



THE AUDITOR-GENERAL
ANNUAL REPORT
2006–2007





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19 September 2007

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
CANBERRA ACT 2600

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 2007.

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', written over a horizontal line.

Ian McPhee
Auditor-General



HIGHLIGHTS

A summary of the highlights for 2006–07 is set out below.

- A comprehensive program of financial and performance audits and related products was delivered to inform the Parliament and the Government about public sector administration and performance.
- We issued 242 audit opinions of which 87 per cent were issued within two days of signing the financial statements, a reflection of the efficiency of our working relationships.
- We made 192 recommendations in our performance audit reports directed at improving agency performance and accountability. These recommendations were well received overall, with 99 per cent agreed or agreed with qualification.
- We continued to work closely with Parliamentary committees, particularly the Joint Committee of Public Accounts and Audit, and have assisted them with their inquiries.
- Our client surveys again provided very positive feedback on our audit services.
- As well as hosting visitors from many countries as part of our commitment to assisting with the development of public sector auditing internationally, this year we provided particular assistance to the audit institutions of Papua New Guinea and Indonesia.
- We met 15 of 19 operational targets¹ in our Portfolio Budget Statements 2006–07, and all action items from our Business Plan 2006–07 were either completed or are ongoing activities.
- A new Corporate Plan was developed for the next three years.
- A ten year lease was secured for head office accommodation at our present address when our current lease expires in September 2008.
- We were recognised for excellence in recycling by the Australian Capital Territory Government “No Waste” awards.

¹ See Portfolio Budget Statements 2006–07 Scorecard in Section 3.

AREAS OF FOCUS FOR THE COMING YEAR

We expect 2007–08 to be another demanding year and we have identified a number of key areas on which to focus our efforts. Specifically, we aim to:

- Deliver a range of timely and relevant products on topics that provide the greatest opportunity for improvement in administration across the Australian Government Public Sector.
- Develop with the Department of Defence, an annual report on progress of the top 30 Defence capital equipment projects.
- Leverage off our products to promote the work of the Office and improve client and stakeholder understanding about what we do.
- Review our outputs and outcomes groups and related performance indicators to ensure they continue to support our business directions.
- Promote further initiatives to improve strategies for the retention and attraction of staff, including a more structured training and professional development regime.
- Work towards increasing the use of ANAO staff rather than contractors in undertaking the audit of key public sector agencies and authorities to improve the retention of our corporate knowledge and provide greater continuity of service to audit clients.
- Maintain our involvement in national and international auditing bodies through membership of appropriate organisations.

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FOREWORD



Ian McPhee PSM Auditor-General for Australia

The ANAO — Providing assurance to Parliament and a stimulus for better public administration

The Australian Parliament is the ANAO's primary client and our main role is to provide the Parliament with an independent assessment of the performance of selected areas of public administration as well as assurance about public sector financial reporting. The Government and public sector entities are also important clients.

In 2006–07 the ANAO undertook financial statement audits of all Australian Government controlled entities as well as providing an objective assessment of areas where improvements could be made in public administration. Our audit work is governed by our auditing standards, which adopt the standards applied by the auditing profession in Australia.

In line with our complementary role of stimulating better public administration, the ANAO continued to promulgate, for the benefit of the public sector generally, our Better Practice Guides and newsletters which highlight sound approaches to specific aspects of administration.

An overview of our work in 2006–07

This was another demanding year for the ANAO with an increased workload but one in which the ANAO has delivered on our goals and met our mandatory responsibilities. During 2006–07 the ANAO issued:

- 242 financial statement audit opinions;
- 2 financial statement related reports;
- 51 performance audits;
- 4 Better Practice Guides;
- 3 *AUDITFocus* newsletters; and
- 3 *Opinions* newsletters

Financial statement audits — the results of our recent report on the key financial systems and controls in Australian Public Service (APS) agencies for 2006–07² indicated that, in general, agencies have in place appropriate governance, financial management and control regimes in relation to their financial statement responsibilities. These regimes include regular executive management monitoring and review of agencies' budgetary and financial performance, an Audit Committee with well-defined responsibilities, and up-to-date fraud and risk management plans.

Improvements were evident in agencies' business continuity arrangements, although more work needed to be done in a number of cases to ensure these arrangements are comprehensive and are subject to periodic testing. Although all agencies had in place a fraud control plan, our audits also found that some agencies did need to give additional attention to meeting their fraud control responsibilities.

² ANAO Audit Report No 51, 2006–07, *Interim Phase of the Audit of Financial Statements of Government Sector Agencies for the Year Ending 30 June 2007*, 27 June 2007.

Our review of agencies' financial control regimes found that they were generally sound although, in some cases, increased attention was warranted in the areas of the management of information system user access, accounting for assets and the reconciliation of key financial accounts. These findings are broadly consistent with the results of our financial statement audit coverage over the last several years.

Performance audits — the ANAO continues to undertake its performance audit work in a consultative manner, including working co-operatively with those having key governance responsibilities in entities, including Audit Committees. It was pleasing to note that in 2006–07 agencies agreed with 92 per cent of our audit recommendations, with a further seven per cent of recommendations agreed with qualification.

In developing our 2006–07 performance audit programme the ANAO took account of the priorities of the Parliament (as advised by the Joint Committee of Public Accounts and Audit) as well as the views of entities and other stakeholders. The programme provided a broad coverage of areas of public administration and was underpinned by a risk-based methodology.

During 2006–07 the ANAO provided performance audit coverage across the following five key themes:

- governance (including financial management, information system integrity, administration of management systems, whole of government initiatives and compliance);
- administration of border security;
- project management
- service delivery; and
- grants administration

The results of this audit coverage highlighted the need for continued improvement in public sector administration in areas such as: reporting against performance indicators; record-keeping; managing intellectual property; managing large Information Technology (IT) projects; managing large equipment and acquisition projects; and the administration of grants. The results of audits conducted in 2006–07 are summarised by theme in Appendix 4 of this report.

Our contribution to the Parliament

The ANAO is committed to supporting the Parliament in its work through the tabling of our audit reports on Australian Government programmes and providing specialist assistance to Parliamentary inquiries. The ANAO prepared submissions and gave evidence to the following major inquiries undertaken by the Joint Committee of Public Accounts and Audit (JCPAA) in 2006–07:

- *Inquiry reviewing Certain Taxation Matters within Australia*; and
- *Inquiry into financial reporting and equipment acquisition at the Department of Defence and Defence Materiel Organisation.*

During the course of the above mentioned Defence inquiry, the JCPAA recommended that the ANAO undertake an annual audit of the 'Top 30' Defence capital equipment projects. The Prime Minister supported this recommendation and indicated that a submission, agreed between the ANAO and the Department of Defence, should be brought forward in the context of the 2008–09 Budget.

The ANAO also provided submissions and evidence to the following inquiries conducted by the Senate Standing Committee on Finance and Public Administration:

- *Inquiry into Transparency and Accountability of Commonwealth Public Funding and Expenditure;* and
- *Inquiry into Departmental and Agency Contracts.*

These reports were tabled in February and March 2007 respectively.

The JCPAA reviews all our audit reports and conducts public inquiries each quarter where evidence is taken from agencies which have been the subject of significant audit findings in the preceding three months. The ANAO gives evidence at these inquiries and assists the JCPAA in its review work which, over many years, has contributed to better public administration through its recommendations on policy and administrative matters.

The JCPAA tabled *Report 407 Review of Auditor-General's Reports tabled between 18 January 2005 and 18 April 2005* in September 2006. The report reviewed audit reports on a number of Government agencies and included subjects such as customer service, regulatory functions, and contract management.

The House of Representatives Standing Committee on Health and Ageing reviewed Audit Report No. 19, 2006–2007: *Administration of State and Territory Compliance with the Australian Health Care Agreements*. The Committee's report had not been tabled as at 30 June 2007.

ANAO audits undertaken at the request of the Parliament, Ministers, Senators and Members

While under the *Auditor-General Act 1997* I have the sole discretion over the audit coverage provided by the ANAO, I do on occasions receive requests to undertake particular audits from Parliamentary Committees, Ministers, Senators and Members. During 2006–07, I undertook the following three audits which had been requested:

- Audit Report No. 5, 2006–2007, *The Senate Order for Departmental and Agency Contracts (Financial Year 2005 Compliance)* was again conducted at the request of the Senate. The audit examined Financial Management and Accountability (FMA) Act agencies' compliance with the Senate Order for Departmental and Agency Contracts;
- Audit Report No. 8, 2006–2007, *Airservices Australia: upper Airspace Management Contracts with the Solomon Islands Government* was requested by Mr Warren Truss MP,

the former Minister for Transport and Regional Services following a review of civil aviation by the Solomon Islands Auditor-General; and

- The scope of Audit Report No. 39, 2006–2007, *Distribution of Funding for Community Grant Programs* took into account concerns raised by Mr Chris Bowen MP, the Federal member for Prospect, regarding the administration of two rounds of funding for the Local Answers and Volunteer Small Equipment Grant (VSEG) programmes.

In addition to the above requests, which resulted in audit reports, I have responded to a number of matters raised by Senators and Members through correspondence. With the co-operation of relevant agencies, responses have been provided on such matters within one month of receipt of the correspondence.

Providing a stimulus for better public administration

Over and above the recommendations that resulted from our audit coverage in 2006–07, the ANAO pursued activities on a number of fronts to help with the improvement in public administration — some these are highlighted below.

The ANAO's strong support for public sector audit committees

For some time now the ANAO has been championing the role that audit committees can play in the public sector. Audit committees can be a forum for communication between management and internal and external auditors as well as bringing a degree of independence and expertise to an entity's corporate governance arrangements. This includes reviewing the entity's risk management framework; reviewing the entity's financial statements and recommending their signature by the chief executive; approving the internal audit programme; and reviewing fraud control plans.

Also, many audit committees have embraced, as part of their responsibilities, providing advice to chief executives in relation to the Certificate of Compliance preparedness, particularly on the appropriateness of an agency's control environment. The requirement, from the 2006–07 financial year, for chief executives of FMA Act agencies and directors of Commonwealth Authorities and Companies (CAC) Act authorities to provide an annual certification of compliance with legislative and policy elements of their financial management frameworks is a key government initiative that reinforces the importance of legislative and policy compliance.

The ANAO has noted that agency audit committee arrangements have progressively improved, and agencies have used the ANAO's 2005 Better Practice Guide on *Public Sector Audit Committees* in carrying out reviews of their committees' composition, structure and responsibilities. This has resulted in an increase in the number of independent members, including independent chairs, and the introduction, or formalisation, of a self assessment of audit committee performance.

Providing advice on better practice in public administration

During 2006–07 the ANAO produced four Better Practice Guides (BPGs) on the following topics:

- *Legal Services Arrangements in Australian Government Agencies* — issued August 2006.
- *Implementation of Programme and Policy Initiatives: Making implementation matter* (developed in partnership with the Department of Prime Minister and Cabinet) — issued October 2006.
- *Developing and Managing Contracts: Getting the Right Outcome, Paying the Right Price* (developed in partnership with the Department of Finance and Administration) — issued February 2007.
- *Administering Regulation* — issued March 2007

These Guides are being seen as useful pointers to better practice in public administration — the contract management BPG, in particular, has been in constant demand since it was published in February this year.

Given the success of these guides the ANAO will progressively revise and refresh previously issued BPGs where necessary.

In addition to the BPGs, the ANAO publishes ‘*AUDITFocus*’ newsletters — these are designed to succinctly capture some of our experiences that are likely to be of general interest to public sector managers. We continue to receive positive feedback on the newsletter both here in Australia and internationally.

Strengthening legal compliance

In last year’s report I foreshadowed the ANAO’s intention to increase its emphasis on legislative compliance. This was achieved as part of our audit coverage in 2006–07 by assessing key aspects of legislative compliance in relation to annual appropriations, special appropriations, annotated appropriations, special accounts and the investment of public monies. This focus has been complemented by the Government’s introduction of the annual Certificate of Compliance mentioned previously in the context of public sector audit committees.

The results of our audit coverage in this area to date suggest that agencies are paying increasing attention to their key legislative compliance responsibilities.

Monitoring our performance

The ANAO continues to enjoy the confidence of clients and stakeholders in the way we discharge our statutory responsibilities. As in previous years, independent surveys were completed during the year to obtain feedback from our clients about the quality of our audit processes and outcomes in relation to both the performance and financial statement audits. The surveys are an important business tool to identify areas for improvement that enhance the quality and effectiveness of our audit processes.

In the latest surveys, agencies rated the ANAO's conduct of both performance and financial statement audits very positively. Common key findings from the surveys were:

For performance audits:

- 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.

For financial statement audits:

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

We appreciate the positive feedback received from agencies and we will continue to work on improving the services we provide to assist their performance.

Resourcing the ANAO

The ANAO's budget allocation in 2006–07 was \$64.002 million — no further funding was sought or received during the year.

I advised the JCPAA in May 2007 that I had sought additional funding in the context of 2007–08 budget across two priority areas:

- \$19.6 million over four years to meet the requirements of new auditing standards.
- \$3.7 million over four years, to increase assistance provided to audit institutions in the Asia Pacific region.

The ANAO received half of the new funding we sought for meeting the requirements of the new auditing standards — that is, \$9.8 million over four years. However, with my resignation as the auditor of the Telstra Group following the sell-down of the Government's holding, agreement was given for the ANAO to retain some of the resources devoted to this audit as a contribution to these additional costs. The remaining shortfall of \$2.2 million over four years will be made up from efficiencies generated by the ANAO in its operational activities.

The ANAO did not receive approval in the 2007–08 Budget for additional funds for increased assistance to audit institutions in the Asia Pacific region. However, we will review possibilities of obtaining funding from other sources on a government-wide basis. The ANAO continues

to host representatives from overseas government bodies and we will examine ways to provide assistance to developing nations in the region. Our Australian Agency for International Development (AusAID) funded support activities for Indonesia and PNG have continued.

In addition, the JCPAA recommended that the ANAO receive additional funding of \$1.5 million in the 2007–08 budget to produce an annual audit on progress in major ‘Top 30’ Defence capital equipment projects. The Prime Minister indicated that a submission, agreed between the Audit Office and Defence, should be brought forward in the context of the 2008–09 Budget to give effect to the Committee’s recommendation. In the meantime I have allocated resources to undertake preliminary work in anticipation of subsequent Budget decisions.

Overall, I advised the JCPAA that the ANAO’s budget for 2007–08 is sufficient to enable us to meet our auditing responsibilities. I appreciate the support of the JCPAA, the Government and the Parliament for the additional resources made available. However, the challenge of achieving ongoing productivity gains to offset wage growth, in a small agency context, plus the market driven cost pressures in the auditing market (particularly for audit contractors), continues to put pressure on our budget.

I advised the JCPAA that I will monitor our budget position and market conditions throughout the course of 2007–08, and inform the Committee of my assessment ahead of next year’s budget.

Challenges on the staffing front

The recruitment and retention of professional staff continued to be a key focus for ANAO during 2006–07. The ANAO is constantly reviewing its human resource practices in recognition of operating in a very competitive professional environment. Our environment is one of increasing work complexities in a situation where overall experience levels of staff are decreasing. There is a shortage of experienced staff in the auditing and accounting field, not only in the public sector but also in the private sector. While we have managed to increase our staff levels overall, recruiting at the senior manager level for financial statement audit continues to be particularly challenging.

As a longer term strategy I am seeking to increase the number of ANAO staff undertaking financial statement audits in the general government sector by increasing our presence in some areas currently serviced by contractors on my behalf. This will allow the ANAO to retain higher levels of corporate knowledge and provide more greater of service to audit clients.

The ANAO continues to look for opportunities to promote the employment advantages of working in the Office including the wide range of work experiences offered both in the performance and assurance audit roles.

Our long term accommodation now settled

In November 2006 the ANAO signed a ten year lease for office accommodation at 19 National Circuit, Barton with Cromwell Diversified Property Trust. The lease will commence on 23 September 2008.

The signing of the lease represented the culmination of an open tender process supported by legal, property, commercial and probity advisers. The new lease is on substantially better terms than the current lease and is within commercial ranges achieved in the Parliamentary triangle. This is a very pleasing outcome given the history of our earlier lease agreement.

Our contribution to the profession and standards

The ANAO continues to support the accounting and auditing professions by speaking at conferences and seminars, commenting on draft standards, and serving on committees and the professional bodies themselves. The ANAO is also a supporter of the activities and initiatives of the International Organisation of Supreme Audit Institutions (INTOSAI) and the Asian Organisation of Supreme Audit Institutions (ASOSAI).

My staff continues to support the professions. The Deputy Auditor-General, Steve Chapman, has just completed his term as CPA Australia's ACT Divisional President, and he continues to serve on the divisional council. Group Executive Director, Michael Watson is the vice chairman of the ACT Regional Council of the Institute of Chartered Accountants Australia. In addition, ANAO staff serve on various committees of the two professional bodies.

I continue to be a member of the Australian Auditing & Assurance Standards Board and the International Auditing & Assurance Standards Board. This work contributes to the development of quality auditing standards for application in both the public and private sectors in Australia. Importantly, it also allows the ANAO to be acquainted with the leading issues affecting auditing standards so as to ensure our audit coverage is well informed and provides a high standard of service and assurance to all our clients.

International accounting standards

In the last few years in particular, Australian Government public sector entities have dealt with a period of significant change in financial reporting requirements, primarily as a result of the adoption in Australia of international financial reporting requirements. The ANAO has worked closely with the Department of Finance and Administration to highlight, at an early stage, issues that need close examination to ease the introduction of the new requirements. In the main, entities have managed the introduction of these new requirements well.

As a result of a decision made by the International Accounting Standards Board in mid-2006 that it would not require the application of new international financial reporting standards under development, or major amendments to existing standards, before 1 January 2009, higher priority has been given by the Australian Accounting Standards Board (AASB) to a range of public sector specific issues. These include a review of public sector not-for-profit entity issues arising from the implementation of Australian equivalents to International Financial Reporting Standards.

Significant progress has been made in relation to the harmonisation of Australian Accounting Standards with the requirements of Government Finance Statistics. The AASB intends to complement the recently released standard for harmonised reporting of the General Government Sector (GGS) with an equivalent standard for whole-of-government, with both standards to be first applied for the 2008-09 financial year.

The ANAO contributes actively on proposals for new auditing standards that affect the public sector in Australia.

To conclude

The standing of the ANAO is due to the professionalism and commitment of my staff in delivering on our goals and completing the work associated with our ambitious audit programme. They understand the importance of our role, and the contribution the ANAO is able to make to better public administration.

The commitment to achievement by ANAO staff gives me confidence and optimism about our performance going forward. While staffing recruitment and retention pressures will continue, the ANAO is well placed to have another successful year in 2007–08.

2

REPORT OVERVIEW

This section describes the Auditor-General's role and responsibilities, our vision and structure. The section also outlines our Outcomes-Output framework and presents a financial summary.

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

Our 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.

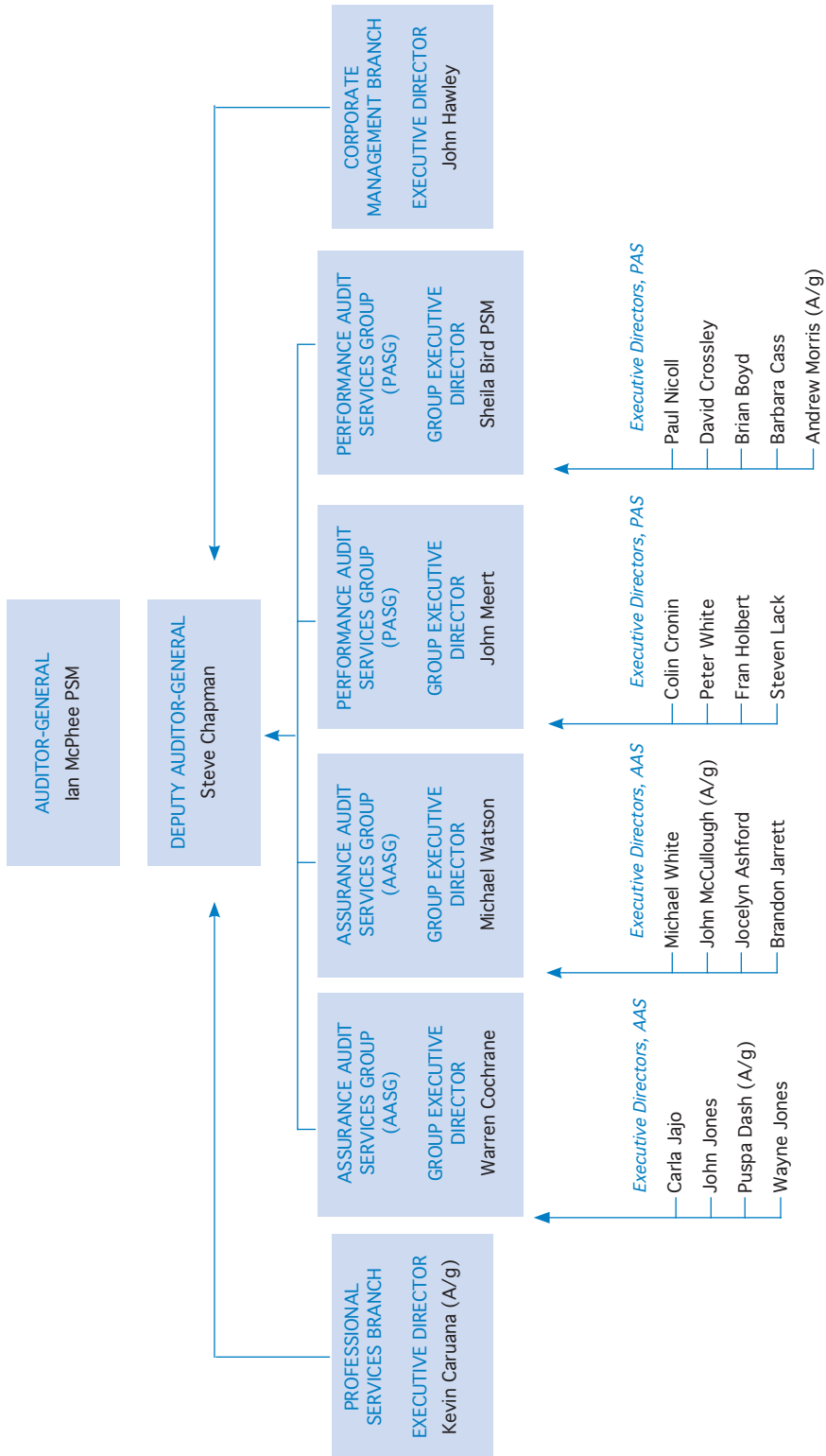
Improvement in public administration—independent assessment of the performance of selected Australian Government public sector activities including the scope for improving efficiency and administrative effectiveness.

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.

Figure 1: Organisation and senior management structure as at 30 June 2007





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

Organisation

We are organised into two Service Groups supported by a Corporate Management Branch and a Professional Services Branch. The Assurance Audit Services (AAS) Group 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. The Performance Audit Services (PAS) Group contributes to improved public sector administration and accountability by adding value through a program of performance audits and related products.

The majority of our staff are located in Canberra, with a small regional office in Sydney. The organisation and senior management structure of the ANAO, as at 30 June 2007, is shown in Figure 1.

Outcome-output framework

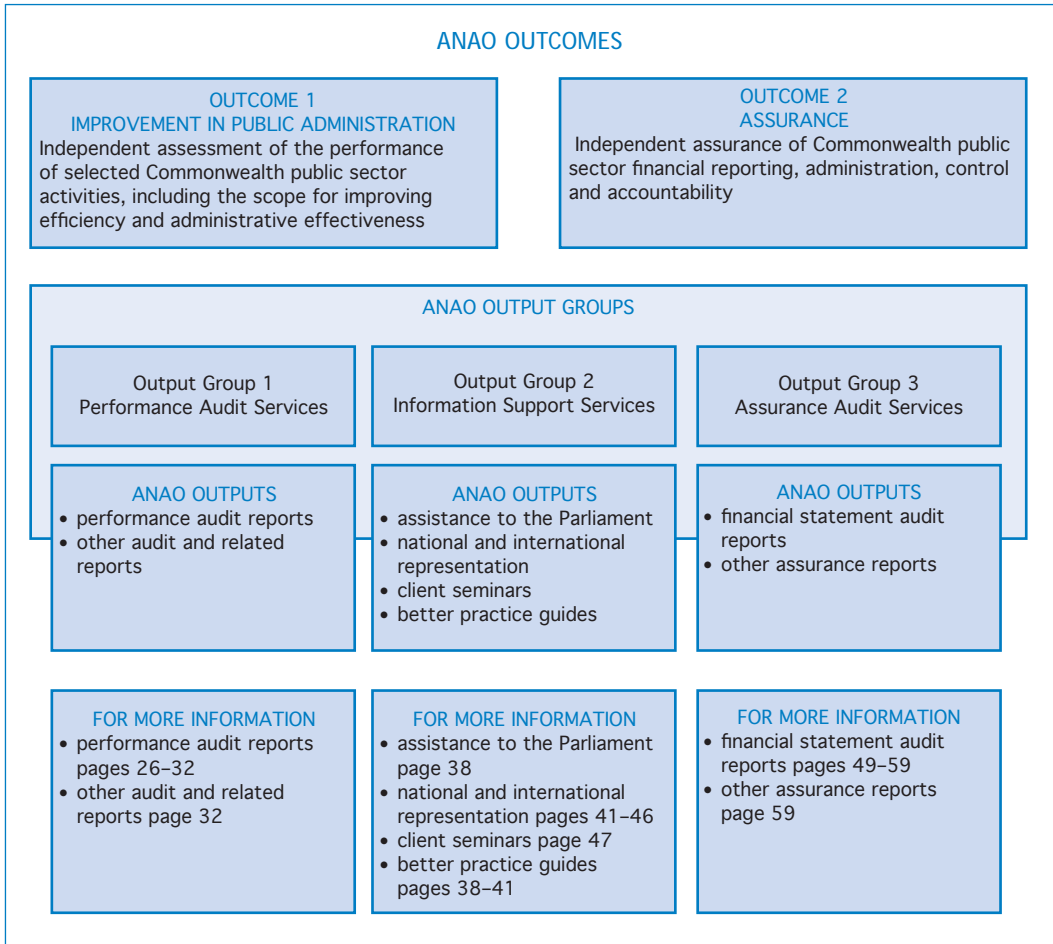
The following describes our Outcome-Output framework, as set out in the 2006–07 Portfolio Budget Statements (PBS). Figure 2 shows current outputs and their relationships through output groups to our outcomes.

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 2006–07, on an outcome–output basis, are summarised in Table 1. Tables 2 and 3 detail the financial resources for each outcome.

Our financial statements for 2006–07 and a commentary on our financial performance for the financial year are set out at Appendix 2.

Figure 2: Outcome–output framework³



³ The ANAO’s 2006–07 PBS shows BSP and protective security audits in Output 3 Assurance Audit Services. As a result of a restructure in July 2006, BSP and protective security audits are now included in Output Group 1, Performance Audit Services because these audits are conducted under the performance audit provision of the *Auditor-General Act 1997* and a change in focus of these audits results in them contributing more to Outcome 1 than to Outcome 2.

Financial summary

The ANAO's overall financial position remained sound during 2006–07 as a result of continued prudent management. At the same time, we met our primary business targets, including the production of 58⁴ performance audit and audit related products, and the effective completion of our 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 2006–07 Financial Results Summary at Appendix 2.

The change in the financial results for 2006–07 compared with those for 2005–06 is primarily due to:

- a) increases in employee expenses flowing from the Workplace Agreement; and
- b) decreases in audit costs due to the Auditor-General resigning as the auditor of the Telstra Group during the year.

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 2006–07 is set out in Tables 1, 2 and 3.

⁴ Comprising: 45 performance audits; 5 business support process audits; 1 protective security audit; 4 better practice guides; 2 financial statement related reports; and 1 'triple bottom line' assurance report.

Resources for outcomes

Table 1: Financial resources summary

Summary—ANAO by outcome	\$'000
	Actual
	2006–07
Outcome 1	23,115
Outcome 2	40,467
Subtotal Outcomes	63,582
Revenue from other sources	(1,794)
TOTAL PRICE FOR OUTCOMES	61,788
Revenue from Government (Appropriation) for Departmental Outputs	64,046
Operating Surplus	2,258
	\$'000
	Actual
	2006–2007
Summary – By Output Group	
Output Group 1 (Performance Audit Services)	21,583
Output Group 2 (Information Support Services)	1,913
Output Group 3 (Assurance Audit Services)	40,086
Subtotal Outcomes	63,582
Revenue from other sources	(1,794)
TOTAL PRICE FOR OUTCOMES	61,788
Revenue from Government (Appropriation) for Departmental Outputs	64,046
Operating Surplus	2,258
Average Staffing Level	315

Table 2: Resources for Outcome 1

Outcome 1—Improvement in Public Administration

	\$'000	\$'000	\$'000	\$'000
	Budget	Actual	Variance	Budget
	2006–07	2006–07 ⁵		2007–08
Price of Departmental Outputs				
Output Group 1 Performance Audit Services				
Output 1.1 Performance Audit Reports	19 556	21,583	(2 027)	21 700
Output 1.2 Other Audit and Related Reports	-	-	-	-
Subtotal Output Group 1	19 556	21 583	(2 027)	21 700
Output Group 2 (Information Support Services)				
Output 2.1 Assistance to the Parliament	561	357	204	520
Output 2.2 National and International Representation	193	428	(235)	180
Output 2.3 Client Seminars	-	-	-	-
Output 2.4 Better Practice Guides	1 044	747	297	1 600
Subtotal Output Group 2	1 798	1 532	266	2 300
Subtotal Output Groups	21 354	23,115	(1 761)	24 000
Revenue from other sources	(281)	(437)	156	(620)
TOTAL PRICE FOR OUTCOME 1	21 073	22 678	(1 605)	23 380
Revenue from Government (Appropriation) for Outputs	21 635	23 284	(1 649)	24 000

⁵ Subsequent to the 2006–07 Budget being brought down in May 2006, the ANAO incorporated Output Groups 3.2 Business Support Process Audits and 3.3 Protective Security Audits, into Performance Audit Reports (Output Group 1.1). As a result, the 2006–07 actual expenditure figures in the tables show a significant variance from the budgeted figure. The expenditure for Business Support Process Audits in 2006–07 was \$2.015 million compared with a budget in 2006–07 for Output Group 2.3 of \$1.721 million. The expenditure for Protective Security Audits in 2006–07 was \$0.271 million compared with a budget in Output Group 2.3 of \$0.200 million.

