



THE AUDITOR-GENERAL ANNUAL REPORT 2007–2008

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A copy of this report and other ANAO publications, as well as information on the ANAO, is available at the following Internet address:
<http://www.anao.gov.au>



16 October 2008

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 2008.

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

Ian McPhee
Auditor-General

HIGHLIGHTS

A summary of the highlights for 2007–08 is set out below.

- A comprehensive program of financial and performance audits and related products including better practice guides was delivered to inform the Parliament and the Government about public sector administration and performance.
- We issued 237 audit opinions of which 86 per cent were issued within two days of financial statements being signed.
- Our performance audit reports were influential in shaping public administration. We made 143 recommendations directed at improving agency performance and accountability; 93 per cent of these were agreed in full and seven per cent were agreed with some qualification.
- We continued to support the work of Parliamentary Committees, particularly the Joint Committee of Public Accounts and Audit and have assisted the Committee with its inquiries.
- We delivered a familiarisation program for all interested Ministers and members outlining the role of the ANAO and other matters of relevance.
- We piloted the presentation of our better practice guides using HTML technology which includes hyperlinks to selected websites.
- A concerted effort was made to reduce our carbon footprint which resulted in significant reductions in our water and electricity usage.
- We provided direct assistance to the audit institutions of Papua New Guinea and Indonesia, and hosted 307 visitors from many countries as part of our commitment to assisting with the development of public sector auditing internationally.

AREAS OF FOCUS FOR THE COMING YEAR

We expect 2008–09 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 opportunities for improvement in administration across the Australian Government Public Sector including work on important new areas of review such as our role in relation to government information and advertising campaigns, and major Defence capital equipment projects.
- Build our relationship with the new Parliament, particularly the JCPAA, to explain the work of the ANAO and our contribution to improving public administration.
- Work with agency audit committees to enhance awareness of our report recommendations.
- Place more emphasis on developing better practice guides in partnership with other agencies.
- Pursue initiatives to strengthen the continuing capability of the ANAO with emphasis on improving staff retention and attraction strategies, including a more structured training and professional development regime with a focus on leadership and skills enhancement.
- Continue to contribute to the auditing profession by maintaining our involvement in national and international auditing bodies.

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1 FOREWORD



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The ANAO—providing independent assurance to the Parliament and the community

As the external auditor of the Australian Government public sector, the ANAO provides an independent assessment of the performance and financial statements of Australian Government entities. Our audits form part of the overall accountability framework of government—they are designed to assist the Parliament to hold the Government to account, and to inform the Australian community about the state of public administration.

An overview of 2007–08

The past year has been a demanding one for the ANAO, as it has been for many of the departments and agencies we audit.

The ANAO has tabled a range of influential audit reports covering grants administration, defence project management, environmental programs, various aspects of taxation administration and the delivery of government programs and services. In addition, the ANAO completed the financial statement audits of all Australian Government controlled entities, some 237 in total, and made good progress in developing our approaches to the provision of assurance in relation to major Defence capital equipment projects and government information and advertising campaigns.

The election of a new Government and the resulting Machinery of Government changes required some changes in our work program—there was a need to audit ‘close down’ transactions for abolished departments, review the impact of the amalgamations of departments, and establish the auditing program for the new departments.

I am encouraged by the Government’s favourable view of the ANAO’s role in influencing change in public administration for the better in key areas. We continue to have a good working relationship with the Joint Committee of Public Accounts and Audit (JCPAA) and we enjoy the confidence of the Parliament and other clients for the way we discharge our statutory responsibilities.

Notwithstanding the support we receive, as an Office we are conscious that we need to continue to deliver audit services that are relevant, well targeted and to a high quality.

In the context of a demanding year, the ANAO has delivered on its published goals, with the exception of a shortfall in the number of performance audit reports tabled (44 reports against a target of 51). The reasons for this shortfall were essentially: the redirection of resources to higher priority activities such as the review of major Defence capital equipment projects; the need to allocate extra resources to complete major undertakings such as the performance audit of the Regional Partnerships Program; the allocation of resources from the Performance Audit Program to respond to requests by Ministers or Parliamentarians for the review of matters of immediate concern; and a

higher than anticipated level of staff turnover. However, I consider that the outcomes for our performance audit program for the year have been very influential in shaping public administration.

