAO concluded that three recommendations had been implemented and that the fourth had been substantially implemented. This had resulted in improved systems and processes associated with the performance information and financial information used in the 1999 and 2003 Agreements. However, it was found that performance reporting could be improved by more timely reporting that demonstrates performance achieved against the objectives of the Agreement.

*Audit Report No.49 2005–2006 Job Placement Matching Services.* The audit found that DEWR effectively managed implementation of Job Placement and matching services but that ongoing management and oversight would be strengthened by: better monitoring of the quality of services provided by Job Placement Organisations against the Job Placement services Code of Practice; clarifying delivery requirements for new referral interview services with Job Network Members; improving the quality of vacancy data on JobSearch, the government-owned on-line vacancy listing enterprise; following up the government's intention to review the costs and benefits of maintaining a national vacancy database, such as JobSearch; and more open reporting of overall service performance, especially Job Placement outcomes that are comparable over time.

*Audit Report No.51 2005–2006 Implementation of the Parliamentary Resolutions Arising from the Review by the Parliamentary Service Commissioner of Aspects of the Administration of the Parliament.* The audit arose from advice by the Joint Committee on Public Accounts and Audit in 2003 that administration of the parliamentary departments represented an audit priority of the Parliament. The audit objectives were to report on implementation of parliamentary resolutions and other actions arising from recommendations made in the *Review by the Parliamentary Service Commissioner of Aspects of the Administration of the Parliament*. The audit also broadly examined the impact of the parliamentary resolutions on aspects of the level of services provided to the Parliament generally following amalgamation of the three former parliamentary departments into the Department of Parliamentary Services, and on accommodation space in Parliament House.

## ANAO AUDITS EXAMINING HEALTH AND AGEING

*Audit Report No.14 2005–2006 Administration of the Commonwealth State Territory Disability Agreement.* The audit assessed whether the Department of Families, Community Services and Indigenous Affairs (FaCSIA) effectively undertakes its coordination, monitoring and other roles according to the Commonwealth State Territory Disability Agreement. Although finding that FaCSIA generally fulfilled the requirements of its roles over the first two years of the Agreement, the audit identified opportunities for FaCSIA to contribute to better administration of disability services for which the States and Territories are primarily responsible. The report made recommendations focused mainly on enhancing FaCSIA's contributions to: performance monitoring and reporting; whole of government coordination of disability and related services; and quality assurance processes.

*Audit Report No.41 2005–2006 Administration of Primary Care Funding Agreements.* The audit sought to assess the Department of Health and Ageing's administration of primary care funding. It concluded that the Department was well advanced in guiding officers who administer funding agreements. The Department was strengthening its approaches by developing an information system to support agreement administration. The system will complement existing contract registers used to monitor agreement activity and to inform internal/external reporting. Aspects of day-to-day administration, such as payments, were also generally consistent with agreement requirements. Some aspects of agreement administration require strengthening in order for the Department to demonstrate that 'it gets what it pays for' and to improve administrative efficiency.

*Audit Report No.42 2005–2006 Administration of the 30 Per Cent Private Health Insurance Rebate Follow-up Audit.* The follow-up audit assessed the extent to which the Australian Taxation Office (ATO), Department of Health and Ageing, and Medicare Australia had implemented the six recommendations from Audit Report No.47 2001–2002 *Administration of the 30 Per Cent Private Health Insurance Rebate*. It found that agencies have fully implemented three of the recommendations and are continuing to work towards full implementation of the other three recommendations, which have been substantially completed. There are further opportunities for improving agencies' administration of the 30 per cent Private Health Insurance Rebate. The ANAO made recommendations for improving the ATO's and Medicare Australia's data exchange arrangements; and Medicare Australia's risk management and audit program for the Rebate.

*Audit Report No.44 2005–2006 Selected Measures for Managing Subsidised Drug Use in the Pharmaceutical Benefits Scheme.* The Pharmaceutical Benefits Scheme, administered by the Department of Health and Ageing (Health), provides Australians with timely, reliable and affordable access to necessary and cost-effective drugs. The audit examined how effectively Health managed the risk of PBS-subsidised drugs being used outside PBS subsidy conditions. The audit concluded that Health's management of the risk was reasonable but there was scope to strengthen the arrangements. The ANAO made two recommendations focussing on Health's selection of measures to control the use of drugs, reviewing the success of these measures, and maximising the value of an analysis of predicted and actual drug usage after listing.