Table 3: Resources for Outcome 2

Outcome 2—Assurance

	\$'000 Budget 2006–07	\$'000 Actual 2006–07	\$'000 Variance	\$'000 Budget 2007–08
Price of Departmental Outputs				
Output Group 2 (Information Support Services)				
Output 2.1 Assistance to the Parliament	48	27	21	100
Output 2.2 National and International Representation	90	321	(231)	390
Output 2.3 Client Seminars	10	33	(23)	-
Output 2.4 Better Practice Guides	250	-	250	-
Subtotal Output Group 2	398	381	17	490
Output Group 3 (Assurance Audit Services)				
Output 3.1 Financial Statement Audit Reports	38 559	38,155	404	38 180
Output 3.2 Business Support Process Audit Reports (incorporated into Outcome 1) ⁶	1 721	-	1 721	-
Output 3.3 Protective Security Audit Reports (incorporated into Outcome 1) ⁶	200	-	200	-
Output 3.2 Other Assurance Reports (formerly Output 3.4)	1 770	1,931	(161)	760
Subtotal Output Group 3	42 250	40,086	2 164	38 940
Subtotal Output Groups	42 648	40,467	2 181	39 430
Revenue from other sources	(1 036)	(1,357)	321	(1 553)
TOTAL PRICE FOR OUTCOME 2	41 612	39 110	2 502	37 877
Revenue from Government (Appropriation) for Outputs	43 684	40 762	2 922	39 430

⁶ *ibid.*

For more information

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

Home

The Australian National Audit Office (ANAO) is a specialist public sector practice providing a full range of audit services to the Parliament and Commonwealth public sector agencies and statutory bodies. Our audit clients include some 300 government bodies. These include Budget dependent agencies involved in the delivery of core services and commercially oriented entities.

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An extract from our homepage

3

REPORTING ON PERFORMANCE

This section presents the scorecard from our Portfolio Budget Statements and Business Plan and also describes the performance of our three output groups namely Output Group 1: Performance Audit Services; Output Group 2: Information Support Services; and Output Group 3: Assurance Audit Services.

Performance overview

Our Scorecard provides an overview of performance based on the performance information contained in the 2006–07 Portfolio Budget Statements (PBS) and our 2006–07 Business Plan.

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.

Portfolio Budget Statements Scorecard 2006–07

Effectiveness – Overall Achievement of Outcomes 1 and 2				
		Target	Actual	Target Met?
1	Parliament acknowledges the value of the ANAO contribution.	90% value role of ANAO	93% of Parliamentarians surveyed expressed satisfaction with ANAO products and services. ¹	Yes
2	Public sector entities acknowledge the value added by ANAO products and services.	90% value role of ANAO	AAS 94% ² PAS 93% ³	Yes
3	The JCPAA's general satisfaction with the overall quality, timeliness and coverage of our products and services.	High standard of satisfaction	JCPAA survey responses indicate a very high level of satisfaction with ANAO's work. ¹	Yes

Performance information by output component				
Output group 1: Performance Audit Services		Target	Actual	Target Met?
4	Number of performance audit reports to be produced.	44	45	Yes
5	Percentage of audit recommendations supported by the JCPAA and other Parliamentary Committees.	90%	100%. The JCPAA agreed with all recommendations examined in JCPAA Report No 407, dated August 2006.	Yes
6	Percentage of audits where public sector entities acknowledge the value added by the audit.	90%	99% (190) of 192 recommendations were either agreed, or agreed with qualification. Two were disagreed. ⁴	Yes
7	Quality assurance results indicate all reviewed audits meet ANAO Auditing Standards.	100% of audits reviewed	100% of audits reviewed met ANAO auditing standards. However it was found there was room for improvement in audit planning and documentation.	Yes
8	Full costs of audit products and services are recorded and reported.	100%	100%	Yes
Output Group 2: Information support services		Target	Actual	Target Met?
9	Number of better practice guides to be produced.	3	4	Yes
10	Number of client seminar series.	2	4	Yes
11	Percentage completed in accordance with budgeted timeframe.	100%	100%	Yes
12	Seminar topics meet the needs of participants.	75% satisfaction level	96% ⁵	Yes
Output Group 3: Assurance audit services		Target	Actual	Target Met?
13	Number of financial statement audit opinions to be issued.	250	242	Yes ⁶
14	Number of business support process and protective security audits, and financial statement related report products to be produced.	10	8 ⁷	No

15	Number of other audit opinions.	2	1 ⁸	No
16	Timeliness of issuing financial statement audit opinions.	100%	87% issued on the day, or within two working days of signing the financial statements. This figure has been improving in recent years.	No
17	Percentage of financial statements completed in accordance with agreed timeframes.	100%	80%. We published a comprehensive better practice guide on the preparation of financial statements in April 2006 to assist with this process.	No
18	Quality assurance results indicate all reviewed audits meet ANAO Auditing Standards.	100%	100% of audits reviewed met ANAO auditing standards. However, the reviews found there was room for improvement in planning and documentation.	Yes
19	Full costs of audit products and services are recorded and reported.	100%	100%	Yes

Notes:

1. Parliamentary Survey, May 2005 (next survey will be carried out in 2008).
2. AAS Client Survey, March 2007.
3. PAS Client Survey, December 2006.
4. These recommendations often include several parts to ensure clarity. Of the 192 full recommendations: 176 (92 per cent) were fully agreed in all parts; 14 (7 per cent) were agreed with qualification; and two full recommendations were disagreed.
5. Seminar feedback forms.
6. The actual number of audit opinions is dependent on government and entity decisions on entity structures. We have issued opinions on all relevant entities except for six audits of companies where the audit opinion will be issued in 2007–08.
7. Not reported separately in the 2006–07 PBS (5 business support process audits against an internal target of 7, 1 protective security audit against an internal target of 1, and 2 financial statement related report products against an internal target of 2).
8. This year we completed one ‘triple bottom line’ assurance report for the Department of Families, Community Services and Indigenous Affairs. As this is an audit by invitation, the ANAO did not complete the second audit opinion as planned as we were not invited to undertake the audit.

Business Plan Scorecard 2006–07

As well as the targets set in the Portfolio Budget Statements, our 2006–07 Business Plan included a number of additional targets, which are set out in the table below.

Activity	Target	Actual	Target Met?
1 Staff satisfaction is at an acceptable level.	>70%	72% ¹	Yes
2 Staff turnover is at an agreed level.	<18% turnover	19.9% ² We operate in a highly competitive market for accounting skills. Recruitment and retention strategies and performance are closely monitored.	No
3 Public sector organisation acknowledge understanding and skills of ANAO staff through client satisfaction surveys.	90% of agencies agree that ANAO staff have the necessary understanding and skills to carry out the audit work.	PASG 87% AASG 87% Reflects reducing average levels of experience in the Office.	No
4 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% of surveyed staff indicated that the professional development they received helped them to improve their performance. ¹ 33% indicated the improvement was high to very high and 47% indicated a moderate improvement.	Yes
5 Staff acknowledge ANAO values and behaviours are exhibited in the workplace.	85% of staff consider that the ANAO values and behaviours of respect, integrity and excellence are exhibited in the workplace.	An average of 81% of staff surveyed agreed that ANAO values and behaviours are exhibited in the workplace. Further initiatives are being considered for implementation in 2007–08.	No
6 Implementation of Business Plan action items within agreed timeframes and standards.	100%	All projects have been completed or are ongoing activities.	Yes

Notes:

1. ANAO Staff Survey, June 2007.
2. This is an ANAO wide target, which measures the number of staff leaving as a percentage of total ANAO staff.

Output Group 1

Performance Audit Services

This sub-section describes our audit themes and performance audit products and how they contribute to the work of the Parliament and public sector entities.

Output Group 1 comprises performance audit reports and other audit and related products. The following summarises our performance in producing these outputs in 2006–07. Details of financial resources for performance audit services are set out in Tables 1 and 2 of this report.

Performance audits

The Auditor-General Act 1997 (the Act) provides the Auditor-General with the authority to conduct, at any time, a performance audit of an agency, a Commonwealth authority or company, other than a Government Business Enterprise or any of its subsidiaries. The Auditor-General may conduct a performance audit of a fully owned Government Business Enterprise (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 governance arrangements, information systems, performance measures, monitoring systems and legal compliance. Audits are conducted in accordance with ANAO Auditing Standards. All performance audit reports are tabled in the Parliament.

In seeking to improve public administration, performance audits also identify better practices, which may then be incorporated into Better Practice Guides (BPGs) for dissemination throughout the Australian Government public sector. These guides are discussed under Output Group 2.

Because of the size, complexity and diversity of many 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 and recommendations of these audits are likely to have application across other public sector entities.

Audit topics are selected with two major considerations in mind:

- where an audit can be expected to add the greatest value in improved accountability, economy, efficiency or administrative effectiveness; and
- to ensure appropriate coverage of entity operations within available audit resources.

The Auditor-General may also undertake audits on request, for example, from the Parliament, ministers or parliamentarians. In the case of requests for reviews which are relatively straightforward, we are often able to respond to the relevant issues through normal correspondence rather than a formal report.

*Business support process audits*⁷

Business Support Process (BSP) audits examine business processes that support the delivery of outputs provided by public sector entities. BSP reports provide for the examination of a particular aspect of the operations of the whole or part of the Australian Government sector.



PAS Auditors, from left, Richard Mackey, Janna Gilbert and Mark Rogala.

⁷ BSP and protective security audits are now included in Output Group 1, Performance Audit Services, as a result of a restructure, effective from 1 July 2006. Before the restructure, they were part of Output Group 3 and were reflected as such in the 2006-07 PBS. These changes reflect the fact that these audits are conducted under the performance audit provisions of the *Auditor-General Act 1997* and the focus of these audits results in them contributing more to Outcome 1 than to Outcome 2.

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 of each of the entities examined in the audit. Output from these audits may also include the development of BPGs.

*Protective security audits*⁸

Protective security audits are a separate category of BSP audits and as such these audits are now also part of Output Group 1 and the performance audit programme. Protective security audits examine particular aspects of security, including information security, personnel security and physical security.

Performance Audit Work Program

Our *Audit Work Program*, which covers performance audit services and to a lesser degree, assurance audit services, is developed annually in consultation with the JCPAA and audited entities. The JCPAA also seeks and coordinates comments from other Parliamentary committees on our 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 environment. 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 planning process. The performance audit themes identified in the 2006–07 *Audit Work Program*⁹ are set out below:

- governance (including financial management, information system integrity, administration of management systems, whole of government initiatives and compliance);
- administration of border security;
- project management;
- service delivery; and
- grants administration.

⁸ *ibid.*

⁹ Available from the ANAO's website <<http://www.anao.gov.au>>.

Performance audit outcomes by theme

Each performance audit is summarised by theme in Appendix 4. A broad outline of the range of issues addressed under each theme is set out below.

Governance

The broad area of governance continues to be a major focus for performance audit reports. Twenty five audits across a wide spectrum of subjects were carried out under this theme in 2006–07, including: the implementation of legislation such as the *Sydney Airport Demand Management Act 1997*; the regulation of pesticides and veterinary medicines; Australian Federal Police overseas operations; and the management of a number of common administrative activities or functions such as the outcomes and output framework, recordkeeping and issues surrounding intellectual property.

Administration of border security

Security of Australia's extensive border is a responsibility that involves a considerable number of functions and activities across a number of Australian Government entities. In recognition of the increasing importance of these functions, in 2006–07 we carried out three key audits under this theme including: the *Customs' Cargo Management Re-engineering Project*; visa management for working holiday makers; and the administration of the health requirement of the *Migration Act 1958*.



PAS staff, Barbara Cass and Peter McVay (centre and second from right) during performance audit fieldwork.

Project management

Project management is an integral element of the delivery of many Australian Government programs and involves the application of knowledge, skills, tools and techniques to a range of activities to meet specified project requirements and outcomes. Six performance audits were carried out under this theme in 2006–07 with a strong emphasis on Defence project management. We also carried out a major review of project management in Centrelink.

Service delivery

An ongoing objective for a number of Australian government entities is to provide a diverse range of high quality and cost effective services that meet the ever-increasing expectations of the Parliament, governments and the community. In the eight performance audits carried out under this theme, we reviewed a range of subjects including quarantine inspection; the *Work for the Dole* programme and the Australian Taxation Office's management of its relationship with tax practitioners.

Grants administration

Many Australian government entities administer significant grants programme funding to a wide variety of public and private sector recipients and their effective management represents an important service to the community. Eight audits were carried under this theme, once again over a wide range of activities including: the *National Black Spot Programme*; contractual arrangements to deliver the *National Food Industry Strategy*; the administration of the *Native Title Respondents Scheme*; and the administration of the *Community Aged Care Packages* programme.

Inclusion of agency comments in audit reports

Maintaining a relationship of professional co-operation with the audited entity during an audit is of crucial importance to the ANAO. To facilitate this, we consult fully with entities during the planning stages, provide early information on the audit approach and objectives, maintain open and regular communication with the audited body, and advise 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 entity. 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 to the Act. One recommendation was that the Auditor-General include agency comments on a proposed report in full in the final report. The Government agreed to this recommendation. Although there have been continuing delays in introducing amending legislation into the Parliament, we continue the practice that commenced in 2005–06 of including agency comments in full in our reports.

Performance

The primary performance measures 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 the PBS and our Business Plan and reported in the ANAO Scorecard (see the previous section and discussion under 'Contribution to Outcomes' in this part).

Audit methodology

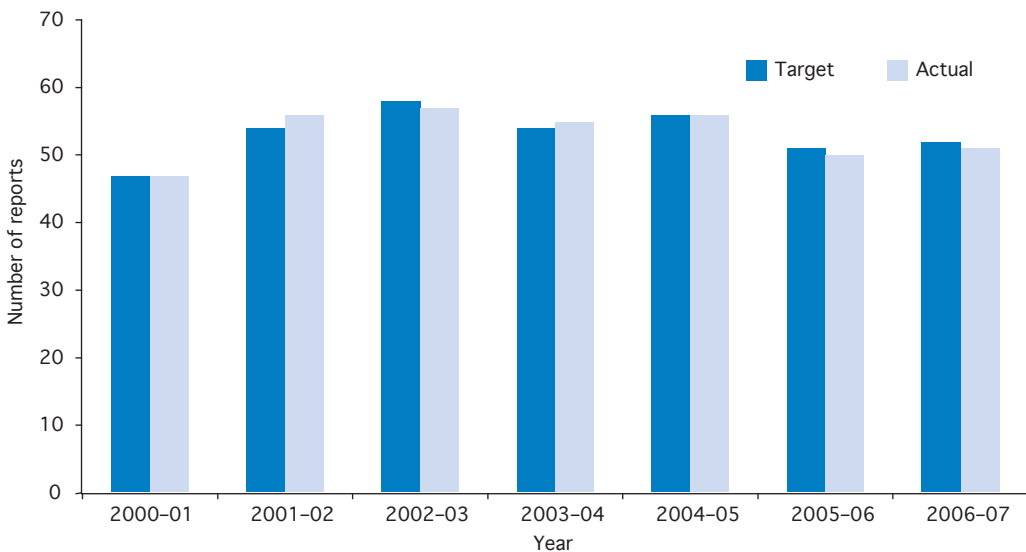
Detailed planning for enhanced performance audit working paper management has commenced as part of a wider ANAO project involving the implementation of an electronic document record management system.

Number of reports

During the year, 51 performance audit reports were produced against a PBS target of 52 for this output. This figure includes the five BSP audit reports tabled against a PBS target of seven, and one protective security audit report tabled against a PBS target of one. As explained above, the reason these audits are discussed in this section of the report is a result of a restructure, effective from 1 July 2006 whereby these audits are now included as performance audit reports in Output Group 1. Prior to the restructure, they were part of Output Group 3 and were reflected as such in the 2006–07 PBS.

For 2005–06, we tabled 50 performance audit reports against a target of 51. Figure 3 shows the number of reports produced under this output over the past six years. Audit report numbers for earlier years have been adjusted to include BSP and Protective Security audits.

Figure 3: Number of performance audit reports



Performance

The primary performance measures for this output relate to the number of audits completed, timeliness and resource usage.

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

Average timeframes and costs

The average time taken to complete a performance audit report (including five BSP audit reports and one protective security audit report) was 12.3 months, with a range from five to 24 months. The average cost (including overhead allocation) was \$0.368 million with a range from \$0.170 million to \$0.665 million.

Cost of performance audit services

Performance audit reports (including BSP and protective security audit reports) output (Output Group 1) consumed \$21.583 million in 2006–07 (\$19.136 million in 2005–06).¹⁰

Other audit and related products

As part of our integrated audit services' delivery approach we produced our annual Audit Work Program.

Audit Work Program 2007–08

We developed the *Audit Work Program 2007–08*¹¹ during the latter half of 2006–07. This work program was developed in consultation with the JCPAA and audited entities, and was provided to the Prime Minister, Leader of the Opposition, Ministers, Shadow Ministers, the JCPAA and agency heads. As mentioned earlier, 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 2007 and lists performance audit topics from which audits for 2007–08 are selected. It also sets out in summary form the work programs intended to be undertaken under the other ANAO Output Groups, namely Assurance Audit Services and Information Support Services, which are discussed later in this report.

¹⁰ A comparison of 2006–07 BSP and protective security audit reports costs with 2005–06 are:

- BSP audit reports output consumed \$2.015 million in resources in 2006–07 (\$1.565 million in 2005–06); and
- Protective security audit reports output consumed \$0.271 million in resources in 2006–07 (\$0.070 million in 2005–06).

¹¹ The Audit Work Program 2007–08 is on our website: <<http://www.anao.gov.au>>.

Contribution to outcome 1—improvement in public administration

Performance audit services are the primary contributor to our achievement of Outcome 1—*Improvement in public administration*. In turn, the extent to which the outcome is being achieved is largely gauged by consideration of performance audit outputs on the Parliament, as our 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.

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 overall improvement of public administration resulting from performance auditing. Committees continued to be supportive of audit conclusions and recommendations.

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 407, Review of Auditor-General's Reports tabled between 18 January 2005 and 18 April 2005* in September 2006. The report reviewed audit reports on: the investment of public funds and Commonwealth debt management; regulation of Commonwealth radiation and nuclear activities; the *Edge Project*;¹² and *Centrelink's* customer feedback systems.

The JCPAA supported the findings and conclusions contained in the audit reports reviewed, noted agencies' advice about the implementation of our recommendations, and made their own recommendations in relation to the reports reviewed.

The JCPAA also held hearings into a number of our audits during the year. The reports of this work had not been completed by 30 June 2007, the end of the reporting period. The reports examined by the JCPAA in 2006–07 are listed below:

- Audit Report No.12 2006–07, *Management of Family Tax Benefit Overpayments*;
- Audit Report No. 3 2005–06, *Management of the M113 Armoured Personnel Carrier Upgrade Project, Department of Defence*;
- Audit Report No. 6 2005–06, *Implementation of Job Network Employment Services Contract 3*;
- Audit Report No. 11 2005–06, *BSP Senate Order for Departmental and Agency Contracts*;

¹²The Edge Project was a joint project between the Australian Government Department of Family and Community Services and Centrelink to develop expert systems for the Family Assistance Office.

- Audit Report No. 17 2005–06, *Administration of the Superannuation Lost Members Register*;
- Audit Report No. 21 2005–06, *Audits of the Financial Statements of Australian Government Entities for the period ended 30 June 2005*;
- Audit Report No. 23 2005–06, *IT Security Management*;
- Audit Report No. 27 2005–06, *Management and Reporting on Expenditure on Consultants*;
- Audit Report No. 28 2005–06, *Management of Net Appropriation Agreements*;
- Audit Report No. 29 2005–06, *Integrity of Electronic Customer Records*;
- Audit Report No. 31 2005–06, *Roads to Recovery*;
- Audit Report No. 32 2005–06, *Tender for Detention Centre Contract*;
- Audit Report No. 34 2005–06, *Advance Passenger Processing*;
- Audit Report No. 41 2005–06, *Administration of Primary Care Funding Agreements*;
- Audit Report No. 43 2005–06, *Assuring Centrelink Payments — The Role of the Random Sample Survey Programme*;
- Audit Report No. 47 2005–06, *Funding for Communities and Community Organisations*;
- Audit Report No. 49 2005–06, *Assuring Job Placement and Matching Services*;
- Audit Report No. 45 2004–05, *Management of Selected Defence System Program Offices*;
- Audit Report No. 50 2004–05, *Drought Assistance*;
- Audit Report No. 51 2004–05, *DEWR's oversight of Job Network services to job seekers*; and
- Audit Report No. 58 2004–05, *Helping Carers: the National Respite for Carers Program, Department of Health and Ageing*.

In addition, submissions were prepared and evidence provided to the JCPAA inquiry reviewing *Certain Taxation Matters within Australia* and the inquiry into *Financial reporting and equipment acquisition at the Department of Defence and Defence Materiel Organisation*.

We also provided submissions and evidence to the Senate Committee on Finance and Public Administration for the following inquiries:

- the *Transparency and Accountability of Commonwealth Public Funding and Expenditure* Inquiry tabled in February 2007. It was recommended, that there be an examination of the proposals made by the Auditor-General for measures to assist the Legislative and General Purpose Standing Committees in their consideration of the estimates; and

- the *Departmental and Agency Contracts* Inquiry tabled in March 2007. A number of recommendations were made which involve the ANAO in the reporting, implementation and management of departmental and agency contracts.

The House of Representatives Standing Committee on Health and Ageing reviewed Audit Report No. 19, 2006–07, *Administration of State and Territory Compliance with the Australian Health Care Agreements*. The Committee report had not been tabled by the end of June 2007.

Audits undertaken by formal request of the Parliament or Ministers or Parliamentarians

There were three audits undertaken by formal request. One was requested by the Senate and two were requested by parliamentarians. These audits are described briefly below.

Audit Report No. 5 2006–07, *The Senate Order for Departmental and Agency Contracts (Financial Year 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 eighth audit in a series of audits commencing with Audit Report No. 33 2001–02. The ninth audit is currently in progress.

Audit Report No. 8 2006–07, *Airservices Australia, Upper Airspace Management Contracts with the Solomon Islands Government* was requested by Mr Warren Truss MP, the former Minister for Transport and Regional Services following a review of civil aviation by the Solomon Islands Auditor-General.

The scope of Audit Report No. 39 2006–07, *Distribution of Funding for Community Grant Programs* took into account concern raised by Mr Chris Bowen MP, the Federal member for Prospect, regarding the administration of two rounds of funding for the *Local Answers* and *Volunteer Small Equipment Grant* programmes.

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 our performance audit work is improvement in management and administration of major Australian Government programmes brought about by entities' acceptance and implementation of recommendations made in our audit reports. Performance audit reports also provide assurance to the Parliament about the way an area of public administration 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, differences will occur on some occasions and when this happens, agency comments are included in full in the final report.

For 2006–07 we made 192 full recommendations in our audit reports to improve agency performance and accountability. By way of explanation, 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 192 recommendations 176 (92 per cent) were fully agreed in all parts, 14 (7 per cent) were agreed but with some qualification or in part. Two recommendations were not agreed.

This is an improvement on last year's result where 89 per cent of our recommendations were fully agreed and ten per cent were agreed overall, but with some qualification or in part.

Client survey

After each performance audit report is tabled, feedback on the audit process is sought independently from the senior executive 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 is engaged by the ANAO but is independent of the performance audit teams.

In the December 2006 survey, the consultancy firm reported on responses received for the 2005–06 reporting period. Overall, our performance showed an improvement on the previous year and marginally higher than the average level recorded since the survey began in 1997–98. In the 2006 report, 32 of the 46 selected public entity areas participated in the survey. This represents a response rate of 70 per cent, equal to the previous year.

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

- 87 per cent of respondents considered that the audit team demonstrated that they had the professional knowledge and audit skills required to conduct the audit;
- 95 per cent of respondents considered that the audit teams' conduct was characterised by integrity, and an ethical approach to their task; and
- 100 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 audit practices and approaches. The survey is therefore an important business tool for improving the quality and effectiveness of performance audit products and services.

Quality assurance

We continued our program of quality assurance reviews of selected performance audits in 2006–07. The objective of the Quality Assurance Review Program is to ensure that performance audits have been completed in accordance with ANAO Auditing Standards. The review of performance audits tabled in 2006–07 found that, across the audits examined, there was general compliance with these standards although there was room for improvement in documenting planning and fieldwork phases of performance audits. The implementation of an electronic document and records management system across the ANAO during 2007–08 will assist with improvements in audit documentation.

A peer review arrangement for performance audits involving the ANAO and the New Zealand Audit Office began in 2000. This review supplements our own 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.

As mentioned in last year's annual report, in late 2005–06 the results of a review of two audits were reported. During 2006–07 the ongoing program review of performance audit practices took into account the results of this review, in particular by implementing improvements to the audit planning and quality control processes.

Output Group 2

Information Support Services

This sub-section outlines the assistance we provide to Parliament, our involvement in international forums and our work in providing audit related advice and instruction by way of client seminars and newsletters.

Output Group 2—Information Support Services (ISS) covers a range of services delivered by a variety of areas across the ANAO. The outputs that comprised Outputs Group 2 in 2006–07 were:

- assistance to the Parliament;
- better practice guides (BPGs);
- national and international representation; and
- client seminars;

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, as well as better management practice in general by way of our BPGs. Additionally, we contribute to the work of, and benefit from, our association with the global auditing community.

Assistance to Parliament

Consistent with past practice, we continued to work closely with the Parliament by providing briefings to Ministers, Shadow Ministers, Parliamentary Committees and their staff, and Parliamentarians on audit reports tabled in the Parliament.

The assistance to Parliament output cost \$0.384 million in 2006–07 (\$0.503 million in 2005–06).

Better Practice Guides

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 providing guidance in 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 an identified 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 2006–07, four BPGs were published against a target of three. Our BPGs continue to be well-received by public sector agencies, other audit offices and professional organisations.

BPGs published in 2006–07

The four BPGs published in 2006–07 are described below.

Legal Services Arrangements in Australian Government Agencies (August 2006) Preparation of this BPG was prompted by our 2004–05 audit report on legal services arrangements, which identified the need to manage legal services more effectively in order to get the best value. This guide aims to help agencies adopt better practice in managing their legal service arrangements, including arrangements for planning and reviewing those services.

Implementation of Programme and Policy Initiatives (October 2006) The ANAO and the Department of Prime Minister and Cabinet jointly prepared this BPG. It is intended for public sector chief executives and senior officers responsible for overseeing the implementation of an initiative(s). The focus is on overarching principles for effective implementation, drawing on the experience of a number of agencies, as well as lessons from overseas. The aim is to assist senior executives obtain assurance that appropriate approaches and methodologies are being followed.



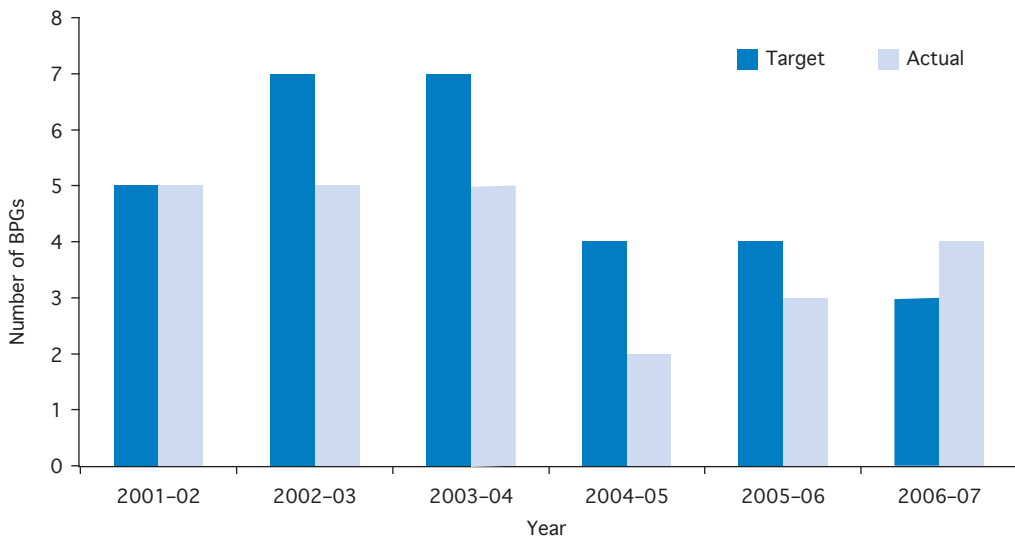
AAS staff member Reena Singh perusing one of the BPGs produced by the ANAO in 2006–07.

Developing and Managing Contracts (February 2007) This BPG updates and replaces the guide we issued in 2001 and was produced in partnership with the Department of Finance and Administration. Recognising that contracts vary considerably in value, duration and complexity, the guide is intended to be a general reference document for senior managers, contract managers and stakeholders who are involved in the development and management of contracts in the public sector. The guide includes a discussion on developing a contract, commencing from the point where a decision is made on the engagement of a contractor as a result of a tender or other procurement process. The broader focus of this guide recognises that the foundations for the effective management of a contract are laid at the time the contract is being developed. The guide includes checklists, examples and proforma that can be used and tailored to meet specific control circumstances.