In summary, during 2007–08 the ANAO issued:

- 237 Financial statement audit opinions
- 2 Financial statement related reports
- 44 Performance audit reports
- 4 Better Practice Guides
- 3 *AUDITFocus* newsletters
- 3 *Opinions* newsletters

New Ministerial arrangements for the ANAO

The Prime Minister advised of a change in ministerial arrangements relating to the ANAO in February 2008. Senator Faulkner, Cabinet Secretary and Special Minister of State, has assumed ministerial responsibility within the Prime Minister's portfolio for the ANAO. This is consistent with Senator Faulkner's responsibilities for matters relating to public sector integrity. Decisions relating to audit matters remain with me as Auditor-General, as provided for in the Auditor-General Act 1997.

We remain as part of the Prime Minister's portfolio and, importantly, I will continue to have access to the Prime Minister should any significant matters arise. We look forward to developing this new relationship with the Special Minister of State.

Our continued support to the Parliament

The Parliament is our primary client and I place great store on maintaining and enhancing our good relationship with the Parliament and Parliamentary Committees.

The ANAO is proactive in assisting Parliamentary Committees through our work generally and providing assistance on matters where we have relevant audit experience. We have also contributed to the review by Senator Murray of budget transparency (Operation Sunlight). The ANAO also actively seeks to engage Ministers and other parliamentarians by providing briefings on our work and audits conducted in their areas of responsibility and interest.

Following a recommendation of the Senate Finance and Public Administration Committee in its report, *Transparency and Accountability of Commonwealth Funding and Expenditure*, the ANAO has agreed to provide the secretary of each Legislative and General Purpose Standing Committee with a synopsis of tabled audit reports relevant to their portfolio responsibilities. These briefs are provided to allow the committees to take our audit findings into account in Senate Estimates hearings.

The Joint Committee of Public Accounts and Audit (JCPAA)

The ANAO has a special relationship with the Parliamentary Joint Committee of Public Accounts and Audit. Both the *Auditor-General Act 1997* and the *Public Accounts and Audit Committee Act 1951* recognise this relationship.

I look forward to working with and assisting the new Committee in its work. I take this opportunity to congratulate Ms Grierson MP and Mr Georgiou MP on their appointment as Chair and Deputy Chair respectively. I would also like to specifically acknowledge the significant contributions of Senators Watson and Murray¹ to the work of the ANAO through their long and distinguished membership of the JCPAA, and the work of the Committee in providing recommendations for improved public administration.

The JCPAA provides a formal link from the ANAO to the Parliament, particularly as the audit committee to the Parliament, and advises the Auditor-General on the Parliament's audit priorities. The Committee reviews all audit reports and conducts public inquiries into selected audit reports. The JCPAA held hearings into five of our audit reports during the year, at which the ANAO gave evidence and assisted the Committee in its review work:

- Audit Report No 24 2006–07, *Customs Cargo Management Re-engineering Project*;
- Audit Report No 29 2006–07, *Implementation of the Sydney Airport Demand Management Act 1997*;
- Audit Report No 37 2006–07, *Administration of the Health Requirement of the Migration Act 1958*;
- Audit Report No 10 2007–08, *Whole of government Indigenous Service Delivery Arrangements*; and
- Audit Report No 21 2007–08, *the Regional Delivery Model for the Natural Heritage Trust and the National Action Plan for Salinity and Water Quality*.

Audits undertaken at the request of the Parliament, Ministers and Parliamentarians

While the Auditor-General is an independent officer of the Parliament and may not be directed by Ministers or Parliament as to audits to be undertaken, I am responsive to requests from the Parliament and its committees. During 2007–08, I tabled the following four audits after requests or recommendations by Parliamentary Committees:

- Audit Report No. 14 2007–08, *Performance audit of the Regional Partnerships Program*;
- Audit Report No. 28 2007–08, *Defence's Compliance with the Public Works Committee Approval Process*;

¹ Senator John Watson and Senator Andrew Murray retired from the Australian Senate on 30 June 2008.

- Audit Report No.29 2007–08, *Parent School Partnerships Initiative*; and
- Audit Report No.33 2007–08, *The National Capital Authority's Management of National Assets*.

Additionally, I have received a range of other requests which have been handled through correspondence. Two examples are the requests received from:

- Senator Conroy, concerning the probity of information provided to applicants under the Broadband Connect Infrastructure Program (BCIP) and the selection process—my response was published on 5 July 2007; and
- The Hon Bruce Billson MP, regarding concerns in relation to the fairness, transparency, probity and value for money of the National Broadband Network procurement process—my response was published on 23 May 2008.