## ANAO AUDITS EXAMINING IT AND ITS USE ACROSS AGENCIES

**Audit Report No.17 2005–2006 *Administration of the Superannuation Lost Members Register*.** The audit found that the Australian Taxation Office (ATO) has systems and controls to capture lost member data received from providers but there are shortcomings with the Superannuation Lost Members Register (LMR) system control framework and the ATO's approach to identity matching lost member data stored on the LMR. The ATO has established some compliance strategies for its larger providers and has implemented strategies and mechanisms to promote awareness of, and enable access to, the LMR. Two separate tools, SuperMatch and SuperSeeker, allow providers and members access to lost member data. Overall we found that the ATO has significantly restructured its governance arrangements for the delivery of superannuation products over the last 12 months.

**Audit Report No.23 2005–2006 *IT Security Management (protective security audit report)*.** The audit assessed the management of IT security in eight Australian Government entities. Audit criteria were based on Australian Standards<sup>2</sup> and Australian Government expectations.<sup>3</sup> Overall, the ANAO concluded that the audited agencies had identified relevant Australian Government policies, practices and procedures for the protection of information. However, most agencies had not implemented structured processes to ensure the effective alignment of their IT security policy objectives with organisational risk management processes and Australian Government policy, practices and standards for safeguarding information resources. The audit identified opportunities for improving agencies' policies and procedures on IT security management practices, risk assessment processes, identification of physical and environmental controls for managing IT equipment and reporting of network security practices.

**Audit Report No.29 2005–2006 *Integrity of Electronic Customer Records*.** This audit looked at a range of issues associated with Centrelink's electronic customer records. It provided an assurance that Centrelink's electronic customer records are, generally, sufficiently accurate and complete to support the effective administration of the social security programs for which Centrelink is responsible. However, the audit found that Centrelink could significantly improve the accuracy and integrity of customer information held in its customer records. It also found that Centrelink could improve the integrity of the primary key of its database, the Centrelink Reference Number, and, by doing so, decrease the risk associated with fragmenting customer data. Further improvements could be made by removing training records and obsolete customer records from the production database and improving the data integrity checking system.

**Audit Report No.34 2005–2006 *Advance Passenger Processing*.** The audit assessed the Department of Immigration and Multicultural Affairs' (DIMA's) information systems and business processes that assist mandatory Advance Passenger Processing (APP) meet its border security and streamlined

<sup>2</sup> Principally the AS/NZS ISO/IEC 17799:2001 *Information Technology – Code of practice for information security management*, Standards Australia & Standards New Zealand, 2001.

<sup>3</sup> *The Commonwealth Protective Security Manual 2005*, Attorney-General's Department, 2005 and *Australian Government Information and Communications Technology Security Manual (ACSI 33)*, Defence Signals Directorate, 2005.



clearance objectives. It found that DIMA could improve its performance measures on the impact of APP on border security. The audit also found inadequacies in DIMA's arrangements with its contractor regarding APP.

*Audit Report No.35 2005-2006 The Australian Taxation Office's Administration of Activity Statement High Risk Refunds.* Identification and resolution of activity statement high-risk refunds (HRRs) are key management issues for the ATO. In 2004-05 the ATO processed 2.1 million activity statement refunds. Of these, 82 000 were identified as HRRs, worth \$12.6 billion. The ATO has a well established governance framework to manage HRRs and is working to identify and address risks to identification and resolution of HRRs. However, these risks were not clearly documented or consistently reported. The ATO uses a broad range of compliance products to identify and resolve high-risk refunds but it is difficult to determine their overall effectiveness. One of two key IT systems to identify and process HRRs had system documentation and testing that provided assurance that it was operating as specified. The other IT system lacked documentation in a number of areas and system testing was therefore limited.

*Audit Report No.45 2005-2006 Internet Security in Australian Government Agencies.* It is Australian Government policy that agencies use the Internet to deliver all appropriate programs and services. The objective of the audit was to form an opinion on the adequacy of six Australian Government agencies' management of Internet security. It concluded that, generally, the current level of Internet security was insufficient. The ANAO noted that a number of agencies could improve performance in some key areas, particularly email filtering, and all agencies audited could improve performance in one or more aspects of managing Internet security, such as the development of system security plans. The ANAO made five recommendations based on the audit findings.