Administering Regulation (March 2007) This BPG provides a framework to assist Australian Government regulators in assessing the quality of their administrative practices and identifying improvement areas. Examples of how regulators are currently employing better regulatory practice are provided throughout the guide. In writing the guide, we recognised the wide variations in regulation and entities operating in different industries and sectors of the economy. Consequently, there is no ‘one-size-fits-all’ model for administering regulation. The guide, therefore, focuses on better practice principles and characteristics that are relevant to the design and management of administrative operations for all regulators, irrespective of their size, organisational structure or regulatory objectives.

Figure 4 shows the number of BPGs produced compared with the previous five years.

Figure 4: Number of BPGs produced



Cost

BPGs cost \$0.747 million in 2006–07 (\$1.590 million in 2005–06). These figures are a reflection of total costs incurred by BPGs in the relevant year, including the proportion of costs incurred where work carries over from the previous year.

Increasing awareness of BPGs and related products

During 2006–07, we continued to participate in a number of Australian Public Sector forums, seminars and conferences to increase awareness of various BPGs and other audit reports. We encouraged entities to use BPGs to review their own arrangements and practices.

International and national 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:

- Asian Organisation of Supreme Audit Institutions (ASOSAI);
- International Organisation of Supreme Audit Institutions (INTOSAI);
- Commonwealth Auditors-General Conferences;
- Auditors-General Global Working Group;
- International Auditing and Assurance Standards Board (IAASB); and
- Assistance to the Indonesian Board of Audit and the Papua New Guinea Auditor-General's Office.

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

ASOSAI

The Auditor-General attended the 10th ASOSAI Assembly in Shanghai, China in September 2006 which provided him with a valuable opportunity to meet with colleagues from our region and participate in discussions of mutual interest. More than 160 delegates from 41 ASOSAI member countries and observers attended the assembly, which is held every three years.

The theme of the 3rd Symposium of this ASOSAI Assembly was *The Role of Audit in Promoting Government Accountability*. Representatives from the INTOSAI Secretariat, Malaysia, New Zealand, Pakistan and the USA presented papers for panel discussion.

During panel discussions, key points raised included:

- the importance of government accountability to the cultural and economic development of a country;

- the importance of coordination and cooperation with the legislative body, the public and the press in order to ensure the effectiveness of accountability while maintaining the independence of audit institutions;
- the need for good relations with the auditee without sacrificing audit objectivity and independence;
- the importance of ongoing cooperation between ASOSAI and INTOSAI to promote globalization, technical innovation and enhance accountability by international cooperation; and
- the need to improve the training of auditors.

The ANAO is a member of the INTOSAI Professional Standards Committee (PSC) and its Sub-Committee on Performance Audit.

INTOSAI

The Performance Audit Sub-committee of the Professional Standards Committee (PSC) was established after approval by the INTOSAI Governing Board in November 2005. The Performance Audit Sub-Committee's objective is to promote the INTOSAI Implementation Guidelines for Performance Audit, and to develop and disseminate other guidance that may be needed by the INTOSAI community. We accepted a nomination to represent ASOSAI on the Performance Audit Sub-committee in February 2006. In this capacity, we have provided advice on the development of the formation process and first actions; draft terms of reference; and the work plan. A representative from the ANAO attended a Subcommittee meeting in August 2006 in Brazil. The Subcommittee resolved that each member should consult with the Chair of their INTOSAI regional organisation about the ways they promote the INTOSAI guidelines on performance audit and report this information to the Subcommittee.

We are also a member of the INTOSAI Working Group on Privatisation. We contribute to the Working Group on Privatisation by sharing information from our own experiences and commenting on draft documents. A representative from the ANAO attended a Working Group meeting in London in September 2006. The major issues discussed at the meeting included:

- the effective auditing of regulatory frameworks post-privatisation, with particular emphasis on responding to ineffective regulatory frameworks and accessing key data now held in the private sector;
- the role of audit institutions in optimising outcomes from privatisation processes; and
- audit institutions assessment of value for money in public private partnerships / private financing initiatives projects.

In October 2006, we jointly hosted with the ACT Auditor-General's Office, the Australasian Council of Auditors-General (ACAG)/South Pacific Association of Supreme Audit Institutions Conference on Environmental Auditing. To inform our work in this area we became a member of the INTOSAI Working Group on Environmental Auditing and we were invited to send a representative to the 12th meeting in Tanzania in June 2007.

Commonwealth Auditors-General Conferences

There were no conferences of Commonwealth Auditors-General in 2006–07.

Auditors-General Global Working Group

The Deputy Auditor-General attended the *Auditors-General Global Working Group* in San Francisco, United States of America in April 2006–07. The meeting discussed issues common to Auditors-General in developed nations including such matters as peer reviews across both financial statement and performance audits, strengthening accountability of grant programmes, use of private sector firms and other experts, and the impact of audit on good governance.

IAASB

The Auditor-General is the only Australian representative on the 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 quarterly meetings of the Board during the year and chairs several task forces of the Board responsible for the revision of auditing standards.

Assistance to the Indonesian Board of Audit and the Papua New Guinea Auditor General's Office

We accepted an invitation in 2005–07 to be a member of the Indonesian Audit Office's (BPK) Advisory Board. The Board assists 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.

The Australian Agency for International Development (AusAID) has funded a three year project for the ANAO to assist the Indonesian Board of Audit, and in 2006–07 our staff conducted performance audit training, explored how we could assist the BPK in financial auditing and advised on the employment of firms to conduct audits on behalf of BPK.

In addition, we received seven BPK staff as secondees in financial and performance auditing. The purpose of the project is to strengthen the BPK's capacity to conduct performance and financial audits. In turn, this activity is part of a broader preventative activity reducing the risk of fraud and corruption, and improving governance.

We continued our placement of one staff member in the Papua New Guinea Auditor General's Office under the Government's Enhanced Cooperation Program. We also participated in a one year pilot phase of the AusAID funded Papua New Guinea-Australian Audit Offices Twinning Scheme which began in January 2007.

The scheme involves the deployment of two officials from the PNG Auditor-General's Office to participate in the ANAO graduate program in Australia. The aim of the program is to develop the knowledge and skills of selected PNG officials and facilitate ongoing knowledge sharing and support for the PNG Auditor-General's Office by the ANAO. A mid-year progress report concluded that the scheme should be extended beyond the pilot phase based on its positive progress towards achieving outputs.



Ian McPhee with Indonesian and PNG Secondees. Seated, from left to right, Ria Anugriani, Cecilia Wuryantining Sih, Ian McPhee, Firdaus Amyar and Lillian Amu. Standing from left to right, Susanti Ariningtyas, Peter Samuel, Satrio Nugroho and Budi Cahyono.

International visitors to the ANAO

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 20 short-term visits for 174 delegates, from a number of countries including Thailand, Kazakhstan, Laos, Korea, China, Vietnam, Indonesia, Canada, Japan and Papua New Guinea. Overall, delegates provided very positive feedback on their visit.



Darren Box (far left) Michael Watson (fifth from left) and Ian McPhee (far right), with members of the Japan Board of Audit.

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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 Section 4 of this report.

National representation

At the national level, the ANAO is a member of the ACAG. ACAG comprises the Auditor-General of the Commonwealth and 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.

In April 2007, we hosted the 26th ACAG Biennial Conference. All ACAG members attended and international observers from Indonesia, United Kingdom, Canada and South Africa were also present. The conference covered a wide range of audit related issues including: key developments in the audit offices represented; issues relating to charging audit fees; staff retention; and the health and well being of staff. In addition to the formal agenda, the Conference provided an opportunity for delegates to exchange ideas and information and in particular, discuss specific matters of mutual interest with relevant staff from the ANAO.



Ian McPhee (front, fourth from left) with ACAG members and international guests during the 26th Biennial hosted by the ANAO in April 2007.

We also participated in the Australasian Council of Public Accounts Committee meeting hosted by the Joint Committee of Public Accounts and Audit at Parliament House in April 2007.

As a member of the Australian Auditing and Assurance Standards Board, the Auditor-General attended five Board meetings during 2006–07.

Cost

The national and international representation output cost \$0.749 million in 2006–07 (\$0.317 million in 2005–06). The increase in this years figures reflects our commitment to the project discussed earlier which is designed to develop the Indonesian Board of Audit’s performance and financial audit capacity, and the assistance to the Papua New Guinea Auditor General’s Office.

Client seminars and advice

In addition to our 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.

We arrange seminars to provide advice on topical and emerging issues. The focus of this activity is directed towards improving financial reporting. Four series of financial reporting seminars were conducted in 2006–07. As in previous years, these seminars generated a great deal of interest and were well received by attendees. Seminar feedback forms revealed that 96 per cent of participants were satisfied that the seminar had met their needs.

During the year a number of our 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.

Newsletters

We produce two newsletters, *AUDITFocus* and *Opinions*, to provide audit related items of general interest and technical information. These are described in more detail below.

AUDITFocus

Our newsletter, *AUDITFocus*, which was first published in 2005–06, captures the lessons from our audit work that are likely to be of general interest and application. During 2006–07, three editions of the newsletter were published and included articles on a range of issues including: matters relating to the financial management framework; three better practice guides; environmental sustainability in Australian government agencies; recordkeeping; internet security; and workforce planning. Copies are available on our website.

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 BPGs. It also lists performance audits scheduled for completion in the near future. Three editions were published in 2006–07. *Opinions* is also available on our website.

Cost

Client seminars and advice output cost \$0.033 million in 2006–07 (\$0.016 million in 2005–06). The difference reflects the four seminars completed this year compared with two last year.



Professional Services Branch (PSB) staff members Melissa Petropolous and Chris Parkinson.

Contribution to outcomes

In 2006–07, the distribution of Information Support Services costs were 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.

Continued interest and demand for our BPGs is a strong indicator of the usefulness of these products to the Australian Public Sector.

Output Group 3

Assurance Audit Services

This sub-section outlines our assurance work in auditing the financial statements of Australian Government entities including their control environment. This section also discusses developments in the accounting profession and our internal quality assurance.

Assurance Audit Services (AAS) outputs are:¹³

- financial statement audit reports; and
- other assurance 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 each year 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 and the results of the entities' operations and cash flows. The Auditor-General delegates signing responsibility for some financial statement audits to senior ANAO staff.

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 comprising the audit of the financial statements of Australian Government entities and the interim financial statement audits. These two reports are discussed below.

¹³ BSP and protective security audits are no longer included in Output Group 3, as a result of a restructure, effective from 1 July 2006. They are now presented in Output Group 1 performance audit services. These changes reflect the fact that these audits are conducted under the performance audit provision of the *Auditor-General Act 1997* and a change in focus of these audits results in them contributing more to Outcome 1 than to Outcome 2.

Financial statement audit — period ended 30 June 2006

Our report on the audit of the financial statements of Australian Government entities for the period ended 30 June 2006¹⁴ was tabled in December 2006. This report summarised the final result of the audits of the financial statements of Australian Government entities, including the Consolidated Financial Statements of the Australian Government, for the period ended 30 June 2006.¹⁵ A commentary was provided on a number of contemporary issues relating to key developments in the financial reporting and auditing framework that impact on the Australian Government and its reporting entities.



AAS Auditors, Lian Kwa, Lucinda Kelly and Rachel Gatley.

There was an increase in the number of material General Government Sector entities that provided clearance to the Department of Finance and Administration by the 30 July deadline (80 per cent, up from 76 per cent in 2004–05). The ability of material entities to achieve the audit clearance by 30 July highlights the improved financial statement preparation processes, which rely on efficiency, effectiveness and timeliness. We had previously published a comprehensive better practice guide on the preparation of financial statements¹⁶ to assist in this process.

¹⁴ Audit Report No.15 2006–07, *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2006*.

¹⁵ For the financial year ending 30 June 2007, the audit cycle is completed around November 2007. This means we report the results of the 2005–06 final financial statement audit cycle in this report.

¹⁶ *Preparation of Financial Statements by Public Sector Entities* (April 2006).

The December 2006 report on the audit of the financial statements of Australian Government entities for the period ended 30 June 2006 also provided details about qualifications of audit opinions and any other matters reported or emphasised in audit reports. The reporting of “other statutory matters” dropped significantly to three in 2005–06 from 18 in 2004–05.¹⁷ The report also detailed the results of the individual financial statement audits and any additional significant control issues identified by each audit.

The report noted that 2005–06 was the first year of reporting under Australian Equivalents to International Financial Reporting Standards (AEIFRS) for most government entities. We reported that all material Australian Government entities indicated unreserved compliance with AEIFRS, other than the Department of Defence which indicated exceptions within the extent permitted by Australian Accounting Standards Board (AASB) 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. The major impacts on the financial statements of Australian Government entities on transition to AEIFRS were in relation to:

- the measurement of superannuation benefits at their present value in accordance with AASB 119 *Employee Benefits*;
- the first-time adoption of AASB 139 *Financial Instruments: Recognition and Measurement*; and
- the recognition of makegood under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

A number of other AEIFRS adoption issues were also summarised in the report.

The report also re-emphasised our focus in our financial statement audits on legislative compliance with the financial reporting framework. In October 2006, the Department of Finance and Administration released *Finance Circular No. 2006/08 'Certificate of Compliance – FMA Act Agencies'* requiring Chief Executives to annually certify compliance with all financial legislation, regulations, and official guidance issued by the Department of Finance and Administration. The report noted that many agencies have given consideration to the processes required for the completion of the Certificate of Compliance.

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; and
- deficiencies in the robustness of IT control environments, including access security.

¹⁷ The higher number in 2004–05 is explained by the reporting of ineffective agreements under section 31 of the FMA Act.

Interim financial statement audit — period ended 30 June 2007

Our interim phase of the audit of financial statements of General Government Sector (GGS) agencies for the year ending 30 June 2007 was tabled in June 2007.¹⁸ This report presented the results of the interim phase of the 2006–07 financial statement audits. The audits encompassed a review of governance arrangements related to agencies' financial management responsibilities, and an examination of internal control, including information technology system controls for all portfolio departments and other GGS agencies' 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.

Internal control

As part of the interim financial statement audit we consider the different elements of an agencies' internal control. These elements comprise:

- control environment;
- risk assessment process;
- information technology systems;
- control activities; and
- monitoring of controls.

Each of these elements is discussed below.

Control environment

As part of the financial statement audit process, we assesses whether an agency's internal control environment includes measures that contribute positively to establishing a foundation for effective internal control, and minimise both financial and non-financial risks to the agency. The measures should be designed to meet the individual circumstances of each agency and to assist in the orderly and efficient conduct of its business in compliance with applicable legislative requirements.

We observed that all agencies have established key elements of control environments which provide a sound basis for effective financial management. Audit committees, in particular, continue to have a positive influence on the effectiveness of agencies' control environment particularly in the areas of risk assessment, legislative compliance and financial system controls. In addition, a reduction in non-compliance with key elements of the financial framework was noted during the audit process, and the introduction of the *Certificate of Compliance* has resulted in an increased focus on wider compliance issues.

¹⁸ Audit Report No. 51 2006–07, *Interim Phase of the Audit of Financial Statements of General Government Sector Agencies for the Year Ending 30 June 2007*.

Risk assessment process

Important elements of the risk assessment process common to all agencies that are subject to review are fraud control and business continuity management. In assessing agencies' risk management processes, we noted that all agencies have fraud control plans in place, although a small number of agencies needed to improve aspects of their fraud control arrangements.

Overall there has been noticeable improvement in the management of business continuity risks.

Information technology systems

Spending on IT service delivery and development continues to represent a significant expenditure of the Australian Government. Annually, in excess of \$4 billion is spent on IT-related activities. The growth of investment in, and importance of, IT systems to Australian Government financial management and service delivery requires a commensurate and ongoing investment by the ANAO in assessing IT systems and controls supporting the financial statement reporting process. The focus in 2006–07 was on: IT governance; security; system delivery; and *Financial Management Information System* (FMIS); and *Human Resources Management Information System* (HRMIS) application systems. The majority of agencies adequately addressed the areas under review, although we continue to identify a range of control-related issues that require ongoing and, in some cases, increased attention by agency management.

Control activities

An agency's system of internal control includes the activities 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 agency's financial statements. In most agencies, key areas covered in the interim phase of the audit included: appropriations management; revenue and receivables; cash management; purchases and payables; human resource management processes; and asset management. Despite there being room for improvement in most areas, controls over business and accounting processes have been generally effective.

Monitoring of controls

Agencies undertake many types of activities as part of their monitoring of control processes, including: external evaluation reviews; control self assessment processes; post-implementation reviews; and internal audits. The level of our review of different types of activities is dependent on the nature of each entity. However, given the significance of the investment by Australian Government entities in the internal audit function and the requirements of Australian Auditing Standards, we review the internal audit function each year to gain an understanding of how it contributes to the overall monitoring of controls.

We noted that internal audit is generally playing an important role in assessing the adequacy of financial systems that underpin an agency's financial statements and in the preparation of the statements themselves. However, we also noted there was room for improvement in some areas.



IT Auditors, Jennifer Dwyer and Matthew Biernat.

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. Findings that pose a moderate business or financial risk, or financial reporting risk, are rated as 'B' findings. 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' findings.

Most agencies had areas of their control environment that required attention, although our interim audits found that there had been an overall improvement in agencies' financial and related controls. This has resulted in a reduction in the number of 'A' and 'B' findings compared with 2005–06, as reflected in the following analysis:

- there were three agencies with 'A' category audit findings in both 2006–07 and 2005–06;
- the total number of 'A' category issues (excluding the Defence and Defence Material Organisation) was two in 2006–07 compared to nine in 2005–06;

- the total number of 'A' category findings for Defence decreased from 18 in 2005–06 to 16 in 2006–07, and the number for Defence Material Organisation remained the same at 6;
- the number of agencies with no category 'A' or 'B' findings is nine in 2006–07, up from seven in 2005–06;
- the total number of 'B' category findings across agencies (excluding Defence and Defence Material Organisation) decreased from 67 in 2005–06 to 42 in 2006–07. Defence and Defence Material Organisation showed an increase in the total number from 50 in 2005–06 to 55 in 2006–07; and
- eleven agencies reported a reduction in the number of 'B' category findings, six showed an increase, and six agencies remained the same.

Interim audit conclusions

The results of the interim phase of the 2006–07 audit for agencies covered in the interim report indicated that controls over business and accounting processes have generally been effective, with an overall decrease in the number and significance of audit findings from the previous year. Consistent with the results of our audits over recent years, agencies generally have in place appropriate governance, financial management and control regimes. However, most of the agencies had areas that required attention, particularly in relation to: key reconciliations; the recording and accounting for assets; the timely follow up of any discrepancies; controls over the processing of transactions in agencies' FMIS and HMRIS; the management and exercise of delegations; and the maintenance of records.

In addition, the ongoing control weaknesses identified in relation to information systems, such as the breakdown in the management of user and systems access, and inadequate IT security and change controls, suggests that increased management attention is needed to provide assurance in this area.

Audit methodology

We 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 2005–06. This methodology and enabling technology was piloted on five financial statement audits for 2005–06 and was rolled out for use on all financial statements in the 2006–07 audit cycle. Our audit methodologies are supported by comprehensive training programs.

Client survey

An independent survey was completed in December 2006 to gain feedback from entities on the conduct of the audit of their 2005–06 financial statements.¹⁹ Of the 207 entities that were included in the survey, 140 responses were received (68 per cent). The survey results received were very positive overall and indicated a high degree of satisfaction with our performance in auditing entities 2005–06 financial statements. Key findings included the following:

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

The results of the survey are used to inform decision making on the improvement of future audits. We are also 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 assisting entities to improve their own 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

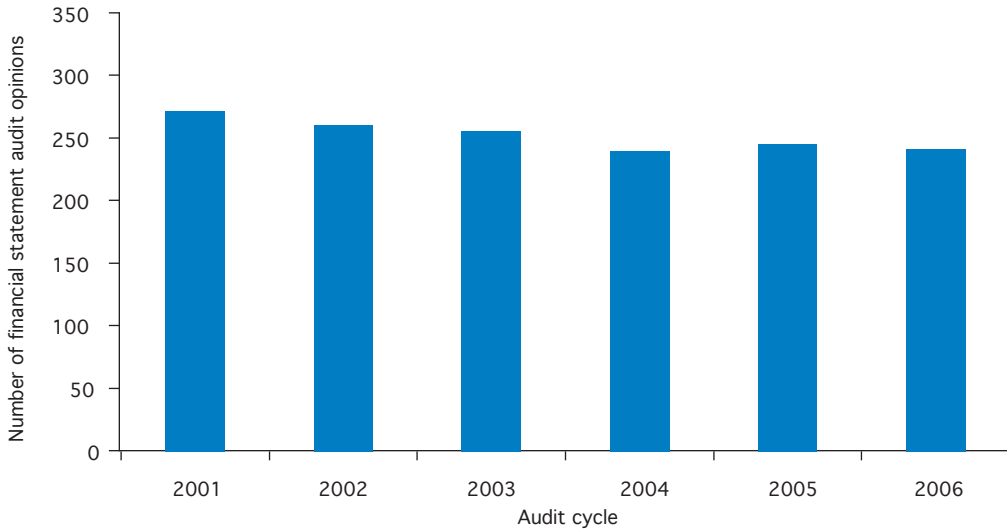
The number of audit opinions issued for the 2005–06 financial statement audit cycle,²⁰ in comparison to previous periods, is illustrated in Figure 5.²¹

¹⁹ Due to timing of the financial statement audit cycle, this data relates to the 2005–06 financial year.

²⁰ The actual number of audit opinions is dependent on government and entity decisions on entity structures. We have issued opinions on all relevant entities except for six audits of companies where the audit opinion will be issued in 2007–08.

²¹ For the financial year ending 30 June 2007, the audit cycle is completed around November 2007. This means we report the results of 2005–06 final financial statement audit cycle in this report.

Figure 5: Number of outputs from the financial audit process



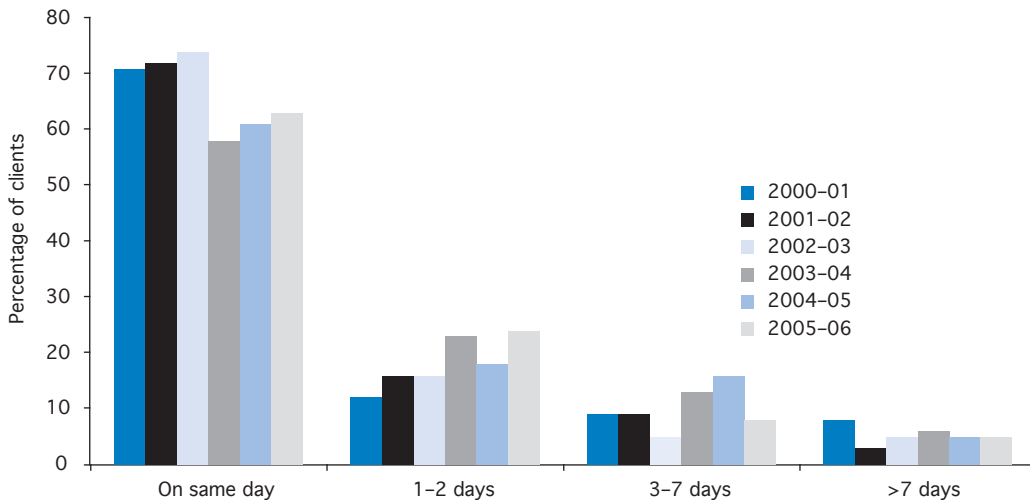
During the 2005–06 audit cycle we issued 242 audit opinions. This compares with 246 opinions in the 2004–05 audit cycle. Separate reports were also provided to Ministers on the results of all financial statement audits.

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, 87 per cent of opinions were issued on the day the financial statements were signed or within two days, compared to 79 per cent for the previous audit cycle.

The time taken to issue audit opinions after the date of signing the financial statements for the last six years is shown in Figure 6.

Figure 6: Timeliness of issuing audit opinions



Completion with agreed timelines

We plan our financial statement audits so that audit clearance and audit opinions are issued in accordance with Australian Government timelines. In the 2005-06 year, the Department of Finance and Administration set audit clearance for material entities at 30 July.²² For the 2005-06 financial year, 80 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 *Budget Estimates and Framework Review*. This compared to 76 per cent in 2004-05.

Cost of financial statement audits

Financial statement audits (Output Group 3.1) for the 2006-07 financial year required approximately 196 577 hours and consumed \$38 155 million of resources (198 000 hours and \$39.255 million respectively in 2005-06).

Cost of assurance audit services

Overall, the Assurance Audit Services Group charged 209 357 hours in 2006-07, generating \$29.276 million in notional cost recovery and actual revenue against actual costs of \$28.296 million (222 347 hours in 2005-06 generating \$30.114 million in notional cost recovery and actual revenue against actual costs of \$29.308 million).

²² Due to the timing of the financial statement audits cycle, this data relates to the 2005-06 financial year.

Audit fees

Commonwealth authorities and companies and their subsidiaries that are subject to the *Commonwealth Authorities and Companies Act 1997* are required 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.²³ Audit fees were recovered, either notionally or actually, in 2006–07.

Other assurance reports

We 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, seek 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, including our verification of the triple bottom line report²⁴ for the Department of Families, Community Services and Indigenous Affairs.

Cost

The cost of other assurance reports for 2006–07 was \$1.931 (\$1.681 million in 2005–06).

Contribution to outcome 2—assurance

Through the conduct of financial statement audits and other assurance audits, we contribute 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 operations and its year-end position.

²³ 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.

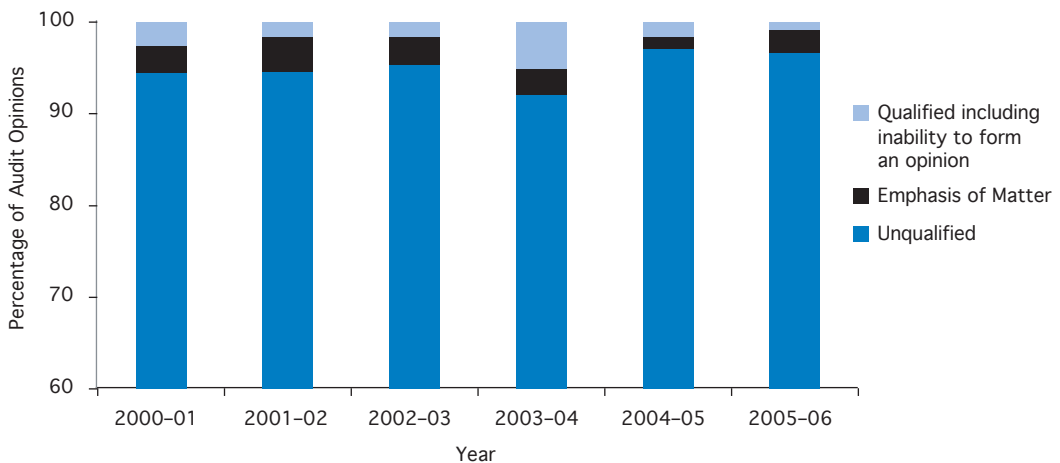
²⁴ Triple Bottom Line (TBL) focuses on reporting and making decisions explicitly taking into consideration information on economic, environmental and social performance. As such TBL can be seen as both an internal management tool as well as an external reporting framework.

Financial statement audit opinions

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

The need to *qualify*²⁵ an audit opinion can arise for a number of reasons. However, we work closely with agency boards and the management of each entity in an endeavour to mitigate factors that may result in a qualified opinion. The percentage of unqualified audit opinions issued in the 2005–06²⁶ audit cycle was 97 per cent.

Figure 7: Comparison of audit opinions²⁷



Parliamentary interest

In addition to reviewing reports from Output Group 1, the Joint Committee of Public Accounts and Audit (JCPAA) is reviewing Audit Report No. 21 of 2005–06, *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.

²⁵ Where an entities financial statements do not fairly represent its financial operations and position, the audit report is qualified.

²⁶ Due to the timing of the financial statement audits cycle, this data relates to the 2005–06 financial year.

²⁷ 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.

Developments in the accounting profession

Significant developments continue to occur in public sector financial reporting in Australia.

In September 2006, the AASB released AASB 1049 *Financial Reporting of General Government Sectors by Governments*, involving harmonisation of accounting standards with the requirements of Government Finance Statistics. The standard is to be applied over the period 2008–09.

The AASB has also identified several projects primarily related to the public sector which will form a large part of its key focus for 2007. These projects include:

- the issue of an exposure draft ED 155 *Financial Reporting for Whole of Governments*, for a consolidated government equivalent to AASB 1049, with the intention to also have the standard in place for 2008–09;
- the release of ED 156 *Proposals Arising from the Short-term Review of the Requirements in AAS 27, AAS 29 and AAS 31*, which generally proposes to re-locate the requirements of these standards in other topic-based standards; and
- the review of public sector not-for-profit entity issues arising from the implementation of *Australian Equivalents to International Financial Reporting Standards* in 2005–06.

In addition, the AASB has released an invitation to comment (ITC 12) on a proposal for a revised differential reporting regime for Australia for small and medium-sized entities, which may lead to a reduced reporting burden for these entities.

The Australian Auditing and Assurance Standards Board (AUASB) is also undertaking work of public sector interest with projects into compliance auditing and into the auditing of financial statements prepared under AASB 1049.

As a result of previous ANAO audits, JCPAA reviews and work by the Department of Finance and Administration, entities are now including an increased consideration of legal and compliance risks as part of their overall risk management frameworks.

To reinforce this commitment to legislative compliance, the Department of Finance and Administration announced in 2005 that it would implement a requirement for the Chief Executives of all FMA agencies to sign an annual *Certificate of Compliance*. For 2006–07 the Certificate requires agencies to focus on their responsibilities under the FMA Act and satisfy themselves and their responsible Minister that these responsibilities have been discharged.

A similar requirement was extended to the directors of Commonwealth authorities and wholly-owned companies in the general government sector, also to commence in respect of the 2006–07 year.