Our audit work—making a positive impact on public administration, and enhancing accountability

A review of our work over the years shows that, in many areas, successive governments have acted to improve public administration following the tabling of our audit reports. The work we undertake on audits directly, the effort we devote to publishing guidance on better practice, and our newsletters (*AUDITFocus and Opinions*) highlight messages for the benefit of the Parliament and the public service as a whole. These publications provide a positive stimulus for improved public administration and enhanced accountability.

Financial statements audits

As is our normal practice, the results of the 2006–07 financial statement audit program of government entities were tabled in December. The audit report on the Consolidated Financial Statements (CFS) of the Australian Government for 2006–07 was unqualified for the first time in many years due mainly to two factors:

- the qualification concerning Defence inventory was removed as its impact on the CFS was not material; and
- the Government recognised Goods and Service Tax revenue in the CFS in accordance with the accounting standards, reversing the policy adopted in the preparation of the CFS in previous years.

The ANAO has increased its attention to key areas of legislative compliance as part of its financial statement audits and this effort, together with the requirement for Chief Executives of FMA agencies to provide an annual Certificate of Compliance, is bearing fruit. The 2006–07 audits indicated that entities have a stronger focus on legislative compliance in respect of annual appropriations, special appropriations, annotated appropriations, special accounts and the investment of public monies.

For the 2007–08 financial statement interim audits, a key element of our audit effort was directed towards the way agencies have implemented the changes resulting from the Administrative Arrangements Order of 3 December 2007, and the management of major IT change programs as they impact on agencies’ financial statements.

Performance Audits

In 2007–08 the ANAO’s performance audit coverage focussed on public sector governance arrangements, administration of border security, the implementation and delivery of government programs and services, grants administration and environmental issues.

One measure of the impact of our performance audit work is the percentage of audit recommendations that are accepted by agencies for implementation—in 2007–08, all of our audit recommendations were accepted (93% agreed in full and 7% agreed with some qualification).

The majority of the ANAO’s performance audit work is focussed on assessing agency performance in relation to the implementation of government programs and initiatives. This reflects the increasing focus by governments and public sector entities on sound policy implementation and the seamless delivery of government programs and services.

I consider 2007–08 to be one of our most influential in recent times in terms of the outcomes of our work. The ANAO has tabled a number of reports that cover a diverse range of programs and highlight common issues being managed by public sector agencies in: the delivery of government services; the sale of Government assets (the 3rd tranche of the sale of Telstra), grants administration (including the Regional Partnerships Program, the Australian Rail Track Corporation, and the Tasmanian Forest Industry Development and Assistance Programs), Defence acquisitions; various aspects of taxation administration including data matching and analysis in tax administration; the preparation of the Taxation Expenditure Statement; the IT Refresh Program at Centrelink; and whole-of-government initiatives including the Indigenous Service Delivery Arrangements. A more detailed coverage of the impact of our performance audits can be found in Section 3 – Performance Audit Services.

An expanded audit assurance role

The ANAO has put mechanisms in place to respond to two new government initiatives that require the Office to provide assurance reports relating to the schedule, cost and capability delivered through major Defence capital equipment projects, and secondly, assurance that government information and advertising campaigns satisfy the Government’s advertising guidelines. These new responsibilities reflect the contribution the ANAO is able to make in key areas of public administration where it is critical that assurance is provided in relation to performance.

Major Defence capital equipment projects

ANAO is to be funded to annually review progress in major Defence capital equipment projects. This follows a JCPAA recommendation in late 2006. We see this as an important audit assurance assignment, separate from our usual assurance role in relation to financial statements, which is designed to provide greater accountability to Parliament for Defence's management of major capital equipment projects.

The ANAO is working with the Defence Materiel Organisation (DMO) to develop effective data collection and assessment procedures covering the cost, schedule and performance of major Defence acquisition projects. This involves a pilot containing nine projects and the production of an initial report to Parliament scheduled for November 2008. In subsequent years, the ANAO will work with DMO to increase coverage to some 30 projects.