## ANAO AUDITS EXAMINING GOVERNANCE ARRANGEMENTS

*Audit Report No.5 2005-2006 A Financial Management Framework to Support Managers in the Department of Health and Ageing.* The audit examined whether the Department's financial management framework and processes adequately support its Secretary, Executive and managers to make informed decisions on the use of Commonwealth resources. The ANAO found that the Department's financial management systems and reports, internal control and strategic financial management had improved significantly in recent years. The support provided to managers by the financial management framework gave a sound basis for good financial management. However, there was a requirement for ongoing consideration of governance arrangements, coupled with managerial analysis of results, variations and other performance information to inform decisions in relation to programs administered by the Department. The audit included a recommendation to establish a clearly expressed link between the Department's Control Self-Assessment and risk assessment processes.

*Audit Report No.7 2005-2006 Regulation by the Office of the Gene Technology Regulator.* As part of the Therapeutic Goods Administration, in the Department of Health and Ageing, the Office of the Gene Technology Regulator (OGTR) administers a licensing regime regulating the use of certain gene technologies not already regulated by other agencies. The audit found that the OGTR has developed and



implemented policies and procedures for efficient and effective discharge of statutory functions. The OGTR has processed applications in required timeframes and exceeded targets for annual monitoring of field trial sites. It has good information on its costs and resource requirements, although close monitoring of staffing levels is necessary. Audit recommendations, when implemented, will lead to improvements in public administration and confidence in the OGTR's performance.

*Audit Report No.11 2005–2006 An audit of compliance with the Senate Order for Departmental and Agency Contracts (BSP audit report).* Conducted in seven agencies, this was the seventh audit of compliance with the Senate Order that requires agencies to place on the Internet a list of contracts valued at \$100 000 or more that include confidential provisions. The audit examined processes and controls for compiling and publishing the Internet listing and reviewed a sample of procurements for compliance with the Department of Finance and Administration guidelines on confidentiality provisions in contracts. The audit found that agencies had included clauses in contract and request for tender templates that appropriately address the Government's accountability framework. However, a number of agencies needed to improve processes and controls to ensure their listings are complete and accurate.

*Audit Report No.13 2005–2006 Administration of Goods and Services Tax Compliance in the Large Business Market Segment.* The audit of Goods and Services Tax (GST) compliance in the large business market segment provided assurance on the administrative effectiveness of the Australian Taxation Office's (ATO's) approach to managing GST compliance in that segment. The ATO has developed and implemented governance and risk management processes that support the management of GST compliance in the large business market segment and implemented a compliance program to treat identified GST compliance risks. During the audit, the ATO began a number of initiatives to improve its systems and processes that support the management of GST compliance.

*Audit Report No.16 2005–2006 Management and Processing of Leave (BSP audit report).* The audit found that leave arrangements in the respective certified agreements of the five audited entities enable, to varying degrees, the entities to manage their leave liabilities but that the entities were not managing leave entitlements in accordance with those arrangements. This situation contributed to annual leave liabilities increasing by about 18 per cent over the last three years and meant that leave liabilities generally were higher than if the leave arrangements had been fully implemented. The audit also identified that, generally, entities' practices for managing and processing leave were adequate. Improvements could be made by adopting a proactive approach to managing leave for staff with high leave balances; more actively managing unactioned leave applications recorded in their Employee Self-Service systems; and improved reporting and monitoring of leave information to senior management.

*Audit Report No.20 2005–2006 Regulation of Private Health Insurance by the Private Health Insurance Administration Council.* The audit concluded that the Private Health Insurance Administration Council's governance and organisation support the performance of its legislative functions and that, consequently, its administrative effectiveness as a regulator of private health insurance was sound. However, it could improve the planning process by reviewing risk profiles and risk ratings yearly to ensure they remained valid over time, and extend the risk management plan to incorporate all

significant risks to ensure their impact on the Council's operations was understood, monitored and acted on as necessary. More measurable performance indicators should be developed and aligned with performance information in the Portfolio Budget Statements to better demonstrate the extent to which the Council achieves its stated outcome.

**Audit Report No.27 2005-2006 *Reporting of Expenditure on Consultants*.** Agency reporting of expenditure on consultants is one of many accountability obligations. The audit focused on reporting of this expenditure in accordance with annual report requirements. Analysis of this reporting as well as reporting in the Gazette Publishing System (GaPS) and Senate Order listings, revealed that agencies should take greater care in reporting expenditure on consultants. The key audit recommendation was that relevant central agencies, in consultation with key Parliamentary Committees, affected agencies and other stakeholders, examine options for improving the accuracy of reporting of Government procurement. This includes examining the merits of rationalising the number of reporting regimes.