Quality assurance

We continued our program of quality assurance reviews of selected financial statement audits in 2006–07. The objective of our Quality Assurance Review Program is to ensure that we comply with ANAO Auditing Standards in the conduct of our audits. The Program is managed independently by Professional Services Branch. In 2006–07, the quality assurance program for financial statement audits comprised:

- a selection of sixteen 2006–07 audits (both performed in-house and contracted out); and
- a follow-up of results from quality assurance reviews of five 2006–07 audits undertaken while the audits were in progress.

The main areas highlighted by the review that required attention were related to planning and documentation. The results of these reviews are reviewed by the senior executive and action is taken to respond to the results of the review program.

4

MANAGEMENT AND ACCOUNTABILITY

This sub-section presents key elements of our governance arrangements, management of human resources and other management issues associated with the support of the Office.

Corporate governance

We support the delivery of our outputs through a structured corporate governance framework, which ensures the effective management of our business initiatives and other corporate activities. Key elements of our 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 our 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 our strategic directions, overseeing key business opportunities and risks, and our budget.



The Executive Board of Management as at 30 June 2007, back row from left Michael Watson, John Meert, Steve Chapman, middle row from left, Ian McPhee and Warren Cochrane and front row from left, Rachel Harris, Sheila Bird and John Hawley.

The Board meets each month. At 30 June 2007 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 Board established three sub-committees, details of which are set out below.

Audit Committee

Our 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 our 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 five times in 2006–07. At 30 June 2007 its membership comprised:

- Bruce Jones, Chair and external independent member;
- Steve Chapman, Deputy Auditor-General;
- Jocelyn Ashford, 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 (ISC) assists EBOM with strategic advice, policy and business proposals on matters relating to information management and information and communications technology. The Committee met 11 times in 2006–07. At 30 June 2007 the membership of this committee comprised:

- Steve Chapman (Chair), Deputy Auditor-General;
- David Crossley, Executive Director, Performance Audit Services;

- John Hawley, Executive Director, Corporate Management Branch;
- Wayne Jones, Executive Director, Assurance Audit Services; and
- Gary Pettigrove, Chief Information Officer.

The ISC is required to submit an annual report to the Executive Board of Management each year. The 2006–07 ISC Annual Report presented advances in our IT support to clients, staff, systems and operations and also initiatives for 2007–08.

Remuneration Committee

The Remuneration Committee is an advisory body for EBOM for the development and application of our remuneration policy and a decision-making body for determining individual remuneration arrangements. The Committee met four times in 2006–07.

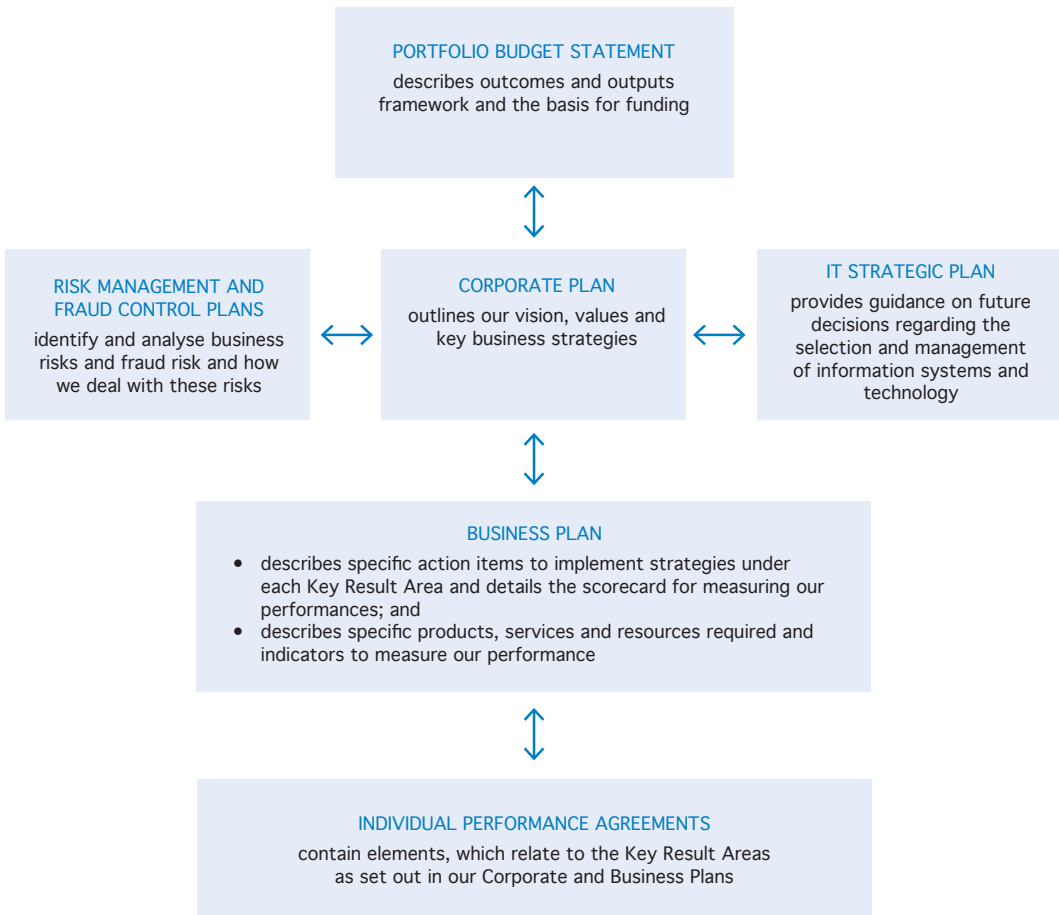
At 30 June 2007, the membership of this committee comprised:

- 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 our strategic planning framework are presented in Figure 8.

Figure 8: Strategic planning framework



Corporate Plan

Our *Corporate Plan* was revised this year and is the defining document for all planning and other strategic and operational activities for the 2007–10 period. The Plan outlines our vision, role and shared values, and sets out our objectives and strategies in 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 our performance against the KRAs can be monitored and measured.



David Sloan, Gena Clarke and Anne-Maree Kape from Corporate Management Branch (CMB).

Risk Management Plan

The Risk Management Plan and individual risk plans for each of the service groups and support areas are updated at least annually. The annual review is designed to take account of any changes in our environment, including revised business requirements and changes in our control environment. The Risk Management Plan underpins our corporate governance framework, with the Audit Committee being responsible for overseeing its implementation.

In essence, our approach to risk management identifies risks associated with our business objectives. These 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 attributes as an Office and all significant business risks identified in our Risk Management Plan are linked in some way to an overarching reputational risk. Any serious business risks are monitored by EBOM each month as a standing agenda item. The 2007–08 Risk Management Plan is compliant with Joint Standard AS/NZS 4360: 2004 and was completed in May 2007.

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 into one consolidated document, all fraud prevention and detection initiatives that have been adopted. 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, there is a mandatory review of the Fraud Risk Assessment and Fraud Control Plan at least every two years. The 2006–08 Fraud Control Plan was completed in June 2006. Any serious fraud risks are 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 Systems 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 2006–08 IT Strategic Plan was approved in June 2006 and reviewed in 2007.

Maintenance of appropriate ethical standards

We have a reputation for high professional and ethical standards and it is essential to the success of our work that we maintain this status. To assist us understand and maintain our professional and ethical standards, we have a Guide to Conduct and supporting *ANAO Values and Behaviours* which are promulgated to all staff and also form part of our induction training.

The *ANAO Guide to Conduct* provides information on the conduct expected of all our 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 called *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 9. The Guide also recognises the importance of auditing and accounting standards developed by Australian auditing and accounting professional bodies.

Figure 9: Values and behaviours



External and internal scrutiny

External audit

Section 41 of the *Auditor-General Act 1997* (the Act) establishes the position and provides for the appointment of an Independent Auditor who undertakes the audit of our financial statements (see Appendix 2) and selected performance audits.

Our Independent Auditor is 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 2007.

Internal audit

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

In 2006–07 the internal audit program continued to have a strong emphasis on compliance and consequently a focus on corporate functions. Internal audits completed in 2006–07 included:

- reviews of the time recording and charging system;
- progress against recommendations in 2005–06 audits of: the payroll process; certificate of compliance; audit methodology system implementation, and human resource management system upgrade post implementation review; and
- rolling compliance reviews on: petty cash/advance accounts; purchasing; accounts receivable; receipts; FBT 2005–06; travel and purchasing cards; business activity statements; payroll process; cheque procedures; Occupational Health and Safety (OH&S); contract management; physical/protective security; and recruitment.

Audits in progress at 30 June 2007 are set out below:

- electronic document and records management systems; and
- finance system upgrade.

The audit committee reported that we have a sound approach to compliance through strong risk management and internal control frameworks. Audits found that the activities subject to audit were operating in a satisfactory manner overall and made a number of recommendations designed to improve performance in the areas reviewed. All recommendations have either been addressed, are in the process of being addressed, or have been modified to the satisfaction of the internal auditor.

Decisions by courts and tribunals

There have been no decisions by courts or tribunals affecting the ANAO during 2006–07.

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

In a very competitive and tight employment market, the ANAO continued to experience difficulties in attracting talented and suitably qualified people. In addition to our ongoing advertising and marketing strategies, a range of key initiatives were implemented or maintained. These include:

- engaging an executive search company to identify suitable candidates;
- strengthening relationships with external recruitment agencies;
- expanding our graduate recruitment intake;
- forming part of the APS wide Recruitment of Accountants initiative;
- maintaining our undergraduate program; and
- expanding our secondment program for AASG and PASG staff.

After consultation with staff, our Remuneration Model and accompanying guidelines were released in November 2006. These guidelines were used to conduct a review of remuneration for all our staff in December 2006.

Staff induction

Our existing approach to staff induction is under review to ensure that all newly recruited staff are provided with an appropriate level of information, support and tools to facilitate their smooth and effective induction into the ANAO.

Mature age workforce

We continue to recognise the value and contribution of mature age workers, and over the past 12 months we have recruited a number of older employees who were returning to the workforce. Our existing mature age strategies paper and information brochure is under review to ensure that the requirements of today's workforce is being adequately assisted by a flexible employment conditions framework.

ANAO Workplace Agreement 2006–09

The three year collective agreement negotiated with staff and effective from 1 June 2006 continues to underpin the employment framework within the ANAO. The development of the ANAO Remuneration Model flowed from the Workplace Agreement. This Model provides the basis for salary advancement for staff who demonstrate the required skills and proficiency at their nominal work classification. The process is administered by the Remuneration Committee with input from Service Groups.

Australian Workplace Agreements (AWA) are also available to all staff. The employment packages for staff on AWAs are tailored to meet individual requirements and typically include increased remuneration or flexible working arrangements, or a combination of both.

Performance and assessment scheme

Our Performance Assessment Scheme provides for three levels of performance pay. In 2005–06 staff rated as ‘fully effective’ during the 12 monthly performance cycle were eligible to receive a one per cent performance bonus, staff rated ‘more than fully effective’ were eligible for a five per cent performance bonus, and those staff rated as ‘outstanding’ were eligible for a 10 per cent performance bonus.

A summary of ratings for the reporting cycle are set out in Table 4. Graduates, non-ongoing staff and those ongoing staff with less than six months employment during the performance cycle are not eligible for a performance bonus.

Table 4: Summary of performance ratings for the period ending 31 October 2006

Rating	Outstanding	More than fully effective	Fully effective	Unsatisfactory	Total
ANAO Bands 3 and 4 (Exec level 1 and 2)	9	54	43	0	106
ANAO Bands 1 and 2 (APS 1–6)	5	58	56	0	119
Total	14 (6%)	112 (50%)	99 (44%)	0	225

Staff survey

The annual staff survey allows us to assess a range of people issues and report on targets and strategies from our Corporate and Business Plans. This year’s survey achieved a 74 per cent response rate (up from 68 per cent in 2006) and indicated a positive outcome across a number of areas of the organisation. In particular, the overall staff satisfaction level was 72 per cent. Also, 80 per cent of staff surveyed considered the ANAO to be a good employer. Other survey results provided valuable information for our workforce planning and people strategies, including learning and development, performance management and the level of support required by staff to assist them to meet our business objectives.

Senior Executive Service (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 first in November 2006 and the second in March 2007.

The November conference focussed on better communication with our clients and our expectations of them in the audit process; the need to invest more in structured training and professional development of our staff; and the need to explore options for developing an improved resourcing arrangement to better assist our business needs. A number of initiatives were identified at this conference and were included as action items in our 2007–08 Business Plan.

The March 2007 conference provided the opportunity to discuss the business challenges we face in the coming years, including revising our objectives and strategies in four key result areas. This conference provided the basis for developing our 2007–10 Corporate Plan, which has been completed and released to all staff.

Executive level staff conference

Recognising the important role undertaken by Executive Level (EL) staff in managing audit teams and key activities, a conference for all EL staff was conducted in June 2007.

The conference centred on eight topics previously agreed by an EL focus group: induction and development needs of new recruits; our external relations including client management; improving internal communication; maintaining and improving performance standards; role clarity of ELs; the EL's role in staff development and retention; professional support; and the development and support needs of the EL group.

A number of strategies and initiatives were identified at this conference. Some have been included in the 2007–08 Business Plan, while others will be considered separately and in the context of other initiatives.

Workplace Consultative Forum

The Workplace Consultative Forum (WCF) continues to play an important role in facilitating consultation on a range of operational and strategic issues affecting staff in the workplace. The WCF comprises six staff elected representatives and three management nominated representatives and met on five occasions during 2006–07. Over the reporting year, development and implementation of our *Remuneration Model* was a central focus of activity for WCF members.

SES remuneration

SES salaries are determined by the Auditor-General and Deputy Auditor-General who are informed by public sector market benchmarks, notably the annual *APS Remuneration Survey*. The nature of the work, specific skills and individual contribution to our business outcomes is also a key factor in setting SES salaries. SES remuneration is set out under Note 11 of our Financial Statements, presented in Appendix 2.

Performance pay

In 2006–07, a total of \$0.775 million in performance bonuses was paid to eligible ANAO staff (\$0.656 million in 2005–06). Aggregated information on performance pay is set out in Appendix 1, Table A1–8.

Learning and professional development

We conducted a major review of our learning and development program over the reporting period. The project was established to review our approach to learning and development and to make recommendations about how to improve the coordination, effectiveness and strategic focus of training activities currently delivered by each of our functional areas. It is planned to implement the new arrangements in the coming year.

Personal Development Scheme

The *Personal Development Scheme* is an element of our 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. 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

Staff are encouraged and supported to take responsibility for their own professional development through opportunities that are tailored to meet their specific training needs.

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 for sustained high performance and forms part of our retention strategy.

Placement in APS agencies

A total of eleven staff members were seconded to the agencies, on a cost-recovery basis, over the reporting year. Seven staff members from Assurance Audit Services gained experience in finance areas and four performance audit services staff applied their skills in non audit areas of selected agencies. Table 5 lists those involved in this initiative.

Placement in parliamentary committees/departments

A short term placement was arranged with the Joint Committee of Public Accounts and Audit (JCPAA) to improve a staff members understanding of the Parliamentary process and foster stronger relationships between the ANAO and the JCPAA.

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 mainly assurance audit staff members working overseas for a four to eight week period, with reciprocal arrangements as set out in Table 5. These placements provide participants with a range of valuable work experiences and are viewed as an important development opportunity. In addition, we have benefited from some placements which have enabled us to reduce the use of contractors at peak periods. One performance audit staff member was placed with the Office of the Auditor-General in Canada from August to November 2006.

Table 5: Summary of staff secondments and exchanges during 2006–07

Secondments/Exchanges to the ANAO	From
Mark Bradley	Office of the Comptroller and Auditor-General of Ireland
Annie Branchaud	Office of the Auditor-General of Canada
Kristine Coombes	Office of the Auditor-General of Canada
John McCullough	Office of the Auditor-General of Canada (four year secondment)
John Riordan	Office of the Comptroller and Auditor-General of Ireland
Secondments/Exchanges from the ANAO	To
Deborah Jackson	AusAID
Kraig Lowes	Department of Agriculture Fisheries and Forestry
Summer McPhee	Office of the Comptroller and Auditor-General of Ireland
Sarah Pfeiffer	Office of the Auditor-General of Canada
Kristy Robb	Office of the Comptroller and Auditor-General of Ireland
David Ryan	Joint Committee of Public Accounts and Audit
Andrew Sibraa	Department of the Treasury
Mark Simpson	Department of Employment and Workplace Relations
Ben Sladic	Office of the Auditor-General of Canada
Amelia Stevens	Australian Taxation Office
Michelle Tagaza	Medicare Australia
Christiana Thio	Australian Customs Service
Mirjana Tomic	Attorney-General's Department
Ann Towers	Office of the Gene Technology Regulator
Rita Vigh	Department of Agriculture, Fisheries and Forestry
Betty Waites	Department of Health and Ageing

Undergraduate program

In 2006–07 we continued to build on the undergraduate program with the University of Canberra and the Australian National University (ANU), and with the Institute of Chartered Accountants of Australia (ICAA) through its *High Achievers Program*.

A total of seven accounting students were engaged to undertake vacation employment with Assurance Audit Services Group. A further two accounting students were engaged by Assurance Audit Services Group under the *ANU's Industry Based Learning Program*. The longer-term objective of the undergraduate program is to have high performing undergraduates apply for positions in our annual graduate intake.

Professional qualifications and representation studies assistance

Studies assistance

During 2006–07, 73 staff members were supported with their study programs. Of these, 50 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. Table 6 lists those who we assisted to complete their CPA and ICAA programs and other tertiary studies during the year.

Table 6: Summary of studies completed by staff members

Staff Member	Studies Completed
Kris Arnold	CPA
Grant Caine	MBA
Jennifer Carter	CA
Christine Clarke	CPA
Michelle Crampton	CPA
Daniel Flood	Bachelor of Business (Accounting)
Cha Jordanoski	CPA
Summer McPhee	CPA
William Na	CISA
Anora Phengsiaroun	CPA
Vanadana Singh	CISA
David Stewart	CA
Charles Strickland	CA
Christiana Thio	CPA
Neil Young	CPA

Representation

A number of members of ANAO staff have roles outside the organisation that contribute to the auditing and accounting profession in general.

- 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).
- The Deputy Auditor-General, Steve Chapman, is the immediate past president and current member of the ACT CPA Australia Divisional Council.
- Michael Watson is the vice chairman of the ACT Regional Council of the Institute of Chartered Accountants Australia.
- Brian Boyd is a member of the INTOSAI Working Group on Privatisation.
- Maryanne Falk is a member of the CPA Public Sector Accountants Committee and 2007 CPA Congress Planning Committee.

- 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).
- Summer McPhee, Ann Towers, Cha Jordanoski and Erica Huang are members of the ACT CPA Young Professional Network Committee.
- Peter McVay is a member of the INTOSAI Working Group on Environmental Auditing.
- Paul Nicoll represents ASOSAI on the INTOSAI Professional Standards Sub-Committee on Performance Audit.

A list of papers and presentations by the Auditor-General and other senior staff members is set out in Appendix 5.

Graduates

Nineteen graduates commenced employment with the ANAO on 29 January 2007. After completing a one-week induction program, graduates were placed into work areas in the assurance audit services group and the performance audit services group. During their first 12 months, all graduates participate in an intensive development program including technical training, people management, and a range of general training and skill development.



The 2007 Graduates with Ian McPhee. Seated from left to right, Lian Kwa, Emilia Schiavo, Andrew Hapiak, Kerrin Rattray and Glynn Greenaway. Standing from left to right, Dominika Wolska, Hannah Walsh, Racheal Kris, Moira Mills, Kellie Plummer, Ian McPhee, Joel Godwin, Joseph Ronald, Brendan Mason, Lucy Horan, Irene Brown and Kara McIlwraith.

Awards and recognition

The ANAO supports an awards system that recognises and rewards individual staff and teams who make a significant contribution to achieving our 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 Medallions*; and the *Auditor-General's Certificates of Appreciation*.

The Auditor-General's Annual Awards for Outstanding Achievement.



Outstanding Achievement Award winners. Front row, left to right, Alison Chinn, Deborah Ross and Simone Hopper. Back row, left to right, Ian McPhee (Auditor-General), Tim O'Brien, Amy Fox and Russell Laphorne.

The Auditor-General's Annual Outstanding Achievement Awards for 2007, were awarded to the following members of staff:

Alison Chinn — for consistently demonstrating an exceptional commitment to ANAO learning and development and also her role in mentoring staff new to auditing. Alison was also prominent in her efforts to improve the delivery and presentation of planning and reporting information to audit clients.

Amy Fox — for displaying exceptional management skills in the delivery of quality service to both internal and external clients often under difficult circumstances. Amy has also demonstrated outstanding qualities as a representative of the ANAO in the wider IT and Accounting communities.

Simone Hopper — for her role as project manager in the successful implementation of Audit Central. Simone is also recognised for her contribution to the upgrade of the ANAO web page and providing a high level of general IT support to ANAO staff.

Russell Laphorne — for his dedication to performance auditing since joining the ANAO on 8 January 1979. Russell is also recognised for his outstanding contribution to the management of the Australian Agency for International Development (AusAID) project between the ANAO and Audit Board of the Republic of Indonesia.

Tim O'Brien — for his outstanding achievement in the consistent delivery of high quality audit reports, in particular his work on the RAMSI project which received praise from the Director-General of Aus-Aid. Tim has also excelled as a mentor in developing the skills of junior staff.

Deborah Ross — for her dedication and commitment to her work and as a representative of the ANAO. Deborah has been able to consistently establish very sound professional working relationships with her clients, often under difficult circumstances. Her interpersonal skills and commitment to ongoing improvement in her audit work and as a mentor, have made her a highly valued member of AAS.

National Australia Day Council Medallions



National Australia Day Council Medallists. From left to right, David Cunneen, Judi Robinson and Puspa Dash.

The Auditor-General presented the 2007 *National Australia Day Council Medallions* to the following members of staff:

- David Cunneen — *for his long serving and excellent contribution to the ANAO's Personnel Section, in particular, as the ANAO's recruitment officer.*
- Puspa Dash — *for her valuable contribution as financial statement audit manager of the Australian Taxation Office, and her leadership and mentoring skills.*
- Judi Robinson — *for her valuable contribution to performance auditing, and her leadership and management skills.*

Workplace giving

In June 2007, we launched a staff initiated program to support and encourage employees who want to give back to the community in the form of contributing to worthy charities. Three charities were selected by the staff namely: *Snowy Hydro Southcare*; *RSPCA ACT*; and the *Guide Dogs NSW/ACT*. It is pleasing to note that there is significant support for this initiative.

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.

Our *Workplace Diversity Program* sets out policies, priorities, responsibilities and performance information for all staff. We also have a network of trained Harassment Contact Officers to provide support and advice to staff as required. Table A1-4 outlines specified diversity categories within salary levels at the ANAO.

Occupational health and safety (OH&S)

We continue to maintain a commitment to the health, safety and welfare of our staff and others who work at the ANAO. The OH&S Committee is responsible for advising the ANAO in respect of health and welfare awareness and convened on four occasions in 2006–07. 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 currently 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 accredited²⁸ training. OH&S training is also an integral part of the induction process for new employees.

²⁸ Accredited by the Safety Rehabilitation and Compensation Commission.

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.

Incidents during 2006–07

Five incidents were reported in 2006–07 under the *Occupational Health & Safety (CE) Act 1991*. These incidents were potentially hazardous situations, two of which occurred in an office environment, two were motor vehicle accidents, and one occurred while a staff member was travelling overseas on official business. There were no serious injuries. There were three minor compensation claims as a result of one motor vehicle accident and two injuries sustained at work.

There were no tests, directions or notices given under sections 30, 45, 46 or 47 of the Occupational Health and Safety Act (CE) Act.

Employee Assistance Program

The *Employee Assistance Program* provides access to confidential professional counselling services for staff and their families to assist with any personal, or work related problems. This service was utilised in 2006–07 by members of staff and their families for both work-related and personal circumstances.

Commonwealth Disability Strategy

The 2005–07 ANAO *Workplace Diversity Program*, together with our OH&S policies, broadly address 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 *2005–07 Diversity Program* and OH&S policies. Under the Workplace Diversity Program, all supervisors and managers are required to support staff who require reasonable adjustment. Selection panel staff are also sensitive to disability issues.

- *Training and development programs consider the needs of staff with disabilities.* When registering for any training or development program, all staff members are asked if they have any special requirements to enable them to fully participate in the program.
- *Training and development programs include information on disability issues as they relate to the content of the program.* Training on disability issues is provided on a needs basis. Graduates and other new employees are made aware of disability and diversity issues during their induction processes.
- *Complaints and grievance mechanism, including access to external mechanisms, in place to address issues and concerns raised by staff.* We have 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 and we ensure that the necessary measures are in place to enable them to carry out their duties with reasonable ease and comfort.

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 2006–07 42 new consultancy contracts were entered into amounting to total expenditure of \$0.956 million. In addition, 15 ongoing consultancy contracts were active during 2006–07, involving total expenditure of \$0.350 million. Further details of these consultancies are provided at Table A6–1 in Appendix 6.

Information on expenditure on contracts and consultancies is also available on the AusTender website <www.tenders.gov.au>.

Major competitive tendering and contracting activities

Our major competitive tendering and contracting out of services is described below. This section includes the major contracts let in 2006–07. 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 achieve value-for-money for the Australian Government.

IT services

An open tender for an electronic document and records management solution was conducted during the second half of 2006. The contract was awarded to *Interwoven Inc* in March 2007.

The IT gateway services tender, which was an open tender, was undertaken during the first half of 2006 with the contract being awarded to *Cybertrust (Australia) Pty Ltd* in September 2006.

Legal services

We have an agreement with a panel of four legal firms to provide us with legal advice across a wide spectrum of issues until April 2009. The panel comprises the *Australian Government Solicitor, Mallesons Stephen Jacques, Minter Ellison and Phillips Fox*.

Publishing services

Our contract for publishing services ended in December 2006. We conducted an open tender for these services in the latter part of 2006 resulting in a contract being awarded to *Canprint Communications Pty Ltd* until December 2009 with an option for a further two years.

Contracting out major financial statement audits

During the 2006–07 financial year we contracted out a number of financial statement audits. The major audits put out to tender in this period were: the *Australian Office of Financial Management* which was awarded to *KPMG; ASC Pty Ltd* (formerly *Australian Submarines Pty Ltd*) and *Air Services Australia*, both of which were awarded to *PricewaterhouseCoopers*.

PAS consultants' panel

We use a panel of 31 consultants to assist with the conduct of performance audits. Following an invitation to the market, the panel was refreshed in August 2006.

Lease of office accommodation

Following a competitive tender process we signed an Agreement for Lease with *Cromwell Property Securities Limited* for the lease of 19 National Circuit, Barton for 10 years commencing 23 September 2008.

Recruitment advertising

During 2006–07, we spent \$0.088 million on recruitment advertising as set out in Table 7.

Table 7: Details of advertising expenditure

Firm	Purpose	\$ million
Graduate Careers Australia Ltd	recruitment	0.012
Hays Accounting Personnel	recruitment	0.001
HMA Blaze Pty Ltd	recruitment	0.072
TMP Worldwide Pty Ltd	recruitment	0.003
Total		0.088

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 and better practice guides (BPGs) are available to the public on our website, or in hard copy while stocks last.

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. Our activities have an influence on environmental matters in two ways: first, through audits of agencies with environmental responsibilities; and second, through our administrative operations. Relevant audits are discussed below under the heading 'Contribution to ecologically sustainable development'.

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, air conditioning, electrical and essential services for our office building. The contract stipulates that the service contractor must achieve specified annual savings in energy costs and consumption.

We continue to implement a comprehensive recycling program which includes organic waste, paper waste and all fluorescent globes and toner cartridges. Our recycling regime was recognised in the 2006 Australian Capital Territory Government's "No Waste" awards.

In addition to the initiatives already in place, our new lease includes arrangements to significantly improve the environmental performance of our office building including achieving an *Australian Greenhouse Building Rating* of at least four.

Contribution to ecologically sustainable development

The EPBC Act requires agencies to report on how their activities and their administration of legislation accord with the principles of ESD. We do not administer any programs or legislation that explicitly mention ESD. However, our audit activities do allow us to report on those agencies with a more direct influence on the environment. In 2006–07 we conducted two performance audits that were directly relevant to ESD:

- Audit Report No.14 2006–07, *Regulation of Pesticides and Veterinary Medicines*; and
- Audit Report No.31 2006–07, *The Conservation and Protection of National Threatened Species and Ecological Communities*.

Under the EPBC Act, we are required to report on how our outcomes specified in the Appropriations Act contribute to ESD. Our 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 of Australian Government activity. A number of recommendations were made in each report which were aimed at improving the administration of the areas under review.

Service charter

We do not have a service charter as we do not provide a direct service to members of the public. However, in a broad sense, we provide a service to the community through our public audit reports and other products, such as BPGs.

Discretionary grants

We do not administer any grant programs and therefore have no grant recipients.

Assessment of effectiveness of asset management

We have 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 the useful life of the asset. Our asset management practices are designed to protect the interests of the Australian Government.

Assessment of purchasing against core policies and procedures

As for asset management, we have comprehensive procurement guidelines set out in our *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. Our procurement practices are designed to protect the interests of the Australian Government.

Emergency and Business Continuity Plans

We have a comprehensive *Business Continuity Plan* (BCP) which is supported by an *Emergency Evacuation Plan*. The BCP was extensively revised over the reporting period and the evacuation plan was tested successfully in the past year. The new BCP is scheduled for testing in 2007–08.



5

APPENDICES



Appendix 1

Staffing overview

Table A1–1: Staffing profile as at 30 June 2007

Classification	ACT	NSW	Total	
			2006–07	2005–06
SES Band 3	1		1	1
SES Band 2	5		5	5
SES Band 1	16		16	20
Exec 2	80	3	83	84
Exec 1	49		49	34
APS 6	44	5	49	60
APS 5	48		48	37
APS 4	34	1	36	41
APS 3	16		15	15
APS 2	3		3	2
APS 1	1		1	1
Graduate	18		18	13
Undergraduate	6		6	3
Total	321	9	330	316

Note: All staff employed by ANAO, including operative and inoperative staff. Inoperative staff are defined as staff who are absent from work for more than 13 weeks.