**Audit Report No.28 2005-2006 *Management of Net Appropriation Agreements*.** The audit examined agencies' financial management of, and accountability for, the use of net appropriation agreements to increase available appropriations. Overall, the audit revealed widespread shortcomings in the administration of net appropriation arrangements. In particular, there has been inadequate attention by a number of agencies to have in place effective arrangements under section 31 of the *Financial Management and Accountability Act 1997* that record additions made to annual appropriations and the subsequent expenditure of those amounts. Further, the ANAO found that agency financial statements have not accurately reflected the use of section 31 arrangements. The ANAO made five recommendations. The first three were aimed at improving administration of net appropriation arrangements within the current financial framework. The final two recommendations identified opportunities for Finance to examine possible improvements to the framework.

**Audit Report No.37 2005-2006 *Management of Infrastructure, Plant and Equipment Assets*.** (BSP audit report). The audit assessed whether selected Australian Government entities were effectively supporting their business requirements through planning for, and management of, their Infrastructure, Plant and Equipment (IPE) assets. Four entities participated in the audit. Entities generally had sound processes to identify, assess and approve asset acquisition needs and had formal and well-managed preventative maintenance programs for their significant IPE assets. However, asset-related policy and procedural material generally only covered operational requirements and most entities had not addressed the more strategic issues associated with asset management. None of the entities had specified standards for financial performance of assets or used, in a comprehensive manner, financial and non-financial performance information about their IPE assets.

**Audit Report No.39 2005-2006 *Artbank*.** Artbank is an Australian Government arts support program in the Department of Communications, Information Technology and the Arts. The audit found that Artbank was meeting its Charter by acquiring art by contemporary artists and placing them for rental and display in public places. The audit identified opportunities for improving Artbank's governance arrangements and operational matters. Accountability arrangements need to be brought into line with legislative requirements and the Department's chief executive's instructions. There was also a

need to review certain operational matters including the approach to acquiring artworks and related documentation, accessibility to the collection, and the framework for de-accessioning significant cultural assets.

*Audit Report No.50 2005-2006 Arrangements to Manage and Account for Aid Funds Provided under the Australia-Indonesia Partnership for Reconstruction and Development.* The audit examined the framework being put in place to manage and account for aid funds under the Australia-Indonesia Partnership for Reconstruction and Development (AIPRD). In particular, it addressed: structures for overseeing development and delivery of AIPRD; planning and risk management (including those relating to fraud and corruption); financial management; and arrangements for ongoing monitoring and reporting. The partnership nature of the program, relatively short timeframe, and use of loans for half of the program, present substantial administrative challenges. Notwithstanding these challenges, AusAID has made progress in important areas. However, the ANAO identified areas that require strengthening, including: more timely and systematic risk management (including monitoring the effectiveness of proposed fraud mitigation measures); stronger management of procurement and contractual arrangements; and strengthened management and public accountability reporting.

## ANAO AUDITS EXAMINING PROJECT MANAGEMENT

*Audit Report No.1 2005-2006 Management of the Detention Centre Contracts-Part B.* This was the second of three consecutive audits on the management of detention centre contracts. The audit found that the Department had more than six years' experience in contracting out detention services when the contract was signed, but lessons learned from the previous arrangements, had not provided the expected benefits. In particular, the contract did not establish clear expectations for the level and quality of services to be delivered; mechanisms to protect the Commonwealth's interests were unclear; and there was insufficient information about the quality of services being delivered and their costs to assess value for money.

*Audit Report No.3 2005-2006 Management of the M113 Armoured Personnel Carrier Upgrade Project.* The audit examined management of the upgrade of the M113 fleet for the Australian Defence Force (ADF) and focused on development and management of the project and contracts. The M113 family of vehicles was originally to undergo a minimum upgrade to improve 537 vehicles later reduced to 350 vehicles, at a cost of \$552 million (June 2002 prices). The Minimum Upgrade Phase of the Project suffered from poor project management practices; ineffective project planning; inadequately defined project objectives; and technical problems with the T50 turret. The new Major Upgrade Contract (July 2002) has provided an improved framework for Defence to advance the Project. The System Program Office is taking an active role in managing the Project but there is doubt as to whether the upgraded vehicles will meet their in-service date of late 2006.

*Audit Report No.8 2005-2006 Management of the Personnel Management Key Solution (PMKeyS) Implementation Project.* The audit reviewed Defence's management of the PMKeyS Project. It addressed the scope of the delivered system, particularly its ability to meet end-user capability requirements. PMKeyS has become Defence's core management information system for personnel management

but has suffered from extensive schedule slippage. When the Project closed in December 2002 major outcomes under Phases 3 and 4 had not been delivered. Furthermore it was not approved in accordance with Government requirements and it exceeded its notional budget of \$25.0 million by \$38.4 million. Defence reportedly incurred additional costs for Infrastructure (\$26.3 million) and Production Support (\$41.2 million). The total cost to Defence to bring *PMKeyS* into service is estimated to be at least \$131 million. The audit found that Defence did not have effective contractual control over Project costs and outcomes, also delays and underestimation of training requirements resulted in higher training costs.

*Audit Report No.10 2005–2006 Upgrade of the Orion Maritime Patrol Aircraft Fleet.* The audit examined management of this upgrade project. It was undertaken towards the conclusion of major project elements, when more than 90 per cent of estimated project costs were expended. Project elements examined were initiated in the early 1990s. The audit found that delays in the project (some four years in delivery of upgraded aircraft) meant that, although equipment met contractual requirements, some equipment was obsolete when installed in the aircraft. It was also found that Defence and contractors underestimated unique features of design and production work and complications in integrating new systems. Complexities were difficult to manage without a fully developed software testing facility, which had been a pivotal part in project planning. Nevertheless, the project met its performance objectives and the upgraded aircraft now play a significant role in Australian border protection and other Defence operations.

*Audit Report No.24 2005–2006 Acceptance, Maintenance and Support Management of the JORN System.* The audit examined the key lessons learnt from Defence's Jindalee Operational Radar Network (JORN) Project's acquisition and acceptance phase, and JORN and Jindalee Facility Alice Springs maintenance and support. It was undertaken as part of a broader ANAO audit strategy to examine the effectiveness of Defence's programs that manage and upgrade Australian Defence Force's weapon systems and associated equipment. The audit found that the JORN Project successfully transitioned from its acquisition to in service support phase and experience to date indicates the Project has achieved its major objectives.

*Audit Report No.32 2005–2006 Management of the Tender Process for the Detention Services Contract.* The audit sought to assess departmental management of tender, evaluation and contract negotiation processes for the contract for detention services at mainland immigration detention facilities. It considered processes for assessing value for money based on the department's evaluation of the request for tender. It found that the department had an appropriate plan to evaluate costs and benefits of tenderers' competing solutions but it failed to implement the plan effectively. Shortcomings included:

- ambiguity in departmental management of the roles and responsibilities of key advisors and personnel;
- deficient recordkeeping, affecting the ability to demonstrate accountability and transparency in the procurement;

- weaknesses in contract negotiations; and
- deficiencies in assessing tender bids against value-for-money criteria.

*Audit Report No.36 2005–2006 Management of the Tiger Armed Reconnaissance Helicopter Project – Air 87.* The audit examined Defence’s management of Tiger Armed Reconnaissance Helicopter Project Air 87, which was approved to provide for a new all-weather reconnaissance and fire support capability for the Australian Defence Force. The Project contracted for the delivery of 22 aircraft, with supporting stores, facilities, ammunition and training equipment. The first four aircraft are being manufactured in, and delivered from, France; the remaining 18 aircraft are being manufactured in France and assembled in Brisbane. ‘Australianisation’ of the weapons and communications systems differentiates the Australian aircraft from the French variant. The audit found that the project encountered difficulties delivering the required capability for the specified price and within the required time.

*Audit Report No.38 2005–2006 The Australian Research Council’s Management of Research Grants.* The audit provided assurance that, although there are areas where the Australian Research Council could improve its administration, it was taking positive steps to improve its grants administration and performance of its statutory functions. The ANAO made nine recommendations and a number of suggestions to strengthen the Council’s management of grants, with particular emphasis on improving the effectiveness, transparency and accountability of grants administration. When implemented, the recommendations will lead to improvements in public administration and confidence in the Council’s performance. These recommendations are particularly important in light of changes to the Council’s governance announced by the then Minister following the Uhrig Review.

*Audit Report No.40 2005–2006 Procurement of Explosive Ordnance for the Australian Defence Force (Army).* The audit examined processes to procure explosive ordnance for the ADF, with an emphasis on Army requirements. It reviewed translation of ADF explosive ordnance requirements into procurement and through-life support arrangements. Procurement of explosive ordnance involves significant levels of expenditure and has implications for the overall preparedness of the ADF. The ANAO considers that extensive improvements are required to better align explosive ordnance procurement with ADF preparedness requirements. The audit identified that management action is required in respect of procurement planning, financial management, inventory management, safety and suitability for service assessments and contract management.