Table A1–2: Paid operative staff (employed under the *Public Service Act 1999*) as at 30 June 2007

Location	June 2006		June 2007	
	Audit	Mgt	Audit	Mgt
ACT	239	50	247	52
NSW	9	1	9	1
Sub-total	248	51	256	53
TOTAL	299		309	

Note: Excludes 21 inoperative staff.

Table A1–3: Paid full-time, part-time and non ongoing staff as at 30 June 2007

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					3	1
SES Band 1	11	5					11	5
Exec 2	39	27	5	8	2		46	35
Exec 1	20	23		1	2		22	24
APS 6	18	22	1	2	1	1	20	25
APS 5	19	26		1		1	19	28
APS 4	12	17	1	1	1		14	18
APS 3	2	11				3	2	14
APS 2	1	1				1	1	2
APS 1					1		1	
Graduate	6	12					6	12
Undergraduate					4	2	4	2
Sub-total	132	145	7	13	11	8	150	166
Total	277		20		19		316	

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

Table A1–4: Analysis of Workplace Diversity Groups within salary levels 2006–07

Salary Range	Women	NESB1	NESB2	ATSI	PWD
Below \$40 129 (includes APS 1 and Undergraduates)	2	-	-	-	-
\$40 129 to \$52 117 (includes APS 2-3 and Graduates)	23	-	1	-	-
\$52 118 to \$65 229 (includes APS 4-5)	48	13	4	1	1
\$65 230 to \$89 251 (includes APS 6-Exec 1)	53	10	3	-	1
\$89 252 and above	49	6	4	-	1
Total Staff: 330	175 (53%)	29 (9%)	12 (4%)	1 (<1%)	3 (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 – ongoing staff

Location	Movements to other Departments	Resignations	Medical Retirements	Voluntary Retirements	Other	Total Losses	Gains
ACT	22	39	-	-	-	61	73
NSW	-	3	-	-	-	3	2
TOTAL	22	42	-	-	-	64	75

Table A1–6: Expenditure on staff training

Description	2006–07	2005–06	2004–05	2003–04	2002–03	2001–02
Net eligible training expenditure (excluding salaries)	1 161 057	993 236	847 755	608 791	622 967	808 418
Total number of person-days spent by staff on eligible training programs	2 176	2 044	1 898	1 763	1 591	1 566
Total number of staff participating in eligible training programs	321	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	-	22
Non SES Staff	242	66
Sub-total	242	88
TOTAL	330	

Table A1–8: Performance payments

Classification	Number	Total for classification \$	Average Payment \$	Minimum payment \$	Maximum payment \$
SES	22	174 200	7 918	1 600	12 100
EXEC 2	69	272 427	3 948	477	10 956
EXEC 1	34	87 978	2 588	575	9 360
APS 6	51	117 194	2 298	359	8 051
APS 5	26	41 996	1 615	197	3 323
APS 4	35	68 504	1 957	129	5 212
APS 1-3	10	12 911	1 291	479	2 631
TOTAL	247	775 210			



Appendix 2

2006–07 Financial results commentary and financial statements

2006–07 Financial results commentary

- Introduction
- Overview of financial performance
- Detailed analysis

2006–07 Financial Statements

- Independent Auditor’s Report
- Statement by Auditor-General
- Income Statement
- Balance Sheet
- Statement of Cash Flows
- Schedule of Commitments
- Schedule of Administered Items
- Notes to and forming part of the Financial Statements

2006–07 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*, we charge 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 performance

Our financial position strengthened during 2006–07 and we continue to have sufficient cash reserves to meet our ongoing commitments.

The following table provides a summary of our financial position.

Table A2–1: Summary of financial performance

Operating statement	2006–07 \$000	2005–06 \$000	Variance \$000	Variance %
Total operating revenues	65 840	65 316	524	0.8
Total operating expenses	63 582	64 133	(551)	(0.9)
Net Surplus	2 258	1 183	1 075	90.9
Balance Sheet				
Total assets	24 193	24 463	(270)	(1.1)
Total liabilities	18 177	20 859	(2 682)	(12.9)
Net assets	6 016	3 604	2 412	66.9
Equity	6 016	3 604	2 412	66.9

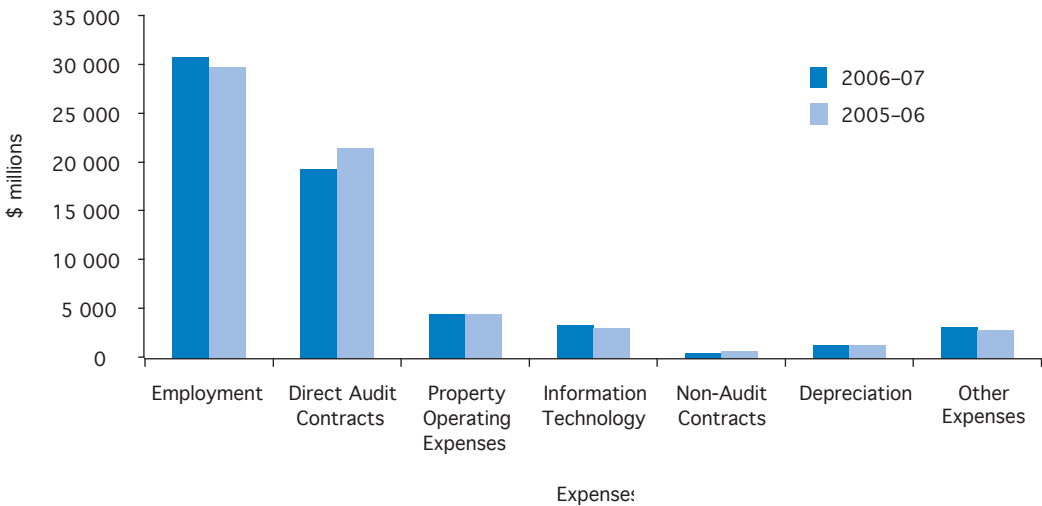
Detailed analysis

A detailed analysis of our financial performance is set out below.

Operating expenses

Total operating expenses for the year ended 30 June 2007 were \$63.582 million (0.9 per cent) less than for 2005–06. This decrease in costs is due mainly to audit related costs, which decreased by 10 per cent. The main reason for the decrease is due to the resignation of the Auditor-General as the auditor of Telstra Group during the year. Costs incurred until the resignation reduced the overall saving. A breakdown of total operating expenses into major expense categories is shown in Figure A2–1.

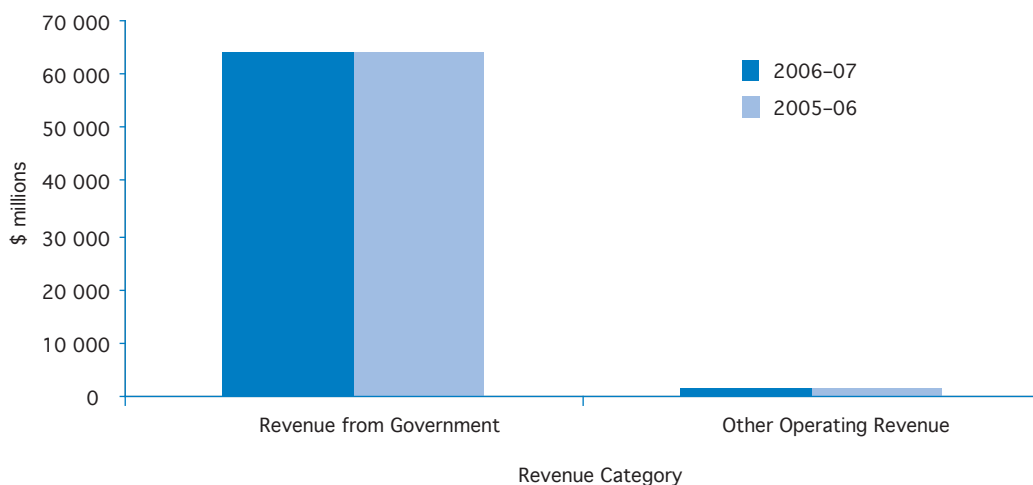
Figure A2–1: Operating expenses



Operating revenue

The increase in total operating revenues is due to the increase in independent revenues. Independent revenues increased by funds provided by the Australian Agency for International Development (AusAID) to assist with a project to develop the Indonesian Board of Audit's performance and financial audit capacity. A breakdown of operating revenue is provided in Figure A2-2.

Figure A2-2: Operating revenue



Balance sheet summary

Our balance sheet position remains sound. The operating surplus of \$2.258 million, as well as continued tight management of balance sheet items, has resulted in an improvement in the accumulated deficit and equity position, which stands at \$6.016 million (2005-06: \$3.604 million).

Total assets decreased due to a decreased level in infrastructure, plant and equipment. This decrease is due to continued depreciation of these assets in line with the estimated useful lives.

The decrease in liabilities was predominantly due to the continued write-off of the lease liability that was recorded to account for operating lease expenditure on a straight-line basis on the adoption of Australian Equivalents to International Financial Reporting Standards. There was a minor increase in employee entitlements in line with increases in pay rates from our Workplace Agreement.

Administered funds financial summary

Audit fees billed to Commonwealth authorities and companies for non-discretionary audit work have decreased from 2005–06. The decrease is explained by the resignation of the Auditor-General as the auditor of Telstra Group. Table A2–2 details the administered financial results.

Table A2-2: Administered funds

Administered Revenue and Expenses	2006–07 \$000	2005–06 \$000
Sale of goods and services	10 217	13 153
Cash transferred to the Official Public Account	11 452	11 762
Administered Assets and Liabilities		
Financial Assets	3 303	4 570
Equity and liabilities	3 303	4 570

Net outlays to Government

We received appropriations totalling \$64.002 million (2005–06: \$63.866 million) and generated \$10.217 million in the sale of goods and services, the net outlay by Government was \$53.785 million (2005–06: \$50.713 million).



2006–07 Financial statements



INDEPENDENT AUDIT REPORT

For the Australian National Audit Office

Mr President

Mr Speaker

Scope

I have audited the accompanying financial statements of the Australian National Audit Office, which comprise the balance sheet as at 30 June 2007, the income statement, statement of changes in equity, cash flow statement, schedules of commitments, contingencies and administered items and the statement by the Auditor-General and Chief Finance Officer for the year then ended, and a summary of significant accounting policies and other explanatory notes to the financial statements.

The Responsibility of the Auditor-General for the Financial Statements

The Auditor-General is responsible for the preparation and true and fair presentation of the financial statements in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997* and the Australian Accounting Standards, including the Australian Accounting Interpretations. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and true and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Audit approach

My responsibility is to express an opinion on the financial statements based on my audit. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial statements are free of material misstatement. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Australian National Audit Office's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Australian National Audit Office's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Auditor-General, as well as evaluating the overall presentation of the financial statements.



I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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:
 - (i) the matters required by the Finance Minister's Orders; and
 - (ii) the Australian National Audit Office's financial position as at 30 June 2007, and of its financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards, including Australian Accounting Interpretations.

A handwritten signature in black ink, which appears to read 'Geoff Wilson', is positioned above the printed name.

Geoff Wilson
Independent Auditor

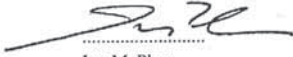
Appointed under clause 1 of Schedule 2 of the *Auditor-General Act 1997*

Canberra,
26 July 2007

Australian National Audit Office

STATEMENT BY THE AUDITOR-GENERAL AND CHIEF FINANCE OFFICER

In our opinion, the attached financial statements for the year ended 30 June 2007 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, as amended.



Ian McPhee
Auditor-General

26 July 2007



Rachel Harris
Chief Finance Officer

26 July 2007

Australian National Audit Office
INCOME STATEMENT
 for the year ended 30 June 2007

	Notes	2007 \$'000	2006 \$'000
INCOME			
Revenue from Government	3A	64,046	63,866
Rendering of services	3B	1,794	1,450
TOTAL INCOME		65,840	65,316
EXPENSES			
Employee benefits	4A	30,935	29,781
Suppliers	4B	30,660	32,306
Depreciation and amortisation	4C	1,172	1,203
Net loss from sale of assets	4D	3	58
Write-down and impairment of assets	4E	136	161
Finance costs	4F	676	624
TOTAL EXPENSES		63,582	64,133
OPERATING SURPLUS		2,258	1,183

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

Australian National Audit Office
BALANCE SHEET
as at 30 June 2007

	Notes	2007 \$'000	2006 \$'000
ASSETS			
Financial Assets			
Cash and cash equivalents	5A	980	981
Trade and other receivables	5B	19,723	19,693
Other financial assets	5C	69	40
Total Financial Assets		20,772	20,714
Non-Financial Assets			
Infrastructure, plant and equipment	6A/B	1,351	1,921
Intangibles	6C	1,118	1,010
Other non-financial assets	6D	952	965
Total Non-Financial Assets		3,421	3,896
TOTAL ASSETS		24,193	24,610
LIABILITIES			
Payables			
Suppliers	7A	6,726	9,609
Other payables	7B	1,167	190
Total Payables		7,893	9,799
Interest Bearing Liabilities			
Other interest bearing liabilities	8	803	1,360
Total interest bearing liabilities		803	1,360
Provisions			
Employee provisions	9A	9,441	8,889
Other provisions	9B	40	958
Total Provisions		9,481	9,847
TOTAL LIABILITIES		18,177	21,006
NET ASSETS		6,016	3,604
EQUITY			
Contributed equity		4,929	4,929
Reserves		577	423
Retained surpluses/(accumulated deficit)		510	(1,748)
TOTAL EQUITY		6,016	3,604
Current assets		21,687	21,488
Non-current assets		2,506	3,122
Current liabilities		15,211	14,731
Non-current liabilities		2,966	6,275

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

Australian National Audit Office
STATEMENT OF CHANGES IN EQUITY
 as at 30 June 2007

	Retained Surpluses / (Accumulated Deficits)		Asset Revaluation Reserve		Contributed Equity/Capital		Total Equity	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Opening balance	(1,748)	(2,931)	423	717	4,929	4,929	3,604	2,715
Income and expense								
Revaluation adjustment	-	-	154	(294)	-	-	154	(294)
<i>Sub-total income and expenses recognised directly in equity</i>	-	-	154	(294)	-	-	154	(294)
Operating surplus for the period	2,258	1,183	-	-	-	-	2,258	1,183
Total income and expenses recognised directly in equity	2,258	1,183	-	-	-	-	2,258	1,183
Closing balance at 30 June	510	(1,748)	577	423	4,929	4,929	6,016	3,604

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 2007

OPERATING ACTIVITIES	Notes	2007 \$'000	2006 \$'000
Cash received			
Goods and services		1,837	1,457
Appropriations		63,812	63,255
Net GST received from ATO		75	-
Total cash received		<u>65,724</u>	<u>64,712</u>
Cash used			
Employees		30,392	29,641
Suppliers		34,677	33,996
Net GST paid to ATO		-	49
Total cash used		<u>65,069</u>	<u>63,686</u>
Net cash from operating activities	10	<u>655</u>	<u>1,026</u>
INVESTING ACTIVITIES			
Cash received			
Proceeds from sale of infrastructure, plant and equipment		21	110
Total cash received		<u>21</u>	<u>110</u>
Cash used			
Purchase of infrastructure, plant and equipment		137	200
Purchase of intangibles		540	975
Total cash used		<u>677</u>	<u>1,175</u>
Net cash used by investing activities		<u>(656)</u>	<u>(1,065)</u>
FINANCING ACTIVITIES			
Cash received			
		-	-
Cash used			
		-	-
Net cash from or (used by) financing activities		<u>-</u>	<u>-</u>
Net decrease in cash held		(1)	(39)
Cash at the beginning of the year		981	1,020
Cash at the end of the year		<u>980</u>	<u>981</u>

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 2007

	2007 \$'000	2006 \$'000
BY TYPE		
Commitments receivable		
Sublease rental income	802	1,626
GST recoverable on commitments	6,587	3,773
Total Commitments receivable	<u>7,389</u>	<u>5,399</u>
Capital commitments		
Infrastructure, plant and equipment	597	158
Intangibles	147	-
Total capital commitments	<u>744</u>	<u>158</u>
Other commitments		
Operating leases	49,072	17,539
Other commitments	21,765	25,192
Total other commitments	<u>70,837</u>	<u>42,731</u>
Total Commitments payable	<u>71,581</u>	<u>42,889</u>
Net commitments by type	<u>64,192</u>	<u>37,490</u>
BY MATURITY		
Commitments receivable		
Operating lease income		
One year or less	702	743
From one to five years	100	883
Over five years	-	-
Total operating lease income	<u>802</u>	<u>1,626</u>
Other commitments receivable		
One year or less	2,316	2,337
From one to five years	1,994	1,436
Over five years	2,277	-
Total other commitments receivable	<u>6,587</u>	<u>3,773</u>
Total Commitments receivable	<u>7,389</u>	<u>5,399</u>
Commitments payable		
Capital commitments		
One year or less	693	158
From one to five years	51	-
Over five years	-	-
Total capital commitments	<u>744</u>	<u>158</u>
Operating lease commitments		
One year or less	8,888	7,811
From one to five years	15,131	9,728
Over five years	25,053	-
Total operating lease commitments	<u>49,072</u>	<u>17,539</u>
Other commitments		
One year or less	15,124	18,352
From one to five years	6,641	6,840
Over five years	-	-
Total other commitments	<u>21,765</u>	<u>25,192</u>
Total Commitments payable	<u>71,581</u>	<u>42,889</u>
Net commitments by maturity	<u>64,192</u>	<u>37,490</u>

NB: Commitments are GST inclusive where relevant

Australian National Audit Office
SCHEDULE OF COMMITMENTS
for the year ended 30 June 2007

1. Operating leases included for 2006-07 are effectively non-cancellable and comprise:

Nature of lease	General description of leasing arrangements
Leases for office accommodation	<p>The ANAO has two current 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.</p> <p>The ANAO signed a 'Deed of agreement for Lease' on 22 November 2006. This lease will commence on 23 September 2008 for a period of 10 years and is for the ANAO's present accommodation in the ACT. There is an option to extend and any increases in rent will be at a rate commensurate with the CPI.</p> <p>The 'Deed of agreement for Lease' contains an option to lease a part of the building currently not leased by the ANAO. This was exercised on 14 July when the current tenant vacated the property. The rent for this portion of the building will be calculated in accordance with the Deed.</p> <p>As part of the 'Deed of agreement for Lease' the ANAO is entitled to an incentive payment of \$1 million. The ANAO is not entitled to the payment as at 30 June 2007 and therefore has not accounted for this in the 2006-07 financial statements.</p> <p>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 \$0.802 million (2005-06: \$1.626 million).</p> <p>In NSW, the terms of the lease expired on 30 June 2007 but has been extended for a further three years. The rate of increase is a fixed 4.5% per annum.</p>
Leases of computer equipment	<p>The ANAO has a current lease for general computer equipment. 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 paid are adjusted monthly and lease fees are locked in at the time of ordering. There are no other restrictions imposed by the lease arrangement.</p>

2. Other commitments comprise: contract audit services \$9.326 million (2005-06: \$15.936 million) and other corporate contracts totalling \$12.439 million (2005-06: \$9.255 million).

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

Australian National Audit Office
SCHEDULE OF ADMINISTERED ITEMS

	Notes	2007 \$'000	2006 \$'000
Income administered on behalf of Government <i>for the year ended 30 June 2007</i>			
Revenue			
Non-taxation Revenue			
Rendering of services (audit fees)	15	10,217	13,153
Total Revenue Administered on Behalf of Government		<u>10,217</u>	<u>13,153</u>
Assets administered on behalf of Government <i>as at 30 June 2007</i>			
Financial Assets			
Cash and cash equivalents	16	-	-
Receivables (audit fees)	16	2,059	3,167
Work in progress	16	1,244	1,403
Total assets administered on behalf of Government		<u>3,303</u>	<u>4,570</u>
Liabilities administered on behalf of Government <i>as at 30 June 2007</i>			
Payables			
GST payable	17	197	229
Total liabilities administered on behalf of Government		<u>197</u>	<u>229</u>
Current assets		3,303	4,570
Non-current assets		-	-
Current liabilities		197	229
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	2007 \$'000	2006 \$'000
Administered Cash Flows <i>for the year ended 30 June 2007</i>			
Operating Activities			
Cash received			
Rendering of services (audit fees)		11,452	11,762
Total cash received		<u>11,452</u>	<u>11,762</u>
Cash used			
GST paid to the Australian Taxation Office		1,145	1,069
Cash to the Official Public Account		10,307	10,693
Total cash used	18	<u>11,452</u>	<u>11,762</u>
Net Cash from or (used by) Operating Activities		<u>-</u>	<u>-</u>
Administered Commitments as at 30 June 2007			
Net Administered Commitments		<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. The Australian National Audit Office's 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 2006-07, 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 2007

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

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 standards, the ANAO makes a contribution to improving the efficiency and administrative effectiveness of the Commonwealth public sector.

Through the conduct of financial statement 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 the continuing of appropriations by Parliament for the ANAO's administration and programs.

1.2 Basis of Preparation of the Financial Report

The financial statements and notes are required by section 49 of Schedule 1 of the *Financial Management and Accountability Act 1997* and are a General Purpose Financial Report.

The financial statements and notes 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 2006)*); and
- b. Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial report has been prepared on an accrual basis and is 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.

The financial report is presented in Australian dollars and values are rounded to the nearest thousand dollars unless disclosure of the full amount is specifically required.

Unless an alternative treatment is specifically required by an Accounting Standard or the FMOs, assets and liabilities are recognised in the Balance Sheet when and only when it is probable that future economic benefits will flow to the ANAO 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 unrealised are reported in the Schedule of Commitments.

Unless alternative treatment is specifically required by an accounting standard, revenues and expenses are recognised in the Income Statement when and only when the flow, 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 departmental items, except where otherwise stated at Note 1.23.

1.3 Significant Accounting Judgements and Estimates

No accounting assumptions or estimates have been identified that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next accounting period.

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2007

1.4 Statement of Compliance

Australian Accounting Standards require a statement of compliance with International Financial Reporting Standards (IFRSs) to be made where the financial report complies with these standards. Some Australian equivalents to IFRSs and other Australian Accounting Standards contain requirements specific to not-for-profit entities that are inconsistent with IFRS requirements. The ANAO is a not-for-profit entity and has applied these requirements, so while this financial report complies with Australian Accounting Standards including Australian Equivalents to International Financial Reporting Standards (AEIFRSs) it cannot make this statement.

Adoption of new Australian Accounting Standard requirements

No accounting standard has been adopted earlier than the effective date in the current period.

The following amendments, revised standards or interpretations have become effective but have no financial impact or do not apply to the operations of the ANAO.

Amendments:

- a. 2005-1 Amendments to Australian Accounting Standards [AASBs 1, 101 and 124]
- b. 2005-4 Amendments to Australian Accounting Standards [AASBs 139, 132, 1, 1023 and 1038]
- c. 2005-5 Amendments to Australian Accounting Standards [AASBs 1 and 139]
- d. 2005-6 Amendments to Australian Accounting Standards [AASB 3]
- e. 2005-9 Amendments to Australian Accounting Standards [AASBs 4, 1023, 139 and 132]
- f. 2006-1 Amendments to Australian Accounting Standards [AASB 121]
- g. 2006-3 Amendments to Australian Accounting Standards [AASB 1045]

Interpretations:

- a. UIG 4 Determining whether an Arrangement contains a Lease
- b. UIG 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- c. UIG 7 Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies
- d. UIG 8 Scope of AASB 2
- e. UIG 9 Reassessment of Embedded Derivatives

UIGs 4 and 9 might impact future periods, subject to existing contracts being renegotiated.

Future Australian Accounting Standard requirements

The following new standards, amendments to standards or interpretations have been issued by the Australian Accounting Standards Board but are effective for future reporting periods. It is estimated that the impact of adopting these pronouncements when effective will have no material financial impact on future reporting periods.

Financial instrument disclosure

AASB 7 Financial Instruments: Disclosures is effective for reporting periods beginning on or after 1 January 2007 (the 2007-08 financial year) and amends the disclosure requirements for financial instruments. In general AASB 7 requires greater disclosure than that presently. Associated with the introduction of AASB 7 a number of accounting standards were amended to reference the new standard or remove the present disclosure requirements through 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038]. These changes have no financial impact but will effect the disclosure presented in future financial reports.

Other

The following standards and interpretations have been issued but are not applicable to the operations of the ANAO:

- a. AASB 1049 Financial Reporting of General Government Sectors by Government
- b. UIG 10 Interim Financial Reporting and Impairment

1.5 Revenue

Revenue from Government

Amounts appropriated for Departmental outputs 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.

For the purpose of Note 14, appropriations receivable are not disclosed as financial instruments as it does not meet the definition of a financial asset.

1.5 Revenue (cont'd)

Other Types of 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:

- a. the amount of revenue, stage of completion and transaction costs incurred can be reliably measured; and
- b. 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 sub-lease of surplus space and gains from the sale of ANAO assets. Revenue amounts are disclosed in Note 3.

Receivables for goods and services, which have 30 day credit terms, 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.

1.6 Gains from the Sale of Assets

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

1.7 Transactions with the Government as Owner

Equity injections

No equity injections were received by the ANAO in the 2006-07 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 2006-07 financial year.

1.8 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) and termination benefits due within twelve months of balance date 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 2007. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and the workplace agreement.

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2007

1.8 Employee Benefits (cont'd)

Superannuation

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

The CSS and PSS are defined benefit schemes for the Australian Government. The PSSap is a defined contribution scheme.

The liability for defined 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 Employee Superannuation Schemes at rates determined by an actuary to be sufficient to meet the cost to the Government of the superannuation entitlements of the ANAO's employees. The ANAO accounts for the contributions as if they were contributions to defined contribution plans.

From 1 July 2005, new employees 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.

1.9 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. An operating lease is a lease that is not a finance lease. 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 2007.

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease, unless another pattern of benefits is derived from the leased asset and then expenditure is expensed as incurred.

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.

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.

1.10 Borrowing Costs

All borrowing costs are expensed as incurred.

1.11 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.

1.12 Impairment of Financial Assets

Financial assets are assessed for impairment at each balance date.

1.13 Supplier and other payables

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.

1.14 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.

There were no departmental contingent liabilities or assets as at 30 June 2007 (2006: Nil).

1.15 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.

1.16 Infrastructure, Plant and Equipment

Asset Recognition Threshold

Purchases of infrastructure, plant and equipment are recognised initially at cost in the Balance Sheet, 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

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

Following initial recognition at cost, infrastructure, plant and equipment are carried at fair value less accumulated depreciation and accumulated impairment losses. 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 the Income Statement. Revaluation decrements for a class of assets are recognised directly through the Income Statement 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 asset restated to the revalued amount.

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), residual values 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.

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2007

1.16 Infrastructure, Plant and Equipment (cont'd)

Depreciation (cont'd)

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

	<u>2007</u>	<u>2006</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 4C.

Impairment

All infrastructure, plant and equipment assets were assessed for impairment as at 30 June 2007. No impaired infrastructure, plant and equipment assets were identified.

1.17 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 (2005-06: 3 to 5 years).

All software assets were assessed for indications of impairment as at 30 June 2007. No impaired software assets were identified.

1.18 Inventories

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

1.19 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.

1.20 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.

1.21 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.

1.22 Special Accounts - Correction of accounting treatment

The ANAO's 2005-06 financial statements disclosed money held from salary packaging transactions within the Other Trust Monies Special Account. Legal advice was obtained during 2006-07, which determined that the amounts should be included within the ANAO's departmental cash balance and not held separately within the Other Trust Monies Special Account. Consequently, the comparative balances have been restated.

An adjustment of \$146,941 was made to increase the 2005-06 cash and creditors balances disclosed in last year's financial statements.

1.23 Reporting of Administered Activities

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

Except where otherwise stated below, administered items are accounted for on the same basis and using the same policies as for Departmental items, including the application of Australian Accounting Standards.

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 18. Thus the Schedule of Administered Items largely reflects the Government's transactions, through the ANAO, with parties other than the ANAO.

Revenue

All administered revenues are revenues relating to the core operating activities performed by the ANAO on behalf of the Commonwealth. Fees are charged for services rendered and expenses incurred in relation to the conduct of certain audits of Commonwealth authorities and companies.

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Note 2 - Events after the Balance Sheet Date

No events have occurred after balance date that should be brought to account or noted in the 2006-07 financial statements.

2007	2006
\$'000	\$'000

Note 3 - Income

Note 3A: Revenue from Government

Appropriations for outputs	64,046	63,866
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Note 3B: Goods and services

Audit related services	885	879
Rental income	545	545
Other	364	26
Total rendering of services	1,794	1,450

Rendering of services to:

Related entities	885	879
External entities	909	571
Total rendering of services	1,794	1,450

Note 4 - Expenses

Note 4A: Employee benefits

Wages and salaries	22,990	21,738
Superannuation	4,708	4,651
Leave and other entitlements	3,010	3,002
Separation and redundancies	-	158
Other employee expenses	45	77
Worker's compensation premiums	182	155
Total employee benefits	30,935	29,781

Note 4B: Suppliers

Rendering of services - external entities	25,620	27,460
Operating lease rentals*	5,040	4,846
Total supplier expenses	30,660	32,306

* These comprise minimum lease payments only.

Note 4C: Depreciation and amortisation

Depreciation		
Plant and equipment	211	512

Amortisation

Intangibles - Computer software	424	190
Infrastructure (Leasehold improvements)	537	501
Total amortisation	961	691
Total depreciation and amortisation	1,172	1,203

Note 4D: Net Loss from sale of assets

Infrastructure, plant and equipment:		
Proceeds from sale	(21)	(110)
Carrying value of assets sold	24	168
Net loss from sale of assets	3	58

Note 4E: Write down and impairment of assets

Non-financial assets

Revaluation decrement		
Infrastructure, plant and equipment	115	150
Write down of assets		
Infrastructure, plant and equipment	21	11
Total write down and impairment of assets	136	161

Note 4F: Finance costs

Unwinding of discount on surplus space liability	657	595
Unwinding of discount on makegood provision	19	29
Total finance costs	676	624

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2007	2006
\$'000	\$'000

Note 5 - Financial Assets

Note 5A: Cash and cash equivalents

Cash on hand	2	2
Cash at bank	978	979
Total cash and cash equivalents	980	981

All cash recognised is a current asset.

Note 5B: Trade and other receivables

Goods and services	261	204
Less: Allowance for doubtful debts	-	-
	261	204
GST receivable from the Australian Taxation Office	478	619
Appropriation receivable but undrawn for existing outputs	18,524	18,291
Other	460	579
Total trade and other receivables (net)	19,723	19,693

Trade and other receivables are represented by:

Current	19,686	19,502
Non-current	37	191
Total trade and other receivables (net)	19,723	19,693

All receivables have credit terms of net 30 days (2006: 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	19,530	19,693
Overdue by:		
Less than 30 days	185	-
30 to 60 days	8	-
61 to 90 days	-	-
More than 90 days	-	-
	193	-
Total trade and other receivables (gross)	19,723	19,693

Note 5C: Other

Work in progress - audit related services	69	40
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All work in progress is recognised as a current asset.

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	2007 \$'000	2006 \$'000
Note 6 - Non-Financial Assets		
Note 6A: Infrastructure, Plant and Equipment		
Leasehold improvements		
- at fair value	877	1,160
- accumulated amortisation	-	-
Total leasehold improvements	<u>877</u>	<u>1,160</u>
Plant and equipment		
- at fair value	474	761
- accumulated depreciation	-	-
Total plant and equipment	<u>474</u>	<u>761</u>
Total Infrastructure, Plant and Equipment (non-current)	<u><u>1,351</u></u>	<u><u>1,921</u></u>

All revaluations are independent and are conducted in accordance with the revaluations policy stated at Note 1. In 2006-07, the revaluations were conducted by an independent valuer - Australian Valuation Office.

Note 6B: 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 2006			
Gross book value	1,160	761	1,921
Accumulated depreciation/amortisation	-	-	-
Opening net book value	1,160	761	1,921
Additions by purchase	44	93	137
Addition by recognition of makegood obligation	40	-	40
Net revaluation increment/(decrement)	170	(132)	38
Depreciation/amortisation expense	(537)	(211)	(748)
Disposals	-	(37)	(37)
As at 30 June 2007			
Gross book value	877	474	1,351
Accumulated depreciation/amortisation	-	-	-
Closing net book value	877	474	1,351

Note 6 - Non-Financial Assets (cont'd)

Note 6B: 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 2007			
Gross book value	877	474	1,351
Accumulated depreciation/amortisation	-	-	-
Net book value	877	474	1,351
As at 30 June 2006			
Gross book value	1,160	761	1,921
Accumulated depreciation/amortisation	-	-	-
Net book value	1,160	761	1,921

Note 6C: Intangible Assets

	2007 \$'000	2006 \$'000
Computer software		
- at cost	2,237	1,803
- accumulated amortisation	(1,119)	(793)
Total intangibles (non-current)	1,118	1,010

TABLE A - Reconciliation of Opening and Closing Balances of Intangibles

Item	Computer Software \$'000
As at 1 July 2006	
Gross book value	1,803
Accumulated amortisation	(793)
Opening net book value	1,010
Amortisation expense	(424)
Additions by purchase	540
Write-off of software:	
- cost	(106)
- amortisation	98
As at 30 June 2007	
Gross book value	2,237
Accumulated amortisation	(1,119)
Closing net book value	1,118

Note 6D: Other Non-Financial Assets

Prepayments	952	965
All other non-financial assets are current assets.		

Note 7 - Payables

Note 7A: Suppliers

Trade creditors	2,242	2,961
Other accruals	4,484	6,648
Total supplier payables	6,726	9,609
Supplier payables are represented by:		
Current	6,068	6,234
Non-current	658	3,375
Total supplier payables	6,726	9,609

All supplier payables are current liabilities and will be settled within 30 days. Other accruals includes supplier accruals of \$1.109 million (2005-06: \$1.158 million) and lease liabilities from the straightlining of lease expenses of \$3.375 million (2005-06: \$5.490 million). For the purpose of Note 14, other accruals have been presented as a supplier payable.

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	2007 \$'000	2006 \$'000
Note 7 - Payables (cont'd)		
<u>Note 7B: Other Payables</u>		
Lease incentive	977	-
Advance rental payment	190	190
Total payables	1,167	190
The lease incentive and advance rental payment are both non-current liabilities.		
Note 8 - Interest Bearing Liabilities		
<u>Other Interest Bearing Liabilities</u>		
Surplus lease space	803	1,360
Other interest bearing liabilities are represented by:		
Current	662	557
Non-current	141	803
Total other interest bearing liabilities	803	1,360
Note 9 - Provisions		
<u>Note 9A: Employee Provisions</u>		
Salaries and wages	676	430
Leave	7,946	7,653
Superannuation	819	806
Total employee provisions	9,441	8,889
Employee provisions are represented by:		
Current	8,481	7,940
Non-current	960	949
Total employee provisions	9,441	8,889
<u>Note 9B: Other Provisions</u>		
Make good provision	40	958
	Make good Provision \$'000	
Carrying amount at beginning of year	958	
Re-estimation of make-good liability	-	
Recognition of makegood obligation on Sydney lease	40	
Unwinding of discount amount arising from the passage of time	19	
Transfer to lease incentive (disclosed in Note 7)	(977)	
Carrying amount at end of year	40	

The ANAO currently has one agreement for the leasing of premises which has a provision that requires the make good of the premises on the expiration of the lease.

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	2007	2006
	\$'000	\$'000
Note 10 - Cash Flow Reconciliation		
Reconciliation of cash and cash equivalents per Balance Sheet to Statement of Cash Flows		
Cash and cash equivalents at year end per Statement of Cash Flows	980	981
Balance Sheet items comprising above cash: 'Financial Asset - Cash and cash equivalents'	980	981
Reconciliation of operating surplus to net cash from operating activities:		
Operating surplus	2,258	1,183
Depreciation/amortisation	1,172	1,203
Net write down of non-financial assets	136	161
Loss/(gain) on disposal of assets	3	58
(Increase)/decrease in net receivables	(30)	(772)
(Increase)/decrease in other financial assets	(29)	(36)
Decrease/(increase) in prepayments	13	(112)
Increase/(decrease) in employee provisions	552	286
(Decrease)/increase in supplier payables	(2,882)	(452)
Increase/(decrease) in other payables	977	-
(Decrease)/increase in other interest bearing liabilities	(557)	(522)
(Decrease)/increase in other provisions	(958)	29
Net cash from/(used by) operating activities	655	1,026

Note 11 - Executive Remuneration

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

	2007	2006
	No.	No.
\$130 000 to \$144 999	2	1
\$145 000 to \$159 999	1	1
\$160 000 to \$174 999	-	3
\$175 000 to \$189 999	2	5
\$190 000 to \$204 999	5	5
\$205 000 to \$219 999	5	4
\$220 000 to \$234 999	3	2
\$235 000 to \$249 999	2	1
\$250 000 to \$264 999	-	1
\$265 000 to \$279 999	1	-
\$280 000 to \$294 999	1	-
\$325 000 to \$339 999	-	1
\$355,000 to \$369,999	1	-
\$430 000 to \$444 999	-	1
\$445,000 to \$459,999	1	-
Total	24	25
The aggregate amount of total remuneration of executives shown above.	\$ 5,425,884	\$ 5,286,575
The aggregate amount of separation and redundancy/termination benefit payments during the year to executives shown above.	-	-

Executive remuneration includes all forms of consideration given by an entity in exchange for service rendered by employees. This includes salary, performance bonuses, annual and long service leave entitlements, car allowances (if applicable) and other cash and non-cash benefits.

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	<u>2007</u>	<u>2006</u>
	\$	\$
Note 12 - Remuneration of Auditors		
Amounts received, or due and receivable by the Independent Auditor for:		
Financial statement audit	71,820	92,700
Performance audit	-	-
	<u>71,820</u>	<u>92,700</u>

Under clause 1 of Schedule 2 to the *Auditor-General Act 1997*, Mr Geoff Wilson, a partner from the firm of KPMG, was appointed as Independent Auditor for a term beginning on 24 April 2006 to 23 April 2009. Mr Wilson's appointment is a personal one and he performed no other services for the ANAO. During the financial year, KPMG provided accounting advice and received remuneration of \$50,000.

	<u>No.</u>	<u>No.</u>
Note 13 - Average Staffing Levels		
The average staffing levels for the ANAO during the year were:	<u>315</u>	<u>313</u>

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Note 14 - Financial Instruments

Note 14A: Interest Rate Risk

Financial Instrument	Notes	Floating Interest Rate		Fixed Interest Rate						Non-Interest Bearing		Total		Weighted Average Effective Interest Rate			
		2007	2006	1 Year or Less		1 to 5 Years		> 5 Years		2007	2006	2007	2006	2007	2006	2007	2006
				\$'000	\$'000	\$'000	\$'000	\$'000	\$'000								
Financial Assets																	
Cash and cash equivalents	5A	-	-	-	-	-	-	-	-	980	981	-	-	980	981	-	-
Receivables for goods and services	5B	-	-	-	-	-	-	-	-	261	204	-	-	261	204	-	-
Employee related receivables	5B	-	-	-	-	-	-	-	-	268	259	-	-	268	259	-	-
GST receivable	5B	-	-	-	-	-	-	-	-	478	619	-	-	478	619	-	-
Work in progress	5C	-	-	-	-	-	-	-	-	69	40	-	-	69	40	-	-
Total		-	-	-	-	-	-	-	-	2,056	2,103	-	-	2,056	2,103	-	-
Total Assets																	
Financial Liabilities																	
Supplier payables	7A	-	-	-	-	-	-	-	-	3,351	4,119	-	-	3,351	4,119	-	-
Other payables	7B	-	-	-	-	-	-	-	-	190	190	-	-	190	190	-	-
Total		-	-	-	-	-	-	-	-	3,541	4,309	-	-	3,541	4,309	-	-
Total Liabilities		-	-	-	-	-	-	-	-	18,177	21,006	-	-	18,177	21,006	-	-

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Note 14B: Fair Values of Financial Assets and Liabilities

Notes	2007		2006	
	Total Carrying Amount	Aggregate Net Fair Value	Total Carrying Amount	Aggregate Net Fair Value
	\$'000	\$'000	\$'000	\$'000
Financial Assets				
Cash and cash equivalents	980	980	981	981
Receivables for goods and services	261	261	204	204
Employee related receivables	268	268	259	259
GST receivable	478	478	619	619
Work in progress	69	69	40	40
Total Financial Assets	2,056	2,056	2,103	2,103
Financial Liabilities				
Supplier payables	3,351	3,351	4,119	4,119
Other payables	190	190	190	190
Total Financial Liabilities	3,541	3,541	4,309	4,309

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

Note 14C: 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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	2007 \$'000	2006 \$'000
Note 15 - Income Administered on Behalf of Government		
Revenue		
Services		
Rendering of services - Financial statement audit fees	10,217	13,153
Total Revenues Administered on Behalf of Government	10,217	13,153
Note 16 - Assets Administered on Behalf of Government		
Financial Assets		
Cash and cash equivalents		
Administered bank account - Australian National Audit Office	-	-
Receivables		
Receivables - Financial statement audit fees	2,059	3,167
Receivables (gross) are aged as follows:		
Current	1,817	2,096
Overdue by:		
Less than 30 days	87	1,007
30 to 60 days	110	64
61 to 90 days	45	-
More than 90 days	-	-
Total receivables (gross)	2,059	3,167
Work in progress		
Financial statement audits	1,244	1,403
Total Assets Administered on Behalf of Government	3,303	4,570
Note 17 - Liabilities Administered on Behalf of Government		
Other payables		
GST payable to Australian Taxation Office	197	229
Total other payables	197	229
Total Liabilities Administered on Behalf of Government	197	229
All liabilities are expected to be settled within 30 days of balance date.		
Note 18 - Administered Reconciliation Table		
Opening administered assets less administered liabilities as at 1 July	4,341	2,950
Plus: Administered revenues	10,217	13,153
Transfers to the OPA	(11,452)	(11,762)
Closing administered assets less administered liabilities as at 30 June	3,106	4,341
Note 19 - Administered Contingent Liabilities		
Quantifiable Administered Contingencies		
There were no quantifiable Administered Contingent Liabilities as at 30 June 2007 (2006: Nil)		
Unquantifiable Administered Contingencies		
There were no unquantifiable Administered Contingent Liabilities as at 30 June 2007 (2006: Nil)		
Remote Administered Contingencies		
There were no remote Administered Contingent Liabilities as at 30 June 2007 (2006: Nil)		

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Note 20 - Administered Financial Instruments

Administered Interest Rate Risk

Financial Instrument	Notes	Floating Interest Rate		Fixed Interest Rate						Total		Weighted Average Effective Interest Rate				
		Rate		1 Year or Less		1 to 5 Years		> 5 Years		2007		2006				
		2007	2006	2007	2006	2007	2006	2007	2006	\$'000	\$'000	%	%			
Financial Assets																
Cash and cash equivalents	16	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Receivables for goods and services	16	-	-	-	-	-	-	-	-	2,059	3,167	2,059	3,167	-	-	-
Work in progress	16	-	-	-	-	-	-	-	-	1,244	1,403	1,244	1,403	-	-	-
Total		-	-	-	-	-	-	-	-	3,303	4,570	3,303	4,570	-	-	-
Financial Liabilities																
GST payable	17	-	-	-	-	-	-	-	-	197	229	197	229	-	-	-
Total		-	-	-	-	-	-	-	-	197	229	197	229	-	-	-
Total Liabilities										197	229	197	229	-	-	-

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Note 21 - Appropriations

Note 21A - Accrual 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
Year ended 30 June 2007				
Balance carried from previous period	-	-	14,618,035	14,618,035
Reductions of appropriations (prior years)	-	-	-	-
Adjusted Balance carried from previous period				
Appropriation Act (No.1)	-	-	14,618,035	14,618,035
Appropriation Act (No.3)	-	-	64,045,650	64,045,650
Appropriation Act (No.5)	-	-	-	-
Sub-total 2006-2007 Appropriation	-	-	64,045,650	64,045,650
Appropriations to take account of recoverable GST (FMAA s30A)	-	-	2,268,467	2,268,467
Annotations to 'net appropriations' (FMAA s31)	-	-	1,797,729	1,797,729
Total appropriations available for payments	-	-	82,729,881	82,729,881
Cash payments made during the year (GST inclusive)	-	-	(67,779,745)	(67,779,745)
Balance of Authority to Draw Cash from the CRF for Ordinary Annual Services Appropriations				
	-	-	14,950,136	14,950,136
Represented by:				
Cash and cash equivalents	-	-	979,601	979,601
Receivables - departmental appropriations	-	-	13,468,318	13,468,318
Receivables - GST receivable from customers	-	-	-	-
Receivables - GST receivable from the ATO	-	-	477,703	477,703
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	-	-	24,514	24,514
Undrawn, unapplied administered appropriations	-	-	-	-
Total				
	-	-	14,950,136	14,950,136

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Note 21 - Appropriations (cont'd)

Note 21A: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (CRF) for Ordinary Annual Services Appropriations (cont'd)

Particulars	Administered Expenses		Departmental Outputs	Total
	Outcome 1	Outcome 2		
Year ended 30 June 2006 (comparative period)				
Balance carried from previous period	-	-	13,847,515	13,847,515
Reductions of appropriations (prior years)	-	-	-	-
Adjusted Balance carried from previous period	-	-	13,847,515	13,847,515
Appropriation Act (No.1)	-	-	61,879,000	61,879,000
Appropriation Act (No.3)	-	-	1,061,000	1,061,000
Appropriation Act (No.5)	-	-	915,000	915,000
Sub-total 2005-2006 Appropriation	-	-	63,855,000	63,855,000
Appropriations to take account of recoverable GST (FMAA s30A)	-	-	2,063,556	2,063,556
Annotations to 'net appropriations' (FMAA s31)	-	-	1,434,980	1,434,980
Total appropriations available for payments	-	-	81,201,051	81,201,051
Cash payments made during the year (GST inclusive)	-	-	(66,583,016)	(66,583,016)
Balance of Authority to Draw Cash from the CRF for Ordinary Annual Services Appropriations	-	-	14,618,035	14,618,035
Represented by:				
Cash and cash equivalents	-	-	981,168	981,168
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, unexpired administered appropriations	-	-	-	-
Total	-	-	14,618,035	14,618,035

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Note 21 - Appropriations (cont'd)

Note 21B: Accrual of Authority to Draw Cash from the Consolidated Revenue Fund (CRF) for other than Ordinary Annual Services Appropriations

Particulars	Administered			Non-operating					Total
	Outcome 1	Outcome 2	Outcome 2	Equity	Loans	Previous years' outputs	Admin assets and liabilities		
	SPPs	NAE	SPPs	NAE	Equity	Loans	Previous years' outputs	Admin assets and liabilities	Total
Year ended 30 June 2007	\$	\$	\$	\$	\$	\$	\$	\$	\$
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
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 for the year ended 30 June 2007

Note 21 - Appropriations (cont'd)

Note 21B: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (CRF) for other than Ordinary Annual Services Appropriations (cont'd)

Particulars	Administered			Non-operating					Total
	Outcome 1 SPPs	Outcome 1 NAE	Outcome 2 SPPs	Outcome 2 NAE	Equity	Loans	Previous years' outputs	Admin assets and liabilities	
<i>Represented by:</i>									
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, unexpired administered appropriations	-	-	-	-	-	-	5,456,000	-	5,456,000
Total	-	-	-	-	-	-	5,456,000	-	5,456,000

Australian National Audit Office
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for the year ended 30 June 2007

Note 21 - Appropriations (cont'd)

Note 21B: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (CRF) for other than Ordinary Annual Services Appropriations (cont'd)

Particulars	Administered			Non-operating					Total
	Outcome 1	Outcome 2	Outcome 2	Equity	Loans	Previous years' outputs	Admin assets and liabilities		
	SPPs	NAE	SPPs	NAE					
Year ended 30 June 2006	\$	\$	\$	\$	\$	\$	\$	\$	
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) 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
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Note 21C - Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund - Special Appropriations
 (Unlimited Amount)

Auditor-General Act 1997 - Schedule 1 sections 3 and 7	2007 \$	2006 \$
Purpose: Remuneration expenses and allowances of the office of the Auditor-General		
	Outcome 1	
Cash payments made during the year	215,325	194,050
Budget estimate	193,500	188,500
	Outcome 2	
Cash payments made during the year	215,325	194,050
Budget estimate	193,500	188,500
Total payments made	430,650	388,100
Total budget estimate	387,000	377,000

For the periods 2005-06 and 2006-07, the ANAO has not used section 28 of the FMA Act or any other legislative provision allowing for refunds to be paid.

Note 21D - Special Accounts

Other Trust Monies Special Account - Special Public Monies	2007 \$	2006 \$
Legal Authority: <i>Financial Management and Accountability Act 1997</i> , section 20		
Purpose: For expenditure of monies temporarily held on trust or otherwise for the benefit of a person other than the Commonwealth.		
Balance carried from previous period	28,276	50,892
Appropriation for reporting period	-	-
Costs recovered	-	-
GST credits (FMA s30A)	-	-
Realised investments	-	-
Other receipts - Comcare receipts paid in accordance with the <i>Safety Rehabilitation and Compensation Act 1998</i> .	11,012	93,124
Available for payments	39,288	144,016
Payments made to employees	(39,123)	(115,740)
Repayments debited from the Special Account (s28)	-	-
Investments debited from the Special Account (FMA s39)	-	-
Balance carried to the next period	165	28,276
<i>Represented by:</i>		
Cash - transferred to the Official Public Account	-	-
Cash - held by the entity	165	28,276
Total	165	28,276

The note above discloses the transactions relating to Comcare.

The ANAO's 2005-06 financial statements disclosed money held from salary packaging transactions within the 'Other Trust Monies Special Account'. Legal advice was obtained during 2006-07, which determined that the amounts should be included within the ANAO's departmental cash balance. Consequently, the comparative balances have been restated.

The ANAO's Services for Other Government and Non-agency Bodies Special Account (Special Public Money) was not used during the 2006-07 or 2005-06 financial years.

Australian National Audit Office
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Note 22 - Specific Payment Disclosures

	2007	2006
	<u>\$'000</u>	<u>\$'000</u>
<i>Departmental</i>		
No payments made under section 73 of the Public Service Act 1999 (2005-06: No payments made)	<u>Nil</u>	<u>Nil</u>
<i>Administered</i>		
No 'Act of Grace' expenses were incurred during the reporting period (2005-06: No payments made)	<u>Nil</u>	<u>Nil</u>
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> . (2005-06: No waivers made)	<u>Nil</u>	<u>Nil</u>
No ex-gratia payments were made during the year (2005-06: No payments made)	<u>Nil</u>	<u>Nil</u>

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Note 23 - 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 2006-07 Budget.

As from 1 July 2007, the ANAO made the following changes to its outputs. Audit reports concerned with Business Support Processes and Protective Security (previously Output Groups 3.2 and 3.3 respectively) have been incorporated within the Performance Audit Reports Output (Output Group 1.1). The comparatives have been restated to reflect these changes.

Note 23A: Net Cost of Outcome Delivery

	Outcome 1		Outcome 2		Total	
	Improvement in Public Administration		Assurance			
	2007	2006	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Administered expenses	-	-	-	-	-	-
Departmental expenses	23,115	22,757	40,467	41,376	63,582	64,133
Total expenses	23,115	22,757	40,467	41,376	63,582	64,133
Costs recovered from provision of goods and services to the non-government sector						
Administered	-	-	-	-	-	-
Departmental	273	285	274	285	547	570
Total costs recovered	273	285	274	285	547	570
Other external revenues						
Administered	-	-	-	-	-	-
Total Administered	-	-	-	-	-	-
Departmental	-	-	-	-	-	-
Interest on cash deposits	-	-	-	-	-	-
Revenue from disposal of assets	-	-	-	-	-	-
Goods and services revenue from related entities	164	-	1,083	880	1,247	880
Total Departmental	164	-	1,083	880	1,247	880
Total other external revenues	164	-	1,083	880	1,247	880
Net cost/(contribution) of outcome	22,678	22,472	39,110	40,211	61,788	62,683

Australian National Audit Office
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 for the year ended 30 June 2007

Note 23 - Reporting of Outcomes (cont'd)

Note 23C: Major Classes of Administered Revenues and Expenses by Outcome

	Outcome 1 Improvement in Public Administration		Outcome 2 Assurance		Total	
	2007	2006	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Administered Revenue						
Sale of goods and services (audit fees)	-	-	10,217	13,153	10,217	13,153
Total Administered Revenues	-	-	10,217	13,153	10,217	13,153
Administered Expenses						
Total Administered Expenses	-	-	-	-	-	-



Appendix 3

Audit reports

Report title	Tabled	Cost \$
Audit Report No.1 2006–07 Performance Audit <i>Administration of the Native Title Respondents Funding Scheme</i>	30/08/2006	294 412
Audit Report No.2 2006–07 Performance Audit <i>Export Certification</i>	06/09/2006	483 000
Audit Report No.3 2006–07 Performance Audit <i>Management of Army Minor Capital Equipment Procurement Projects</i>	07/09/2006	340 000
Audit Report No.4 2006–07 Performance Audit <i>Tax Agent and Business Portals</i>	12/09/2006	335 221
Audit Report No.5 2006–07 Performance Audit <i>The Senate Order for the Departmental and Agency Contracts (Calendar Year 2005 Compliance)</i>	28/09/2006	167 725
Audit Report No.6 2006–07 Performance Audit <i>Recordkeeping including the Management of Electronic Records</i>	12/10/2006	520 000
Audit Report No.7 2006–07 Performance Audit <i>Visa Management: Working Holiday Makers</i>	17/10/2006	450 120
Audit Report No.8 2006–07 Performance Audit <i>Airservices Australia's Upper Airspace Management Contracts with the Solomon Islands Government</i>	18/10/2006	270 000
Audit Report No.9 2006–07 Performance Audit <i>Management of the Acquisition of the Australian Light Armoured Vehicle Capability</i>	26/10/2006	345 000
Audit Report No.10 2006–07 Performance Audit <i>Management of the Standard Defence Supply System Remediation Programme</i>	31/10/2006	270 000
Audit Report No.11 2006–07 Performance Audit <i>National Food Industry Strategy</i>	09/11/2006	555 000
Audit Report No.12 2006–07 Performance Audit <i>Management of Family Tax Benefit Overpayments</i>	28/11/2006	295 000
Audit Report No.13 2006–07 Performance Audit <i>Management of an IT Outsourcing Contract Follow-up Audit</i>	05/12/2006	190 000
Audit Report No.14 2006–07 Performance Audit <i>Regulation of Pesticides and Veterinary Medicines</i>	07/12/2006	450 000

Report title	Tabled	Cost \$
Audit Report No.15 2006–07 Financial Statement Audit <i>Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2006</i>	19/12/2006	290 449
Audit Report No.16 2006–07 Performance Audit <i>Administration of Capital Gains Tax Compliance in the Individuals Market Segment</i>	20/12/2006	335 000
Audit Report No.17 2006–07 Performance Audit <i>Treasury's Management of International Financial Commitments--Follow-up Audit</i>	23/01/2007	107 000
Audit Report No.18 2006–07 Performance Audit <i>ASIC's Processes for Receiving and Referring for Investigation Statutory Reports of Suspected Breaches of the Corporations Act 2001</i>	24/01/2007	455 000
Audit Report No.19 2006–07 Performance Audit <i>Administration of State and Territory Compliance with the Australian Health Care Agreements</i>	25/01/2007	367 000
Audit Report No.20 2006–07 Performance Audit <i>Purchase, Chartering and Modification of the New Fleet Oiler</i>	30/01/2007	485 000
Audit Report No.21 2006–07 Performance Audit <i>Implementation of the Revised Commonwealth Procurement Guidelines</i>	31/01/2007	373 000
Audit Report No.22 2006–07 Performance Audit <i>Management of Intellectual Property in the Australian Government Sector</i>	06/02/2007	324 000
Audit Report No.23 2006–07 Performance Audit <i>Application of the Outcomes and Outputs Framework</i>	06/02/2007	665 000
Audit Report No.24 2006–07 Performance Audit <i>Customs' Cargo Management Re-engineering Project</i>	07/02/2007	528 849
Audit Report No.25 2006–07 Performance Audit <i>Management of Airport Leases: Follow-up</i>	08/02/2007	285 000
Audit Report No.26 2006–07 Performance Audit <i>Administration of Complex Age Pension Assessments</i>	20/02/2007	310 000
Audit Report No.27 2006–07 Performance Audit <i>Management of Air Combat Fleet In-Service Support</i>	21/02/2007	335 000
Audit Report No.28 2006–07 Performance Audit <i>Project Management in Centrelink</i>	22/02/2007	305 000
Audit Report No.29 2006–07 Performance Audit <i>Implementation of the Sydney Airport Demand Management Act 1997</i>	07/03/2007	425 000

Report title	Tabled	Cost \$
Audit Report No.30 2006–07 Performance Audit <i>The Australian Taxation Office's Management of its Relationship with the Tax Practitioners: Follow-up Audit</i>	14/03/2007	280 000
Audit Report No.31 2006–07 Performance Audit <i>The Conservation and Protection of National Threatened Species and Ecological Communities</i>	29/03/2007	395 000
Audit Report No.32 2006–07 Performance Audit <i>Administration of the Job Seeker Account</i>	17/04/2007	319 976
Audit Report No.33 2006–07 Performance Audit <i>Centrelink's Customer Charter-Follow-up Audit</i>	18/04/2007	234 000
Audit Report No.34 2006–07 Performance Audit <i>High Frequency Communication System Modernisation Project</i>	01/05/2007	360 000
Audit Report No.35 2006–07 Performance Audit <i>Preparations for the Re-tendering of DIAC's Detention and Health Services Contracts</i>	02/05/2007	238 500
Audit Report No.36 2006–07 Performance Audit <i>Management of the Higher Bandwidth Incentive Scheme and Broadband Connect Stage 1</i>	16/05/2007	365 000
Audit Report No.37 2006–07 Performance Audit <i>Administration of the Health Requirement of the Migration Act 1958</i>	17/05/2007	456291
Audit Report No.38 2006–07 Performance Audit <i>Administration of the Community Aged Care Packages Program</i>	23/05/2007	381 940
Audit Report No.39 2006–07 Performance Audit <i>Distribution of Funding for Community Grant Programmes</i>	24/05/2007	380 000
Audit Report No.40 2006–07 Performance Audit <i>Centrelink's Review and Appeals System Follow-up Audit</i>	30/05/2007	305 000
Audit Report No.41 2006–07 Performance Audit <i>Administration of the Work for the Dole Programme</i>	31/05/2007	365 879
Audit Report No.42 2006–07 Performance Audit <i>The ATO's Administration of Debt Collection—Micro-business</i>	12/06/2007	388 000
Audit Report No.43 2006–07 Performance Audit <i>Managing Security Issues in Procurement and Contracting</i>	13/06/2007	270 000
Audit Report No.44 2006–07 Performance Audit <i>Management of Tribunal Operations—Migration Review Tribunal and Refugee Review Tribunal</i>	14/06/2007	542 697
Audit Report No.45 2006–07 Performance Audit <i>The National Black Spot Programme</i>	19/06/2007	535 000

Report title	Tabled	Cost \$
Audit Report No.46 2006–07 Performance Audit <i>Management of the Pharmaceutical Partnerships Program</i>	20/06/2007	372 000
Audit Report No.47 2006–07 Performance Audit <i>Coordination of Australian Government Assistance to Solomon Islands</i>	21/06/2007	325 000
Audit Report No.48 2006–07 Performance Audit <i>Superannuation Payments for Contractors Working for the Australian Government: Follow-up Audit</i>	22/06/2007	263 291
Audit Report No.49 2006–07 Performance Audit <i>Non-APS Workers</i>	25/06/2007	320 000
Audit Report No.50 2006–07 Performance Audit <i>The Higher Education Loan Programme</i>	26/06/2007	271 376
Audit Report No.51 2006–07 Financial Statement Audit <i>Interim Phase of the Audit of Financial Statements of General Government Sector Agencies for the Year Ending 30 June 2007</i>	27/06/2007	377 166
Audit Report No.52 2006–07 Performance Audit <i>The Australian Taxation Office's Approach to Regulating and Registering Self Managed Superannuation Funds</i>	28/06/2007	538 035
Audit Report No.53 2006–07 Performance Audit <i>Australian Federal Police Overseas Operations</i>	29/06/2007	531 018

Appendix 4

Main issues raised in performance audit reports tabled in 2006–07

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 2006–07*.