*Audit Report No.47 2005–2006 Funding for Communities and Community Organisations.* In 2004–2005 the Department of Families, Community Services and Indigenous Affairs (FaCSIA) provided over \$1 billion in funding for family and community services, delivered by almost 16 000 service providers. FaCSIA administers this funding through grants and related arrangements. The audit assessed whether FaCSIA administers its community grants effectively, according to better practice guidelines, and consistently across geographic areas. More specifically, the audit examined FaCSIA’s funding agreements and their financial management and FaCSIA’s monitoring of service provider progress in fulfilling the requirements of funding agreements. It also examined internal and external performance reporting

mechanisms for programs that have substantial funding agreements. A separate audit is examining FaCSIA's processes to promote grant programs, manage applications and appraise, select and notify recipients of grants.

*Audit Report No.52 2005–2006 Management of Selected Telstra Social Bonus 2 and Telecommunications Service Inquiry Response Programs.* The Government's Telstra Social Bonus 2 and Telecommunications Service Inquiry Response funding packages, totalling over \$830 million, are to enhance telecommunications infrastructure development and service availability across Australia and address associated inequities in rural and remote areas. These grant programs are administered by the Department of Communications, Information Technology and the Arts (DCITA). The audit examined whether selected programs are achieving or had achieved their objectives and had been administered effectively according to better practice principles. It found that the selected programs, except one, the Intelligent Island Program, are effectively achieving their stated objectives. DCITA's management of the selected programs demonstrated a high level of compliance with the better practice principles of grant management.

## APPENDIX 5

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

**Ian McPhee PSM**

*The ANAO's Leadership Initiatives in Improving Public Administration*  
Leadership Development Network Breakfast Seminar  
21 June 2006

**Ian McPhee PSM**

*The Role of the Auditor-General and My Relationship with the Parliament*  
House of Representatives Briefing  
13 June 2006

**Greg Mazzone**

*IT Security Management – A Business Internal Control*  
Industry Forum  
1 June 2006

**Allan Thompson**

*Recruitment, Retention and Motivating our Workforce*  
Institute of Internal Auditors Australia, SOPAC Conference 2006  
10 May 2006

**Ian McPhee PSM**

*Public Sector Auditing Practices, Perspectives, Challenges and Capacity Development*  
World Bank Seminar, by teleconference  
4 May 2006

**Ian McPhee PSM**

*Contract Management in the Public Sector*  
Australian Government Procurement Conference  
4 April 2006

**Ian McPhee PSM**

*Engaging with Risk*  
Institute of Public Administration (ACT Division)  
24 March 2006



**Steve Chapman**

*Key Challenges for Public Sector Governance: Comment from the Audit Perspective*

Address to the International Symposium on Corporate Governance in the Public Sector –  
from Theory to Practice

9 March 2006

**Greg Mazzone**

*IT Security Matters to the ANAO*

Defence Signals Directorate – IT Security Policy Forum

9 March 2006

**Greg Mazzone**

*IT Security Management – An Overview of Audit Report No 23 2005–2006*

Australian Government Chief Information Officer Forum

2 March 2006

**Ian McPhee PSM**

*Successful Implementation of Government Programs and Initiatives*

Department of the Prime Minister and Cabinet and the Australia New Zealand School  
of Government Conference.

22 February 2006

**Ian McPhee PSM**

*The Role of the Auditor-General and the Australian National Audit Office*

Ginninderra Rotary Club

21 February 2006

**Ian McPhee PSM**

*Evaluation and Performance Audit – Close Cousins or Distant Relatives?*

Canberra Evaluation Forum

16 February 2006

**Ian McPhee PSM**

*Public Sector Financial Reporting Think Tank*

CPA Australia

20 January 2001

**Ian McPhee PSM**

*Risk Management*

Heads of Cultural Organisations Meeting

15 December 2005

**Ian McPhee PSM**

*Victorian President's Boardroom Lunch*

CPA Australia

10 November 2005

**John Meert**

*Evaluation of Records Management*

Department of Finance and Administration

10 November 2005

**Warren Cochrane**

*Records Management*

CSIG Management Conference (Department of Defence)

13 October 2005

**Ian McPhee PSM**

*Risk and Risk Management in the Public Sector*

Australian Institute of Company Directors,

in conjunction with the Institute of Internal Auditors Australia

1 September 2005

**Ian McPhee PSM**

*Going Beyond Budgeting*

CIMA, AGSM and the Management Accountants, Committee of CPA Australia

26 August 2005

**John Meert**

*Evaluation of Records Management*

Canberra Evaluation Forum

18 August 2005

**Ian McPhee PSM**

*The Relationship of the ANAO with Audit Committees and Internal Audit*

Public Sector Audit Network Group

11 August 2005

**Greg Mazzone**

*What to expect from an ANAO IT audit – “why are they bothering me?”*

Australian Computer Society

4 July 2005

## APPENDIX 6

### PROCUREMENT ACTIVITIES

The Commonwealth purchasing policy framework is outlined in the *Commonwealth Procurement Guidelines*— January 2005 (*the Guidelines*).