This appendix summarises the main issues raised in performance audit, BSP audit and protective security audit reports tabled during the year. The summaries are grouped according to audit themes, as outlined in Chapter 3.

Audits examining governance

Audit Report No.4 2006–07 *Tax Agent and Business Portals*. The audit examined the operation of the Australian Taxation Office's (ATO's) Tax Agent and Business Portals. The report commented that introduction of the Tax Agent and Business Portals has been a significant achievement for the ATO. The Tax Agent and Business Portals have facilitated easier access to information for both tax agents and businesses. In relation to information technology (IT) security and user access controls, a key component of the audit, the report identified several areas where the ATO needed to strengthen controls around the Portals. The report made a number of recommendations focused on improving aspects of the ATO's IT security around its Portals.

Audit Report No.5 2006–07 *The Senate Order for Departmental and Agency Contracts (Calendar Year 2005 Compliance)*. This report was the eighth audit under the Senate Order, which requires all *Financial Management and Accountability Act 1997* agencies to place on the Internet, lists of contracts valued at \$100 000 or more, that summarises the use of confidential provisions in each contract. The purpose of the audit was to examine in seven agencies, compliance with the Senate Order and to report on the appropriateness of the use of confidentiality provisions in contracts. The results of this audit, and other similar audits over the last four years, have indicated a progressive reduction in the number of contracts reported as including confidential provisions. This situation is consistent with the Government's policy position that contracting information should not be treated as confidential, unless there is a sound reason for doing so. However, it was found that agencies could improve processes and controls that enhance the completeness and accuracy of the contract listings, and improve guidance to staff, including those with contract negotiation responsibilities.

Audit Report No.6 2006–07 Recordkeeping Including the Management of Electronic Records.

Each of the entities subject to audit were at different stages in addressing their recordkeeping responsibilities. Over recent years, each entity had made improvements, to varying degrees, to their recordkeeping regimes. In one entity this involved a focus on managing their records electronically. The audit concluded that each of the three audited entities had aspects that required improvement.

The main areas where entities could improve related to:

- the development and implementation of a recordkeeping strategy;
- the improvement of recordkeeping policies and guidance;
- the identification of vital records and the establishment of contingency arrangements for those records;
- the consideration of recordkeeping needs when developing or upgrading electronic systems; and
- the development of a formal preservation strategy for electronic records.

To assist entities in meeting their recordkeeping responsibilities, the audit also recommended that the National Archives of Australia should set minimum recordkeeping standards and requirements, and develop further practical guidance.

Audit Report No.13 2006–07 Management of an IT Outsourcing Contract Follow-up.

The main issues raised related to the Department of Veterans' Affairs (DVA's) planning to: meet its strategic IT needs through its IT outsourcing contract; the provisions of the contract; contract administration; management of the impacts of the outsourced services on DVA's business; and the outcomes of DVA's approach to the contract. The follow-up audit found that DVA had addressed the strategic and operational issues raised in the previous audit and this had resulted in improvements in the department's management of its current IT outsourcing contract and in preparing for the IT outsourcing contract which is scheduled to come into effect in April 2007.

Audit Report No.14 2006–07 Regulation of Pesticides and Veterinary Medicines.

Pesticides and veterinary medicines are used widely in Australia to protect crops, livestock, and plants from pests and diseases, and to treat animals, including household pets, for illnesses. The Australian Pesticides and Veterinary Medicines Authority (APVMA) registers such products for use in Australia and monitors their quality up to the point of retail sale. The audit assessed whether the APVMA has performed these key regulatory functions effectively. It concluded that greater emphasis needs to be given to compliance and review programs, to provide stronger assurance on the safety and efficacy of pesticides and veterinary medicines; and that the timeliness of the registration process could be improved, to reduce regulatory costs, as well as to provide users with better access to products.

Audit Report No.16 2006–07 Administration of Capital Gains Tax Compliance in the Individuals Market Segment. The audit assessed the ATO’s administration of Capital Gains Tax (CGT) compliance in the individuals market segment. The audit reviewed governance arrangements, the mechanisms and strategies used to identify and assess compliance risks, and the products and processes used to manage compliance. The focus of the audit was the two most common CGT events: share and real property disposals. The audit found that since receiving additional funding in 2004–05, the ATO has significantly increased its focus on CGT in the individuals market segment, through active compliance, and marketing and education activities. However, there are opportunities to improve planning and reporting arrangements, and data matching activities.

Audit Report No.17 2006–07 Treasury’s Management of International Financial Commitments – Follow-up. This follow-up audit found that Treasury’s response to the findings and recommendations of the previous audit had been effective. The main issue arising from it is compliance with agencies’ reporting obligations under the Government’s Foreign Exchange Risk Management policy. This policy, the Guidelines for which were issued in 2002 and revised in 2006, is designed to better assist the Government in the management of its foreign exchange risks. The audit found that, although the Treasury had drawn Finance’s attention to potential payments or receipts arising from exchange rate movements, it had not reported its foreign exchange gains or losses as required by the Guidelines.

Audit Report No.18 2006–07 ASIC’s Processes for Receiving and Referring for Investigation Statutory Reports. The audit was undertaken at the request of the Parliamentary Joint Committee on Corporations and Financial Services (JCCFS), flowing from its 2004 inquiry into corporate insolvency laws. In its report, the Committee expressed a number of concerns about the Australian Securities and Investment Commission’s (ASIC’s) investigation of suspected breaches of the *Corporations Act 2001* (as reported to it by external administrators), including that ASIC may not be according the reports sufficient priority. The audit concluded that over a period of some years, there had been a marked decrease in the number of reports that ASIC investigated, even though the number of reports lodged with the regulator had significantly increased. The main issue was therefore, whether ASIC devoted sufficient resources to what the JCCFS referred to as ‘among the most important mechanisms in the law for bringing to light possible breaches of the Corporations Act.’ Given the large number of reports received each year that allege offences, and the JCCFS’ concerns that sufficient regulatory effort is not being given to such recommendations, the key recommendation was that ASIC identify opportunities for increasing the number of statutory reports that it currently investigates.

Audit Report No.21 2006–07 Implementation of the Revised Commonwealth Procurement Guidelines. The audit assessed how well the seven audited entities implemented the revised Commonwealth Procurement Guidelines (CPGs), which took effect in January 2005. The audit found that the entities generally took reasonable steps to update their policies, procedures and systems. A review of sample procurements found that most steps in procurement were compliant with the revised CPGs. However, the audit found that improvements were required in: the consideration and approval of the use of direct sourcing; the consideration and approval of contract variations; and in the reporting of completed procurements. The audit also reported on better practices in procurement that were identified during the audit.

Audit Report No.22 2006–07 Management of Intellectual Property in the Australian Government Sector. The audit examined the progress of four agencies (the Attorney-General’s Department, the Department of Communications, Information Technology and the Arts, the Department of Finance and Administration and IP Australia) in developing a whole-of-government approach and guidance for the management of intellectual property (IP) in the Australian Government. The audit found that although there had been some progress in developing the whole-of-government approach, this had been slow. Several factors had contributed to the delays, notably:

- the failure of the agencies involved to resolve key questions that would lead to a shared understanding of the approach;
- a lack of clarity of purpose and inconsistencies within the documents comprising the approach;
- insufficient attention having been paid to questions of implementation of the approach; and
- inadequate structures for dealing with disputes and for recording decisions of the agencies involved in developing the approach.

The audit noted that the often complex nature of whole-of-government challenges means that early attention to establishing structures and processes to identify, discuss and resolve different views in reaching a shared understanding and formal agreement amongst the various agencies is necessary. In addition, earlier attention to questions of implementation may have enabled more timely identification (and resolution) of some of the issues that eventually arose and that have delayed development of the overarching approach.

Audit Report No.23 2006–07 Application of the Outcomes and Outputs Framework. The Outcomes and Outputs framework provides the basis of the Government’s approach to budgeting and reporting for public sector agencies and the means by which the Parliament appropriates funds in the annual budget context. The objective of the audit was to assess the application of the outcomes and outputs framework in Australian Government agencies. The audit involved detailed fieldwork in three agencies and a survey of 44 agencies. The audit concluded that although the application of the outcomes and outputs framework in each of the audited agencies’ incorporated some better practice characteristics, each of the three audited agencies had aspects that required improvement.

The main areas where agencies could improve related to:

- the specification of outcomes and outputs;
- the integration of the framework into agency operations;
- performance indicators;
- business processes for capturing and monitoring performance information and management reporting arrangements; and
- performance reporting arrangements.

The ANAO also identified a number of enhancements to the framework which, if adopted, have the potential to improve consistency in agency reporting and to further assist in meeting the needs of stakeholders.

Audit Report No.25 2006–07 *Management of Federal Airport Leases: Follow-up*. This audit assessed the extent to which the Department of Transport and Regional Services (DOTARS) has implemented the nine audit recommendations contained in Audit Report No.50 2003–04, *Management of Federal Airport Leases*. The audit found that, since the report on the original audit tabled in June 2004, DOTARS has significantly improved its practices and procedures across the full range of its lease administration responsibilities. Specifically, a comprehensive framework for lease administration has been developed and is being progressively implemented. Of particular note, DOTARS is now conducting lease reviews in a timely and effective manner, and has procedures in place to effectively manage insurance risks. Although there are some areas requiring improvement, DOTARS’s administration of leased Federal Airports now more fully reflects the extent and significance of the Commonwealth’s rights and obligations under the sale documentation.

Audit Report No.27 2006–07 *Management of Air Combat Fleet In-Service Support*. This audit examined the Department of Defence and Defence Materiel Organisation’s (DMO) management of the in-service support aspects of Air Force’s F-111, F/A-18 and Hawk fleets. The report identified the key factors that have contributed to the success of the in-service support program. These related to:

- appropriately trained and experienced SPO logistics, engineering and acquisition project teams, located adjacent to Air Force’s operational squadrons;
- the application of well-developed and applied technical regulations covering engineering and maintenance of Australian Defence Force (ADF) aircraft, and the organisations that support them; and
- the development of effective commercial support programs, which are coupled with DMO and Air Force management practices that focus on teamwork, performance monitoring, continuous improvement, and openness to external reviews and regulatory oversight.

Risks to the continued success of the fleet’s in-service support relate to reductions in the numbers of qualified and experienced Air Force technical workforce personnel and to ageing aircraft that require increased inspections, structural refurbishment and general maintenance. Furthermore, the Defence Support Group’s back-log of facilities maintenance at RAAF Amberley also present risks to Air Combat fleet in-service support.

Audit Report No.29 2006–07 *Implementation of the Sydney Airport Demand Management Act 1997*. The *Sydney Airport Demand Management Act 1997* (SADM Act) provides the framework for the long-term management of demand at Sydney Airport. It is intended to meet the commitment made by the Government prior to the March 1996 Federal election that aircraft movements at Sydney Airport would be capped at 80 per hour. The report examined the arrangements put in place by DOTARS and Airservices Australia to implement the terms of the Act, including the appointment of a Slot Manager and the establishment of statutory

Slot Management and Compliance Schemes under the SADM Act. The report also examined the monitoring of aircraft movements in respect of the movement cap, the monitoring of aircraft operators' compliance with their slot allocations and DOTARS' reporting to Parliament on the performance of the demand management arrangements. Sixty one breaches of the cap were reported to the Parliament up to March 2006. However, reliable and accurate records do not exist to evidence the monitoring and support the reports made to the Parliament. The available data indicates that some of the reported breaches may not, in fact, have occurred and that there may have been many other, unreported, breaches of the cap.

Slot allocation is a complex process that, for international airports, has to fit within a world-wide structure. Slots at Sydney Airport are currently allocated and managed in a manner that aligns closely with international industry guidelines. The industry guidelines acknowledge that, where sovereign nations have in place legislation to govern the management of demand, this legislation takes precedence over the industry guidelines. However, the allocation and management of slots at Sydney Airport does not accord with the Act and its subordinate legislative instruments.

The Compliance Committee chaired by DOTARS had not effectively applied the Compliance Scheme's provisions for identifying unauthorised aircraft movements. Some operators that had not been exempted by the legislation were, nevertheless, not required to submit data on their aircraft movements thereby enabling them to operate outside the jurisdiction of the scheme. In this context, the Act established a system of penalties for unauthorised aircraft movements to protect the integrity of the movement limit, and establish clear guides for airport users as to the range of sanctions that may be levied in the form of an infringement notices or civil prosecution. However, the audit found evidence of a high number of possible unauthorised aircraft movements - at least 600 'no-slot' and 8 000 'off-slot' movements. Nevertheless, since the scheme commenced in 1998, no infringement notices had been issued to operators or other penalties applied.

[Audit Report No.31 2006–07 *The Conservation and Protection of National Threatened Species and Ecological Communities*](#). The objective of the audit was to assess and report on the administration of the *Environment Protection and Biodiversity Conservation Act 1999* by the Department of the Environment and Water Resources in terms of protecting and conserving threatened species and threatened ecological communities in Australia. The audit examined compliance with aspects of the *Environment Protection and Biodiversity Conservation Act 1999* and Commonwealth investment in biodiversity conservation actions.

Since the introduction of the *Environment Protection and Biodiversity Conservation Act 1999*, 152 additional species have been listed and protected under the Act and over 200 new recovery plans have been written to assist in the protection and conservation of species. The department has recently introduced a number of processes to improve the efficiency and effectiveness of the administration of the *Environment Protection and Biodiversity Conservation Act 1999*. However, protecting and conserving threatened species and ecological communities still remains a challenge for the department. Three key factors that have constrained progress

and limited the achievement of the objectives of the *Environment Protection and Biodiversity Conservation Act 1999* were the:

- scale of the prescribed tasks required by the legislation;
- technical requirements for assessing, protecting and conserving over a thousand individual species and hundreds of ecological communities; and
- limited resources allocated to the task.

The audit identified a number of key areas of non-compliance with the *Environment Protection and Biodiversity Conservation Act 1999* (prior to amendments in December 2006). These were:

- keeping an up to date list of threatened species and ecological communities;
- surveying species on Commonwealth land;
- completing recovery plans in the required timeframes; and
- reviewing State and Territory listed ecological communities.

The audit also identified a range of shortcomings in the department's administration of the legislation.

Audit Report No.35 2006–07 Preparations for the Re-tendering of DIAC's Detention and Health Services Contracts. The audit, which was undertaken at the request of the Secretary of the Department of Immigration and Citizenship (DIAC), assessed whether the early stages of DIAC's preparations for the re-tendering of the detention and health services contracts were consistent with sound practice. The audit focused on governance arrangements, in particular the recordkeeping arrangements, roles and responsibilities of personnel, expert advisors and the probity auditor—matters raised in a previous audit report. The audit did not examine the Request for Tender, which was not due to be issued until April 2007.

The audit concluded that the early stages of DIAC's preparations for the re-tendering project were sound, demonstrating a significant improvement in the practices identified by the earlier audit. In developing governance and project management arrangements for the re-tendering of detention and health services contracts, DIAC paid attention to the experiences gained and lessons learned from the previous tender process. Arrangements for key personnel, expert advisors and the probity auditor were appropriate. Detailed recordkeeping policies and systems had been established for the re-tendering project, but implementation of policies in respect of recording and timely reporting of some decisions and security classification of documents was not consistent.

Audit Report No.42 2006–07 ATO Administration of Debt Collection – Micro-business. The audit assessed the effectiveness of the ATO's administration of the collection of micro-business debt. The ATO has improved the administration of tax debt collection in recent years, with innovation in its strategy, infrastructure and governance frameworks. However the ATO has only recently been able to slow the rate of growth of collectable tax debt which is still rising, albeit at a slower rate.

Debt collection, particularly in relation to micro-business debt, requires continued attention by the ATO. To reduce the level of collectable debt tax debt over the long term, it may be necessary for the ATO to expand its debtor research and analysis and if necessary, to use its findings to provide further advice to government for targeted changes in the administrative design of the tax system. While the ATO continues to improve its strategies and processes and it has enjoyed some success, micro-business tax debt is still a significant financial drain on the community that distorts business competitiveness and tax debt can undermine community confidence in the tax system. As at 30 June 2006 micro-business collectable debt totalled \$6.8 billion.

Audit Report No.43 2006–07 Managing Security Issues in Procurement and Contracting. The audit reviewed a selection of agencies' compliance with their security responsibilities as specified in the *Protective Security Manual*. These responsibilities include managing security issues and risks when contracting-out security functions or functions that may require contractors to access sensitive information. Overall, the report concluded that the audited agencies were effectively managing these responsibilities.

The main areas where scope for improvement was identified were in relation to:

- enhancing the level of policy and guidance material to staff about addressing security risks in procurement and contracting;
- tightening processes and practices used to ensure that appointed contractors attend security training; and
- adopting a risk-based approach to monitoring contractors' adherence to security requirements in contracts and the re-assessment of security risks in contracts when circumstances changed substantially, or when contracts were extended significantly beyond their original life.

Audit Report No.44 2006–07 Management of Tribunal Operations-Migration Review Tribunal and Refugee Review Tribunal. This audit assessed the effectiveness of the management of Tribunal operations by the Migration Review Tribunal and the Refugee Review Tribunal. The report concluded that the Tribunals were effectively managing their operations. The Tribunals successfully implemented a series of proposals since 2001 to achieve operational efficiencies from the introduction of common facilities, services and resourcing. The Tribunals also established sound governance arrangements for their operations, through the establishment of joint management structures, the development of risk management and fraud control plans, and an improved funding arrangement with Finance. The report identified scope for the Tribunals to improve management performance by strengthening operational planning and the design and reporting of performance information.

Audit Report No.47 2006–07 Coordination of Australian Government Assistance to Solomon Islands. The audit assessed the coordination of Australian Government assistance to Solomon Islands through the Regional Assistance Mission to Solomon Islands (RAMSI), including the establishment of objectives and an outcomes monitoring framework. In particular, the audit examined arrangements for: coordination between Australian Government agencies; strategic planning and risk management; measuring the effectiveness of RAMSI; and reporting to RAMSI's Australian stakeholders.

RAMSI is a complex, multiyear initiative, involving input from a range of Australian Government agencies and regional partners. Significant progress has been achieved over the first two to three years of RAMSI's deployment. However, the task has become more difficult as the focus has shifted from restoring law and order and stabilising government finances, to capacity building. Notwithstanding the challenges and complexities, the ANAO concluded that DFAT and the Australian Agency for International Development (AusAID) have put in place arrangements that enable the effective coordination of Australian Government assistance to Solomon Islands.

The report also identified a number of areas to strengthen. These included the need to: shift the focus from measuring outputs to outcomes to better assess the impact that outputs are having on the Solomon Islands community; strengthen some elements of risk management, such as ensuring that treatments are clear and identify indicative timing; and strengthen regular reporting to the Australian Government by including a limited number of key performance indicators and targets, and consistently reporting against them.

Audit Report No.48 2006–07 Superannuation Payments for Contractors Working for the Australian Government: Follow-up Audit. The follow-up audit selected eight agencies to assess their implementation of the two recommendations from Audit Report No.13 2004–05, *Superannuation Payments for Independent Contractors working for the Australian Government*. The report found that the recommendations had been substantially or fully implemented. The Department of Finance and Administration and the Australian Taxation Office have clarified the legislative framework and appropriate procedures for promoting and monitoring compliance were implemented. The incidence of unmet superannuation obligations to contractors declined substantially. Agencies have controlled the risks mainly through minimising contracting with individuals, and implementing processes to assess contractors' entitlement to superannuation benefits. Nevertheless, agencies could make more use of standard contract clauses that reduce the risk of unintentionally creating an employment relationship to control the risk of not meeting superannuation obligations to contractors. Agencies should also record the basis on which staff have assessed contracts with individuals for superannuation entitlements.

Despite simplification of legislative arrangements, the legal framework for superannuation can impose high costs on employers contracting with individuals. To minimise costs, many agencies have reduced the incidence of contracting with individuals. This may not always result in the best outcome as contracting with individuals may represent the best value for money in some circumstances. The audit also found there was some scope for improving promotion and targeting of ATO advice and support services to agencies.

Audit Report No.49 2006–07 Non-APS Workers. The objective of the audit was to assess the management practices undertaken by Australian Public Service (APS) agencies to achieve value for money and transparency in dealing with contracts for non-APS workers. The report concluded that there is significant scope for agencies to integrate their use of non-APS workers into their workforce planning processes, especially where they have a significant reliance on the non-APS workforce. There were also opportunities for agencies to review, and amend where appropriate, their arrangements to better align their engagement of non-APS workers with the Commonwealth Procurement Guidelines.

Audit Report No.50 2006–07 *The Higher Education Loan Programme.* The audit reviewed the procedures and processes used by the Department of Education Science and Training (DEST) and the ATO to record HECS-HELP student loans. Overall, DEST was effectively monitoring student contributions set by higher education providers for consistency with Australian Government policy. DEST has also established effective procedures and processes to pay HECS-HELP advance payments to higher education providers based on sound estimates, and to record, reconcile and report these payments.

There were two main areas in the administration of HECS-HELP where the report considered DEST could improve administrative practices. The first concerned strengthening its monitoring of student contribution amounts charged by higher education providers, confirming that they were acting in a manner consistent with the legislation. The second concerned the need for a more timely reconciliation of HECS-HELP payments to enable DEST to report HECS-HELP payments in the financial year that they were made.

DEST had implemented controls to provide assurance on the integrity, completeness and accuracy of HECS-HELP data transferred from the higher education providers to DEST, and also from DEST to the ATO to record student HECS-HELP loans. The ATO has established effective procedures and processes to record HECS-HELP loans against student tax records.

Audit Report No.52 2006–07 *The Australian Taxation Office’s Approach to Regulating and Registering Self Managed Superannuation Funds.* The audit examined the efficiency and effectiveness of the ATO’s approach to regulations and registering self managed superannuation fund (SMSFs). The audit concluded that the Tax Office’s initial approach to regulating and registering SMSFs could have been more efficient and effective if the Tax Office had taken steps to clarify its role and responsibilities earlier, managed its funding, costs and revenue (levy) collections more effectively, and, improved the collection and assessment of registration and return data, prior to issuing SMSFs with complying fund status.

Since 2003–04, the Tax Office has initiated significant steps to resolve deficiencies with the administrative and costing systems that support its regulation and registration of SMSFs which will be complemented by further changes to its SMSF management practices, as part of the introduction of the *Simplification Superannuation* reforms from 1 July 2007.

Audit Report No.53 2006–07 *Australian Federal Police Overseas Operations.* The nature of the Australian Federal Police (AFP), and what is required of this organisation, has changed significantly in recent years. A rapidly changing security environment has required a closer focus on national and international operational activities. The report concluded that the AFP has demonstrated a sound capability in responding quickly to international crises and made a positive contribution to the international efforts in the two case studies, Thailand and Solomon Islands.

The audit examined the efficiency and effectiveness of the AFP’s administration and management of its overseas deployments. The audit specifically examined two deployments and focused on strategic and operational planning and logistics. The deployment to the Regional Assistance Mission to Solomon Islands was a planned and long term commitment, and the deployment to Thailand in the aftermath of the December 2004 Asian Tsunami was a crisis-driven response to a specific event.

The unprecedented nature of the two deployments created a number of challenges for the AFP with regard to aspects of strategic planning. The AFP as an organisation has demonstrated a willingness to meet changing priorities and resolve emerging issues during the course of these deployments, and has sought to actively capture the lessons learned from new situations.

We considered that the AFP could fine tune some aspects of its planning and arrangements for capacity building missions, and that some of the agreements with other jurisdictions and professional associations would benefit from elaboration. The AFP would also benefit from having a panel of providers able to supply identified logistical capabilities in either crisis or ongoing situations, and a renewed focus on reintegrating personnel returning from overseas deployments.

Audits examining border security

Audit Report No.24 2006–07 *Customs’ Cargo Management Re-engineering Project.* The Australian Customs Service (Customs) is responsible for regulating the movement of goods and people across Australia’s borders and collecting customs duty and other revenue. Customs plays a vital role in preventing the illegal and harmful goods from entering Australia. The Cargo Management Re-engineering (CMR) project was to deliver new import and export processes, increased cargo management efficiency for industry and improved targeting of high-risk cargo.

The audit of Customs’ CMR project found that the management framework Customs had in place to support the project lacked many of the fundamentals necessary for the successful implementation of a large information communication technology project. Customs underestimated the complexity and the risks associated with the project and failed to properly respond to emerging issues and changes in risks. Customs did not have an adequate implementation strategy or business continuity plan. Insufficient time was allowed for system testing, particularly end-to-end testing. Problems with the Cargo Risk Assessment system also impacted on Customs’ ability to clear cargo and to target and assess high-risk cargo, increasing the risks to Australia’s border security and Customs’ revenue collection responsibilities. Customs has initiated a number of reviews to improve its processes, revised its organisational structure and is modifying the Integrated Cargo System to more closely align with user and business requirements. It is also taking steps to engage industry more actively.

Audit Report No.7 2006–07 *Visa Management Working Holiday Makers Report.* DIAC is responsible for managing the entry of people into Australia. This audit examined the department’s decision-making in granting visas to working holiday-makers, a category of visitor that has been growing rapidly in recent years. The department has been managing this rising workload using innovative techniques including Internet-based lodgement of visa applications. The audit examined departmental records for over 300 000 visa applications using computer-aided auditing software. It assessed the soundness of the department’s decision-making by testing for accuracy, completeness and reliability against migration legislation and business rules. It concluded that that decision-making is robust with a very high level of adherence to both legal and administrative requirements. The audit also identified some deficiencies in overseas posts’ adherence to migration law and a need to ensure that proper legal authority under the *Migration Act 1958* has been provided for computer-based decision-making.

Audit Report No.37 2006–07 Administration of the Health Requirement of the Migration Act 1958. The audit examined compliance of DIAC with its legislative responsibilities under the health requirement of the *Migration Act 1958*. It also assessed governance and cross agency coordination in the implementation of health screening, which is intended to protect Australia's borders from disease threats, and contain health costs and access to health services. DIAC had implemented a system for assessing the health of entrants into Australia. The audit identified several areas of administration to assist DIAC in improving the effectiveness of health screening of visa applicants. To set and implement the health requirement, DIAC requires technical advice. The audit concluded that more formal collaborative arrangements (such as a Memorandum of Understanding) between DIAC and DoHA would assist in defining agency roles and responsibilities, to ensure sound health screening policies and guidelines.

Audits examining project management

Report No.3 2006–07 Management of Army Minor Capital Equipment Procurement Projects. The Army Minors Program is an important means of delivering enhanced, replacement, and new capability to Army. The allocation to the Program for 2005–06 was \$64 million and the total cost of projects included in the Program as at 1 July 2005 was \$505 million. Projects included in the Program range from low value procurement to complex developmental projects. The audit examined the effectiveness of the management of Army Minor capital equipment procurement projects by Defence and the DMO and observed variability in the management of projects included in the Program. Delays in progressing projects and in delivering projects to schedule have occurred in the top 20 projects by value in the Program. DMO and Army have put in place a number of initiatives to improve the management and governance of the Program.

Report No.9 2006–07 Management of the Acquisition of the Australian Light Armoured Vehicle Capability. The audit examined the management of the acquisition of the Australian Light Armoured Vehicle (ASLAV) capability for the Australian Defence Force. The main focus of the audit was on the project and contract management of Phase 3 of the project which included the delivery of 144 ASLAVs, associated supplies and 113 retrofit kits for the Phase 2 ASLAVs. The report found that while a number of problems existed in the management of both the project and the contract, the ASLAV vehicles have generally been delivered in accordance with the contracted schedule. It was considered that initial planning time horizons for the delivery of the vehicles were overly optimistic. This meant that additional capabilities to be acquired for the vehicles (including commander's weapon stations, surveillance suites and simulators) which were to be delivered under Phase 2 of the Project, have not been provided to schedule.

Report No.10 2006–07 Performance Audit: Management of the Standard Defence Supply System Remediation Programme. The audit reviewed the outcomes of the Get Well Programme, and assessed how effectively a segment of the Defence supply chain (of which SDSS is one key component) was meeting selected maritime end user capability and reporting requirements. In order to achieve this, the audit reviewed three key maritime combatant forces: COLLINS Class submarines; Adelaide Class Guided Missile Frigates; and ANZAC Class Frigates. The report noted that this sample comprises some 50 per cent of the Navy's forecast budget.

The audit concluded that notwithstanding increased operational deployments and subsequent increased equipment use rates, there were material deficiencies in the ability of the Defence supply chain to provide consumable and replacement parts to end users in Navy. We also noted, amongst other things, that for the key roles associated with purchasing; inventory management; asset management; and information and security; there was a high degree of non compliance with required controls.

Audit Report No.20 2006–07 Purchase, Chartering and Modification of the New Fleet Oiler. The audit examined the purchase of a commercial off-the-shelf oil product tanker, the chartering of the tanker and its subsequent modification to fulfil the role as the Navy's new fleet oiler. The audit found that the modified vessel was delivered by the prime contractor and contractually accepted by DMO five weeks ahead of schedule on 7 August 2006, following which the vessel was commissioned as HMAS SIRIUS on 16 September 2006. At the time of delivery of the vessel, contractual deficiencies identified by the prime contractor included incomplete and untested modification work. The audit identified weaknesses in the administrative processes associated with the financial arrangements implemented by Defence and DMO, which included requirements under both the financial management framework and the Good and Services Tax (GST) legislation. Administrative weaknesses included adherence to the provisions for: public funds to be deposited into and held in Official Bank accounts; the prompt banking of public funds; and the requirement for authority to be given for the receipt and custody of public funds by non-public servants. Also, improvements were required in the processes to ensure there is a valid authorisation to approve payments from public funds and to debit amounts against an appropriation.

Audit Report No.28 2006–07 Project Management in Centrelink. This audit considered aspects of governance and procurement and contract management in Centrelink's management of Budget and internally-funded projects. During the 2005–06 financial year Centrelink managed 134 projects at a cost of \$144.7 million, about six per cent of Centrelink's departmental funding. Centrelink implemented a project management approach, the Centrelink Project Management Framework (CPMF) in 2000, which provides project management policies, procedures and tools to support project management. The agency also introduced the Centrelink Projects Office (CPO), an organisational unit with responsibility for supporting the proper control and governance of projects. Many aspects of the CPMF and CPO arrangements are structured in accordance with good governance principles for projects and Centrelink is continually improving its approach to project management. There are aspects which Centrelink may improve, and these are broadly around developing a 'portfolio of projects' perspective, that is, focussing on the benefits sought by the Government as well as on the achievement of individual projects in terms of producing the required results within budget and on time.

Audit Report No.34 2006–07 High Frequency Communication System Modernisation Project. This audit examined the procurement of the modernised High Frequency communication capability for the Australian Defence Force. The objective of the audit was to assess the effectiveness of Defence and the Defence Materiel Organisation's management of this procurement. The report found that at the execution of the prime contract, the requirements of the communication system were not clearly identified and that risks associated with software development and system engineering were acknowledged as being significant to the project. Risk mitigation

measures at the formation or the prime contract were less successful in addressing these risks than the contractor and Defence had expected. As a consequence of these issues, and the overall project complexity, the schedule has been extended three times. The report noted that significant risk remains in the delivery of ongoing aspects of the project including: the final fixed communication system by late 2007; and the upgrade of communications equipment fitted in selected Australian Defence Mobile Platforms such as ships and aircraft. Key areas where the report identified that project outcomes may have been improved include: the identification and resolution of risk in the pre-contract phase; the transition of risk into the contract; and the management of risks in the post contract phase.

Audits examining service delivery

Audit Report No.2 2006–07 Export Certification, Australian Quarantine and Inspection Service.

The audit assessed the systems, procedures, processes and resources used to: register premises and license exporters; monitor compliance with arrangements; and manage non-compliance. The report concluded that many aspects of the Australian Quarantine and Inspection Service's (AQIS's) administrative procedures support sound management of export certification. It has procedures in place to verify that establishments seeking registration to prepare products for export, and exporters seeking an export licence, meet legislative requirements. Its programmes of audits and inspections check compliance with the food safety and quarantine requirements of importing countries, and require establishments and exporters to take action to address identified non-compliance. Its services provide Australian exporters with the certification they require to access foreign markets. However, the report identified opportunities for AQIS to improve its administration of export certification by: improving guidance to industry on the requirements for registration and licensing; assuring audit quality and reliability; and better management reporting and performance information.

Audit Report No.12 2006–07 Management of Family Tax Benefit Overpayments. Through a series of debt prevention strategies and measures, the Family Assistance Office (FAO) has significantly reduced the incidence and extent of customer debt arising from the reconciliation of Family Tax Benefit (FTB) entitlements. In the first two years of the FTB Programme, (2000 and 2001) approximately 33 per cent of the FTB population incurred a reconciliation debt, whereas in the most recent two years, (2004 and 2005) the incidence of reconciliation debt has fallen to under 10 per cent of customers. FAO's strategies have significantly improved the quality of service delivery for these FTB customers. In contrast with the range of activities targeting reconciliation debt, the report noted that less attention had been paid to reducing the incidence of debt arising when FTB customers fail to lodge a tax return in support of their FTB claim. The amount of non-lodger debt incurred each year since 2000 has remained relatively stable. However, due to the reduced incidence of reconciliation debt, non-lodger debt now accounts for a greater proportion of the outstanding FTB debt stock than reconciliation debt.

Audit Report No.26 2006–07 Administration of Complex Age Pension Assessments. This audit considered aspects of service delivery within the Age Pension programme, specifically in relation to customers possessing income generating assets or income from business holdings. These assessments are referred to by Centrelink as complex assessments and are required to be processed by specialist Centrelink Officers known as Complex Assessment Officers (CAOs).

During 2005–06 Centrelink’s 166 CAOs processed approximately 50 000 complex Age Pension assessments involving annual payments of approximately \$400 million. Centrelink does have in place business processes that identify customers that require complex assessments when they first lodge a claim, and ensure that these are appropriately referred to CAOs, thus lowering the risk of an incorrect assessment. However, these processes are not always followed by Centrelink staff. Centrelink was unable to measure the activities and performance of CAOs, and did not have in place succession planning strategies to ensure that there are adequate numbers of CAOs in the future.

Audit Report No.30 2006–07 *The Australian Taxation Office’s Management of its Relationship with Tax Practitioners*. This audit examined the ATO’s implementation of the recommendations in Audit Report No.19, 2002–03, *The Australian Taxation Office’s Management of its Relationship with Tax Practitioners*, having regard to any changed circumstances, or new administrative issues, affecting implementation of those recommendations. The audit found that the relationship between the ATO and tax agents, which had been strained and tense at the time of the previous audit, had improved significantly. The ATO had fully implemented four, substantially implemented four, and had partially implemented one other of the report’s ten recommendations. Action on one recommendation hinged on the Government’s new legislative initiative. The report identified a number of areas where there was scope for improvement in the ATO’s management of its relationship with tax practitioners including: clarification of the role and functions of the Tax Agents Boards and the ATO; and improvements in the ATO’s approach to various tax agent compliance matters.

Audit Report No.32 2006–07 *Administration of the Job Seeker Account*. The audit assessed the effectiveness of the Department of Employment and Workplace Relations administration of the Job Seeker Account (JSKA) in ensuring its optimal usage in achieving job seeker outcomes. The report found that while DEWR’s overall approach to managing the JSKA was appropriate, DEWR could strengthen its administration by: improving the management of risks presented by particular Job Network member organisations and sites; placing greater reliance on controls operating within Job Network Member organisations that take effect prior to reimbursement of Job Seeker Account claims; and implementing and reporting on DEWR’s evaluation strategy.

Audit Report No.33 2006–07 *Centrelink’s Customer Charter Follow-up Audit*. This audit considered aspects of service delivery within Centrelink specifically, the Customer Charter, which is Centrelink’s primary means for advising customers of their rights (including access to feedback mechanisms), their obligations, and the type of services they can expect to receive. The Customer Charter also satisfies the Australian Government’s requirement, as set out in the Australian Government’s *Client Service Charter Principles* that all Commonwealth agencies, having an impact on the public, have a public charter. Centrelink has closely followed the guidance set out in the Client Service Charter Principles in conducting its latest Customer Charter review. Centrelink’s latest Customer Charter meets all the components of the Government’s *Client Service Charter Principles*, albeit that there are some areas which could be further improved. In the 2004–05 audit of Centrelink’s Customer Charter, the report concluded that while Centrelink had invested significantly in the development of its Charter, Centrelink’s Customer Charter only partially followed the mandatory elements of the Australian

Government's *Client Service Charter Principles* and either partially, or fully, met some of the recommended elements. In particular, there were no measurable service standards included in the Customer Charter. Since the last audit, Centrelink has closely followed the guidance set out in the Client Service Charter Principles in conducting its latest Customer Charter review, as well as addressing many of the findings and suggestions from the previous audit report. The revised Customer Charter includes both timeliness and quality service standards, a number of which include a specific timeframe for the provision of Centrelink's services.

Audit Report No.40 2006–07 Centrelink Review and Appeals System Follow-up audit. This audit considered aspects of service delivery within Centrelink specifically, the Centrelink's Review and Appeals system, which is a means for meeting customers legislative right to have a decision reviewed. The follow-up audit assessed the extent to which Centrelink had implemented the 10 recommendations from Audit Report No.35 2004–05, *Centrelink's Review and Appeals System*. The report found that three of the recommendations have been fully implemented, two substantially, two partially and there was limited progress on those remaining. Centrelink advised that the introduction of Centrelink's proposed new internal review model is subject to the availability of additional funding that would be required to operate this model. Accordingly, the impact that the proposed changes would have and whether they would result in the implementation of the outstanding recommendations from the previous audit report were not tested. We acknowledge that there is a need to contain the costs of the review process, however, it is equally important that the legislated rights of Centrelink's customers do not become secondary to negotiations on purchaser provider agreements.

Audit Report No.41 2006–07 Administration of the Work for the Dole Programme. Work for the Dole (WfD) is a work experience programme that has been operating since 1997 and is now well established within the wider community. DEWR's administration of the WfD programme was supported by sound business planning including risk assessment; appropriate contracts with Community Work Coordinators – the WfD service providers; and oral monitoring activities. In addition, DEWR's processing of Community Work Coordinator invoices for contract payments was found to be consistent with the terms and conditions of the contracts. Systematic analysis of computer records using auditing software to interrogate payments data demonstrated a high level of adherence to both conditions of the contract and to the department's business rules. WfD is a mature programme that been operating for approximately a decade. Overall, DEWR has adopted an appropriate approach to the ongoing administration of WfD and during the course of the audit implemented a number of refinements to its contractual arrangements with Community Work Coordinators. Consequently, the report did not make any recommendations in this audit. The report nevertheless mentions some area where enhancements might be considered.

Audits examining grants management

Report No.1 2006–07 Administration of the Native Title Respondents Scheme. The audit assessed the effectiveness of the Attorney-General's Department administration of grants provided under the Respondents Scheme. The audit found that, while the Attorney-General's Department effectively managed the overall administration of the grants programme, its

administration could be strengthened through clearer specification of performance measures; closer monitoring of grant commitment (individually and in total); and improvements to AGD's Data and Workflow Grants System.

Audit Report No.11 2006–07 National Food Industry Strategy, Department of Agriculture, Fisheries and Forestry. The audit assessed the Department of Agriculture, Fisheries and Forestry (DAFF's) management of the contractual arrangements in place to deliver the National Food Industry Strategy. The Strategy involves distribution of grants to industry aimed at increasing investment in research and development. The audit found that, overall, DAFF's management of the contractual arrangements was effective. DAFF has developed and implemented sound financial management arrangements for managing the funds provided to National Food Industry Strategy Limited (NFIS Ltd). DAFF's governance arrangements for oversight of NFIS Ltd were adequate; and there was an effective process for assessing, selecting and managing grants. The report also identified a number of areas where improvements could be made. These include: improving programme planning processes; putting in place adequate processes to assist staff in managing contracts; documenting all contract variations; and developing an information plan for collecting and analysing performance information in order to assess programme success.

Audit Report No.19 2006–07 Administration of State and Territory Compliance with the Australian Health Care Agreement. The objective of this audit was to determine whether Health adequately assessed the State and Territory Governments' compliance with their obligations under the terms of the Australian Health Care Agreements (AHCA). The main issues raised related to Health's responsibility to assess whether states and territories were complying with their obligations under the AHCA and to advise the Minister for Health. These obligations included adhering to the principles that all eligible persons had equitable access to free public health and emergency services on the basis of clinical need within an appropriate period; contributing substantial funding of their own and increasing this funding at a rate which at least matches the estimated cumulative rate of growth of Australian Government funding under the AHCA; and meeting certain performance reporting requirements. The report found that Health has developed and implemented a suitable framework to administer the AHCA. While there is scope for some improvement in the approach adopted, Health has taken into account the obligations of the States and Territories under the AHCA in providing advice to the Health Minister.

Audit Report No.36 2006–07 Management of the Higher Bandwidth Incentive Scheme and Broadband Connect Stage 1. The audit found that the management of the Higher Bandwidth Incentive Scheme and Broadband Connect Stage 1 programs had achieved their objectives. The Department of Communications, Information Technology and the Arts (DCITA) established an appropriate management framework to administer the programs that included comprehensive guidelines and regular data speed testing of providers. However, a lack of administrative resources led to inadequate controls over the assessment and payment of provider claims. The report estimates that between \$10.6 and \$12.4 million has been paid to providers for invalid or inaccurate claims as a result of inadequate controls over the assessment and payment of provider claims.

Audit Report No.38 2006–07 Administration of the Community Aged Care Packages Program. The audit assessed the effectiveness of the Department of Health and Ageing's (DoHA) management of the Community Aged Care Packages (CACPs) program in fulfilling its legislated objectives under the *Aged Care Act 1997*. We considered that, overall, DoHA has performed effectively in enhancing the number of new CACP places in ways that balance complex resource constraints. Interfaces of CACPs would be strengthened by a number of improvements outlined in recommendations resulting from the audit, such as the use and administration of Community Care Grants to stimulate the extension of CACP services to areas where there is unmet or poorly served need; improved monitoring of service provider performance, including the extent to which providers adhere to conditions of grants of places relating to special needs groups year-upon-year; and improved reporting to Parliament about the extent of unmet need and provider fulfilment of responsibilities, as required by the legislation.

Audit Report No.39 2006–07 Distribution of Funding for Community Grant Programmes. This audit considered aspects of governance and procurement in the Department of Families, Community Services and Indigenous Affairs' (FaCSIA's) administration of the distribution of funding for certain community grants programmes. In 2005–06, FaCSIA administered approximately 20 000 funding agreements, and administered \$1.029 billion in direct funding to a range of non-government service delivery outlets. FaCSIA had established generally sound governance arrangements to administer the Local Answers, Volunteer Small Equipment Grants (VSEG), Reconnect and Minor Capital Upgrade programmes. However, FaCSIA's administration of the approval processes for eight one-off grants to community organisations and the VSEG Round One 2004 was below the standard expected of Australian Government agencies. FaCSIA needed to clarify aspects of its interaction with the portfolio Minister and his or her office, in the processes to determine organisations eligible for grant funding. Given the fundamental importance of the approval process in relation to the expenditure of public funds, and for accountability purposes, it is critical that agencies have a clear understanding, and record, of ministerial decisions.

Audit Report No.45 2006–07 National Black Spot Programme. The National Black Spot Programme (now referred to as the AusLink Black Spot Programme) targets sites or sections of the road network that experience a high incidence of vehicle crashes and fatalities (referred to as 'black spots'). It is a key element of the Australian Government's aim to reduce the national road fatality rate by 40 per cent over the decade to 2010. In April 2007, the Federal Government announced that funding for the Programme would continue to 2013–14 and that, as of 2009–10, annual funding would increase from \$45 million to \$60 million. The report examined the administration of the Programme by DOTARS. As State road transport authorities play a key role in the administration of the Programme, the audit also examined the agency role performed, particularly in relation to the assessment and ranking of projects against the Programme criteria, and as the conduit through which funds are paid for the delivery of road works either by the state or local government. It also examined the delivery of road works by the states and local government. The evidence-based approach to nominating, ranking and approving National Black Spot Programme projects is consistent with better practice principles for road safety programmes. However, the current administration arrangements have not

consistently resulted in the highest priority road safety Black Spot projects being selected and funded. Further, project delivery arrangements do not provide DOTARS with sufficient assurance that approved road works are delivered as approved, in a timely manner, to address the road safety issue that underpinned the nomination and approval of the project for funding. A number of the audit recommendations were focused on addressing shortcomings under the current governance arrangements that have resulted in lower priority road safety projects being selected and funded. In addition, the report drew attention to the benefits of different programme delivery methods being kept under review by the Department, recognising that decisions on programme delivery are ultimately a matter for the Government.

Report No.46 2006–07 Management of the Pharmaceuticals Partnerships Program. The Program is small but complex and overall the audit found that it was effectively managed by the Department of Industry, Tourism and Resources. The communication strategy was effective in promoting the Program and processes for assessing and ranking applicants were developed and implemented. An effective strategy was also developed to monitor recipients' compliance with funding agreements. The Program is supported by a sound governance framework. However, there was no ongoing assessment of whether the Program is meeting its overall objective or sub-objectives. A proposed Program evaluation is designed to measure some important aspects of the Program but will not give a complete assessment on whether the Program's overall objective is being met because the industry-wide data being collected does not address the quality of the research and development activity being undertaken.



Appendix 5

Addresses and papers by the Auditor-General and senior staff

[David Rowlands](#)

Country Paper on System-based Audit
2007 ASOSAI Seminar
30 June 2007

[Peter McVay](#)

Presentation on ANAO Audit of Green Office Procurement
INTOSAI Working Group Meeting on Environmental Auditing
29 June 2007

[Michael McFarlane](#)

Performance Audit – ANAO Perspectives
Malaysian Technical Cooperation Programme
27 June 2007

[Fran Holbert](#)

Project Management in Centrelink:
Lessons from an ANAO performance audit
ACT Chapter, Australian Institute of Project Management
30 May 2007

[Andrew Morris](#)

Maintaining Effective Working Relations with Key Stakeholders
International Seminar on Performance Auditing
25 May 2007

[Steve Chapman](#)

Operational Risk and Compliance
Chartered Accountants Business Forum 2007
21 May 2007

[Michael Watson](#)

Preparing for an Audit
Institute of Chartered Accountants of Australia Business Forum
21 May 2007

[Ian McPhee PSM](#)

Governance: The ANAO's Contribution to Making It Happen
Queensland Regional Heads Forum
18 May 2007

[Sheila Bird PSM](#)

Better Practice Guide: Implementation of Programme and Policy Initiatives

Institute of Internal Auditors

24 April 2007

[Peter McVay](#)

The Regional Approach to Natural Resource Management

NSW Natural Resource Commission Forum

17 April 2007

[Fran Holbert](#)

Project Management in Centrelink: Lessons from an ANAO Performance Audit

Implementation Community of Practice sponsored by the Cabinet Implementation Unit

12 April 2007

[Ian McPhee PSM](#)

An ANAO Perspective of Records in Government

National Archives of Australia Seminar

04 April 2007

[Russell Coleman](#)

Good Recordkeeping — An ANAO Perspective

Records Management Association of Australia Conference

23 March 2007

[Ian McPhee PSM](#)

Performance Audit Reports: An Auditor-General's Perspective

National Public Sector Convention, CPA Australia

22 March 2007

[David Crossley](#)

ANAO's Role in Assisting the Tax Office to Manage Risk through Good Governance

Corporate Governance in the Public Sector, 10th Annual Conference

14 March 2007

[Sheila Bird PSM](#)

Better Practice Guide: Implementation of Programme and Policy Initiatives

Canberra Project Management Institute

7 March 2007

[Russell Coleman](#)

Contracting Activities — An ANAO Perspective

Department of Finance and Administration Seminar

1 March 2007

[Warren Cochrane and Carla Jago](#)

Key Outcomes of the 2005–06 Financial Statement Audit Process

CFO Forum

22 February 2007

Garry Pettigrove

Information Technology and the ANAO

The Australian Information Industry Association ACT section

19 February 2007

Barbara Cass

Country Paper — Agriculture, Forestry and Fisheries Industries

11th Tokyo International Audit Forum

13 February 2007

Steve Chapman

The Audit Board of the Republic of Indonesia's 60th Anniversary Celebrations

Emerging Issues and Global Challenges in Public Sector Audit in the 21st Century

National Seminar on Public Sector Audit: Enhancing Transparency and Accountability in

Managing State Finance

9 January 2007

Fran Holbert

The Public Sector, Evaluation and Beyond

Public Sector Program Evaluation Conference 2006

28 November 2006

John Reid

Internet Security in Australian Government Agencies

Computer Associates Forum

22 November 2006

Sheila Bird PSM

Better Practice Guide: Implementation of Programme and Policy Initiatives

Canberra Evaluation Forum

16 November 2006

Steve Chapman

Critical Issues in Government Financial Reporting

Malaysian Institute of Accountants

1 November 2006

Greg Mazzone

Internet Security in Australian Government Agencies

Defence Signals Directorate – IT Security Policy Forum

19 October 2006

Ian McPhee PSM

What Matters for Successful Implementation

Launch of the ANAO-PM&C Better Practice Guide: Implementation of Programme and Policy Initiatives

16 October 2006

[Fran Holbert](#)

Complex Projects in the APS

Office of Access Card: Department of Human Services

10 October 2006

[Robert Holbert \(Author: Brian Boyd\)](#)

Auditing Regulatory Frameworks for Economic Assets Post-privatisation

13th Annual Meeting of the INTOSAI Working Group on the Audit of Privatisation

27 September 2006

[John Reid](#)

Internet Security in Australian Government Agencies

CIO Forum

20 September 2006

[Sheila Bird PSM](#)

Audit as a Valuable Governance Tool

Executive Level Development Programmes

19 September 2006

[Fran Holbert](#)

An Auditor's Experience with Issues of Service Delivery in Human Services

Social Policy Implementation and Service Delivery Course: Master of Public Policy Degree program, Australian National University and Executive Masters program of the Australian and New Zealand School of Government

11 September 2006

[Ian McPhee PSM](#)

Simply Better Business: Creating opportunity through Risk Management

Risk Management Institution of Australasia Conference

8 September 2006

[Ian McPhee PSM](#)

How Accrual Accounting Enhances Governance and Accountability

CPA Public Sector Finance and Management Conference

17 August 2006

[Steve Chapman](#)

Compliance with the Government's Financial Management Framework

CPA Australia

10 August 2006

[David Crossley](#)

An Ethical Public Service in a Devolved Commonwealth Environment

Institute of Internal Auditors Australia, Canberra Conference 2006

27 July 2006

Appendix 6

Procurement activities

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

Performance against core purchasing policies

The ANAO's purchasing activities in 2006–07 have been undertaken in adherence with the objectives set out in the Guidelines, particularly in the contracting out of financial statement audits and its internal administration. Open tender processes were conducted to seek high quality services that provided value-for-money solutions for the ANAO.

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, essentially to take account of the mandatory requirements of the Guidelines. In some areas, we have established panels of contractors and consultants with particular capabilities to meet ongoing needs. The performance of these outsourced arrangements is outlined in the '*Management and Accountability*' section of this report.

Our *Annual Procurement Plan* for 2006–07 was published in *Austender* in June 2006.

We continue to consider a range of factors to ensure that our processes are fair and equitable and that all potential suppliers have opportunities to compete for our business.

Policy on the selection and engagement of consultants

We use 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 with legal advice.

Using an open tender process, we have selected and maintained a panel of consultants 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 our staff in setting up 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 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 2006-07. 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 2006-07 valued at \$10 000 or more

Name	Description	Contract Price \$	Selection Process ¹	Reason ²
Acumen Alliance (ACT)	Assistance in the review of leave balances	12 000	Direct source	B
Acumen Business Solutions (ACT)	Implementation of leave purchase amendment in PeopleSoft.	14 100	Direct source	B
Allanson Consulting	Statistical analysis for audit on Distribution of Grant Funding by FACSIA.	30 000	Panel	B
Allanson Consulting	Audit survey in relation to indigenous services.	24 000	Panel	B
Allanson Consulting	Assistance with data analysis in the audit of the management of customer debt in Centrelink.	36 500	Panel	A
Allanson Consulting	Provision of specialist survey data interpretation, sampling expertise and statistical services	15 000	Panel	B
Allanson Consulting	Statistical Analysis for audit on the Senate Order.	10 560	Panel	B
Allanson Consulting	Sampling and analysis of the Department of Industry, Tourism and resources Grants Database.	18 000	Panel	B
Applied Financial Diagnostics	Advice on financial risks in relation to the audit of the Regional Partnerships Programme, for a venture capital project. ²⁹	19 400	Panel	B

²⁹ Each of the four listings for *Applied Financial Diagnostics*, were separate contracts for analysis of different funded projects. Each contract involved payment of a daily fee up to a fixed financial cap. In each case, the consultants took more days than was budgeted, at no additional cost to the ANAO.

Name	Description	Contract Price \$	Selection Process ¹	Reason ²
Applied Financial Diagnostics	Advice on financial risks in relation to the audit of the Regional Partnerships Programme, for a project where the funding recipient entered liquidation.	19 400	Panel	B
Applied Financial Diagnostics	Advice on financial risks in relation to the audit of the Regional Partnerships Programme where the applicant was also undertaking a capital raising programme.	19 400	Panel	B
Applied Financial Diagnostics	Advice on financial risks in relation to the audit of the Regional Partnerships Programme where the applicants contribution relied on bank finance.	19 400	Panel	B
Consolve	Assistance with the feasibility study, business case and tender process for the Electronic Data and Records Management Systems (EDRMS) Project.	70 000	Select tender	B
Consolve	Review records management policy and develop guidelines	20 000	Select tender	B
Consolve	Review of resource management processes and systems.	35 000	Select tender	B
Courage Partners	Assistance with independent contractors superannuation audit.	75 900	Panel	A
Deloitte Touche Tohmatsu	Review of Long Term Cost Report for Military Services Benefits Scheme (MSBS) for the 3-year period ending 30 June 2006	21 600	Direct source	B
Deloitte Touche Tohmatsu	Review calculations of unfunded liabilities for MSBS for the 2 yrs ending 30 June 2006.	17 300	Direct source	B
Enterprise Clarity	Advice on the extension of the ANAO UNISYS IT Services Contract.	21 875	Direct source	B
Ernst & Young	Accounting assistance in relation to AIFRS calculations.	14 300	Panel	B

Name	Description	Contract Price \$	Selection Process ¹	Reason ²
Ernst & Young	Actuarial services in relation to the Department of Veterans' Affairs.	37 900	Panel	B
Excelerated Consulting	Assistance with Business Intelligence System (TM1) and maintenance of the Audit Management System and time allocations.	40 000	Direct source	B
Haralambous Dowse & Associates	Consultancy on building refurbishment	10 000	Select tender	B
HBO EMTB Interiors (ACT)	Interior layout design exercise for 19 National Circuit BARTON ACT 2600	30 850	Direct source	B
Hugh Watson Consulting	Facilitator for EL Conference June 2007.	11 385	Panel	A
Hugh Watson Consulting	Facilitation for SES Conference November 2006.	12 600	Panel	A
Interwoven	EDRMS consultancy	110 000	Open tender	B
KPMG	Provide consultancy services for the HECS-HELP Performance Audit.	184 000	Panel	B
Lucid IT	IT Infrastructure Library (ITIL) consultancy and workshops	24 000	Direct source	B
Noesis Learning	Training needs analysis and strategy for the ANAO	20 000	Select tender	A
OBS	Upgrade intranet platform from Microsoft SharePoint 2003 to SharePoint 2007.	24 600	Select tender	B
OBS	SharePoint single sign-on service	10 300	Direct source	B
ORIMA Research	Client survey 2005-06	29 700	Panel	C
ORIMA Research	ANAO Staff Survey 2006-07	28 000	Panel	C
ORIMA Research	PASG Client Survey 2006-07	38 800	Panel	C
ORIMA Reseach	Conduct an online survey of APS agencies for audit of contracts for labour hire.	11 500	Panel	C
ORIMA Research	Preparation and administration of online surveys.	13 000	Panel	C

Name	Description	Contract Price \$	Selection Process ¹	Reason ²
PricewaterhouseCoopers	Assistance with HECS concessional loans audit.	22 033	Panel	B
PricewaterhouseCoopers Securities	Actuarial review of unfunded liabilities	17 600	Panel	B
Phillips Fox	Assistance with Regional Partnerships Program Audit	38 000	Panel	B
Recoveries Corporation	Advice in relation to the audit on ATO's debt collection	16 600	Select tender	A
Technology One	Finance One upgrade – software, testing and training	39 586	Direct source	B
Unisys	Advice and implementation of Two Factor Authentication.	14 000	Direct source	B
Walter Turnbull	Assistance with collaborative messaging review	20 000	Panel	B
	Total	1 318 189		

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.

A comparison of the total value of consultancy contracts valued at \$10 000 or more over the years 2004-05 to 2006-07 is set out below.

Table A6-2: Consultancy contracts valued at \$10 000 or more
2003-04 to 2006-07

Year	Amount (\$Million)
2004-05	1.375
2005-06	1.442
2006-07	1.318

Appendix 7

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ABBREVIATIONS



AASB	Australian Accounting Standards Board
AAS	Assurance Audit Services
ACAG	Australasian Council of Auditors-General
ADF	Australian Defence Force
AEIFRS	Australian Equivalents to International Financial Reporting Standards
ANAO	Australian National Audit Office
APS	Australian Public Service
AQIS	Australian Quarantine and Inspection Service
ASOSAI	Asian Organisation of Supreme Audit Institutions
ATO	Australian Taxation Office
AusAID	Australian Agency for International Development
AWA	Australian Workplace Agreement
BA	Biosecurity Australia
BCP	Business Continuity Plan
BPG	Better Practice Guide
BPK	Indonesian Audit Office
BSP	Business Support Process
CFCG	<i>Commonwealth Fraud Control Guidelines</i>
CMB	Corporate Management Branch
DCITA	Department of Communications, Information Technology and the Arts
DIAC	Department of Immigration and Citizenship
DMO	Defence Material Organisation
DOTARS	Department of Transport and Regional Services
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 Family and Community Services and Indigenous Affairs
FMA Act	<i>Financial Management and Accountability Act 1997</i>
FMIS	Financial Management Information System
GBE	Government Business Enterprise
GGS	General Government Sector
GST	Goods and Services Tax

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
INTOSAI	International Organisation of Supreme Audit Institutions
ISACA	Information Systems Audit and Control Association
ISS	Information Support Services
IT	Information Technology
JCPAA	Joint Committee of Public Accounts and Audit
OH&S	Occupational Health and Safety
PAS	Performance Audit Services
PSB	Professional Services Branch
PBS	Portfolio Budget Statement
SES	Senior Executive Service
TBL	Triple Bottom Line
The Act	<i>The Auditor-General Act 1997.</i>
WCF	Workplace Consultative Forum

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