#### ANAO PERFORMANCE AGAINST CORE PURCHASING POLICIES

The ANAO's purchasing activities in 2005–2006 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 solutions.

To ensure that we meet the objectives and mandatory requirements set out in the *Guidelines*, the *Auditor-General's Procurement Instructions* and associated *Procedural Rules* are periodically updated, particularly to take account of the mandatory requirements of the *Guidelines*. In some areas, we established panels of contractors and consultants with particular capabilities to meet our ongoing needs. The performance of these outsourced arrangements is outlined in the 'Management and Accountability' section of this report.

Our Annual Procurement Plan for 2006–2007 was published in *Austender* in June 2006.

To ensure that our processes are fair and equitable all potential suppliers have the same opportunities to compete for ANAO business.

#### 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:

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

Using an open tender process, we have 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 when required.

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 our 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 2005-2006. 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 2005-2006 VALUED AT \$10 000 OR MORE

Name	Description	Contract Price \$	Selection Process <sup>(1)</sup>	Reason <sup>(2)</sup>
Anne Caine Legal	Provision of consulting services.	15 400	Direct sourcing	C
ConSolve	Documentation of IT application architecture.	24 000	Panel	C
ConSolve	Feasibility study into records management systems.	30 000	Panel	B
Courage Partners	ANAO training efficiency review.	19 250	Panel	C
Courage Partners	Review of research and development.	18 480	Panel	B
Cybertrust Australia	Provision of secure gateway and internet access.	170 000	Direct sourcing	F
Cybertrust Australia	Annual IT threat risk assessment.	21 80	Panel	B
Cybertrust Australia	IRAP - IT security assessment consultancy - Phase 1.	31 750	Panel	B
Cybertrust Australia	Threat risk assessment on remote wireless connectivity.	11 000	Direct sourcing	C
Cybertrust Australia	IRAP - IT security assessment consultancy - Phase 2.	57 750	Direct sourcing	C
Deloitte Touche Tohmatsu	Actuarial review of MSBS.	18 700	Panel	A
Dimensions Data Australia	Certification of IRAP - IT security assessment.	15 400	Direct sourcing	C
Ernst & Young	Advice on compliance certificate.	77 000	Panel	A
Ernst & Young	Accounting advice on AEIFRS review.	22 000	Panel	A
Excelerated Consulting	Specialist assistance with business intelligence (TM1) reporting.	20 000	Direct sourcing	C
Fulton Technology	Prepare proof of concept for webmail project.	20 000	Panel	C
Gartner Australasia	Annual licence for core research reference services.	18 326	Direct sourcing	C
Haralambous Dowse & Associates	Property advice for leasing accommodation.	63 718	Panel	C
HP Australia	Integration and training on <i>Openview</i> software.	18 000	Direct sourcing	C
IBM Business Consulting Services	ATO tax agent and business portals Audit.	54 600	Direct sourcing	C
Icon	Audit Committee membership - Bruce Jones.	15 840	Direct sourcing	C
InfoHRM	Provision of people Membership fee - <i>Info HRM</i> .	29 700	Direct sourcing	C
IPS Worldwide	Counselling services for staff and families.	17 380	Panel	C
Mallesons Stephen Jaques	Assistance with contract drafting tool - Hermes Project.	35 000	Panel	C
OBS	Development of the intranet portal.	129 745	Open tender	C
Orima Research	Survey of selected entities as part of outcomes and outputs audit.	12 650	Panel	A

Name	Description	Contract Price \$	Selection Process <sup>(1)</sup>	Reason <sup>(2)</sup>
Orima Research	Analysis of National Food Industry strategy.	21 750	Direct sourcing	C
Orima Research	Survey of clients on conduct of performance audits.	36 000	Panel	B
Orima Research	ANAO staff survey.	25 000	Panel	C
Orima Research	Statistical analysis and advice on FaCSIA grant.	30 000	Panel	C
Orima Research	Survey of clients on conduct of financial statement audits.	28 380	Panel	C
Orima Research	Data analysis on Australian Pesticides and Veterinary Medicines Authority.	17 900	Panel	C
Pricewaterhouse Coopers	Accounting advice on application of AASB 119.	31 544	Direct sourcing	C
Pricewaterhouse Coopers Securities	Actuarial advice for an audit.	29 500	Panel	C
Reading Room	Development of new ANAO website.	94 030	Open tender	C
Russell Employee Benefits	Actuarial advice for an audit.	45 000	Panel	A
WalterTurnbull	Conduct business continuity test.	13 976	Panel	C
WalterTurnbull	Probity advice for market testing of accommodation.	12 100	Panel	C
WalterTurnbull	Review of PASG processes.	72 000	Panel	C
Wizard Information Services	Provision of an IT management methodology.	17 625	Panel	C
		<b>\$1 442 274</b>		

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;

C—need for independent research or assessment; or

F—more cost effective

A comparison of the total value of consultancy contracts valued at \$10 000 or more over the years 2003–2004 to 2005–2006 is set out below.

TABLE A6–2: CONSULTANCY CONTRACTS VALUED AT \$10 000 OR MORE 2003–2004  
TO 2005–2006

Year	Amount (\$ Million)
2003–2004	2.343
2004–2005	1.375
2005–2006	1.442



## APPENDIX 7

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Report Overview	Overview of description of department	pp. 9–10
	Role and functions	pp. 9–10
	Organisational structure	p. 11
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	Performance of purchaser/provider arrangements	p. 75, Appendix 6
	Where performance targets differ from PBS/PAES, details of both former and new targets, reasons for the change	N/A
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	Trend information	Section 3
	Factors, events or trends influencing departmental performance	Section 3
	Significant changes in nature of principal functions/services	N/A
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	Social justice and equity impacts	pp. 73–74
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	Names of the senior executive and their responsibilities	p. 11
	Senior management committees and their roles	pp. 55–57
	Corporate and operational planning and associated performance reporting and review	pp. 58–60
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	Correction of material errors in previous annual report	N/A





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## ABBREVIATIONS





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	Australia-Indonesia Partnership for Reconstruction
ANAO	Australian National Audit Office
APRA	Australian Prudential Regulation Authority
APP	Advance Passenger Processing
APS	Australian Public Service
AQIS	Australian Quarantine and Inspection Service
ASOSAI	Asian Organisation of Supreme Audit Institutions
ATO	Australian Taxation Office
AUSAB	Auditing and Assurance Standards Board
AusAID	Australian Agency for International Development
AWA	Australian Workplace Agreement
BA	Biosecurity Australia
BCP	Business Continuity Plan
BEFR	The Budget Estimates and Framework Review
BPG	Better Practice Guide
BPK	Indonesian Audit Office
BSP	Business Support Process
CE	Chief Executive
CFCG	<i>Commonwealth Fraud Control Guidelines</i>
CMB	Corporate Management Branch
DCITA	Department of Communications, Information Technology and the Arts
DIMA	The Department of Immigration and Multicultural Affairs
DMO	Defence Material Organisation
DOTARS	Department of Transport and Regional Services
EAP	Employee Assistance Program
EBOM	Executive Board of Management
EDRMS	Electronic Document and Records Management System
EPBC Act	<i>The Environment Protection and Biodiversity Conservation Act 1999</i>
ESD	Ecologically Sustainable Development
FaCSIA	Department of Families, Community Services and Indigenous Affairs
FMA Act	<i>Financial Management and Accountability Act 1997</i>
FMIS	Financial Management Information System

GaPS	Gazette Publishing System
GBE	Government Business Enterprise
GGs	General Government Sector
GST	Goods and Services Tax
HR	Human Resource
HRR	High Risk Refunds
HRMIS	Human Resource Management Information System
IAASB	International Auditing and Assurance Standards Board
ICAA	Institute of Chartered Accountants in Australia
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
INTOSAI	International Organisation of Supreme Audit Institutions
IPE	Infrastructure, Plant and Equipment
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
JORN	Jindalee Operational Radar Network
KRA	Key Result Area
LGA	Local Government Authority
LMR	Lost Members Register
OGTR	Office of the Gene Technology Register
OH&S	Occupational Health and Safety
PASG	Performance Audit Services Group
PBS	Portfolio Budget Statement
PDS	Personal Development Scheme
PMKeyS	Personnel Management Key Solutions
R&D	Research and Development
SES	Senior Executive Service

SME	Small-to-Medium Enterprises
SOE	Standard Operating Environment
TBL	Triple Bottom Line
The Act	<i>The Auditor-General Act 1997</i>
WCF	Workplace Consultative Forum





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