Government information and advertising campaigns

On 2 July 2008 the Government announced new arrangements for administering government information and advertising campaigns. Under the new arrangements, Chief Executives of agencies, subject to the *Financial Management and Accountability Act 1997*, are responsible for certifying that all such campaigns with expenditure in excess of \$250,000 have been prepared in compliance with the new *Guidelines on Information and Advertising Campaigns by Australian Government Departments and Agencies*.

Except in rare circumstances, such as a national emergency, these campaigns cannot be launched until the ANAO has provided a report, to the relevant Minister, on the proposed campaign's compliance with the Guidelines. A Minister may also ask the Auditor-General to provide a report on campaigns valued at less than \$250 000 or which are sensitive in nature.

The report by the ANAO is designed to provide assurance, based on our review on whether any matter has come to our attention that causes us to believe the campaign does not comply with the Government's Guidelines. These reports will be provided following agreements with departments and agencies under section 20(1)(c) of the *Auditor-General Act 1997* and will be conducted in accordance with the Australian Standard on Assurance Engagements (ASAE) 3000, issued by the Australian Auditing and Assurance Standards Board.

Reports on individual campaigns will be available to the public on the ANAO website following the campaign launch. In addition, the ANAO will provide annual summary reports to Parliament on this aspect of our operations.

Promoting better practice

Our audit findings and recommendations in key topic areas are reinforced through our Better Practice Guides which are designed to provide practical guidance and promote better practice on specific areas of public administration. Our Better Practice guidance

issued in 2007–08 covers agency management of Parliamentary workflow, internal audit, fairness and transparency in purchasing decisions, and developing and managing internal budgets. Given the importance of grants management, the ANAO intends to up date its current guide to reflect the findings and recommendations of the Regional Partnerships performance audit.

Our Better Practice Guides continue to be well received by public sector agencies, other audit offices and professional organisations and are increasingly becoming important source documents for managers operating in an environment of devolved authority and responsibility. They are particularly valuable to small agencies that find it difficult to develop and maintain in-house expertise on the wide range of public sector management issues. This year we piloted the presentation of our Better Practice Guides on our website using HTML technology, with hyperlinks to selected websites, which significantly improved access to the document and related texts.

Our contribution to the Accounting and Auditing profession – nationally and internationally

The ANAO continues to support the accounting and auditing profession by providing comment on draft standards; speaking at conferences and seminars; and serving on professional bodies and committees. Senior staff members hold positions on the boards of Australian Society of Certified Practitioner Accountants (CPA Australia) and the Institute of Chartered Accountants, and other staff members are involved with the work of professional bodies through their committees. I continue to be a member of the Australian Auditing & Assurance Standards Board and the International Auditing & Assurance Standards Board.

Through our work generally and our support to the profession, the ANAO is recognised as an international leader in the provision of independent public sector audit. The ANAO is a member of, and contributes to, a number of international auditing bodies, including the International Organisation of Supreme Audit Institutions, (INTOSAI), the Asian Organisation of Supreme Audit Institutions, (ASOSAI) and the Pacific Association of Supreme Audit Institutions (PASAI).

Regional assistance

The ANAO participates in government programs and initiatives aimed at building sustainable audit capabilities and improving public administration in developing nations.

In this regard the ANAO is continuing its commitment to Australia's regional neighbours through our ongoing support of the Indonesian Board of Audit (BPK) and the Papua New Guinea Auditor-General's Office (AGO). We contribute to strengthening the capacity and capability of the respective offices through AusAID funded programs and in turn, contribute to improved governance and accountability in our region.

The ANAO provides financial statement and performance audit training and support to the BPK through short term visits to Indonesia. We also seconded five BPK staff to our performance audit and assurance audit service groups. Our PNG program involved the placement of two ANAO staff in the PNG AGO under the *Strongim Gavman Program* and the secondment of four PNG AGO staff to Australia as part of the graduate program.

Reducing the ANAO's carbon footprint

We are conscious that the ANAO's activities impact on the environment through our consumption of resources, and that we should set a good example in promoting environmentally friendly practices.

Accordingly, in conjunction with the building owner, we have made a concerted effort over the last year to reduce our carbon footprint. The measures taken include:

- a lamp replacement program involving the installation of more energy efficient T5 lighting. The savings associated with this initiative have been estimated at 267,000 to 344,000 KW hours per annum;
- upgrading the electricity and water metering to individual floors to enable better management of usage;
- upgrading hydraulic services; the installation of flow restrictors to hand wash basins and the introduction of waterless urinals to minimise water consumption;
- the introduction of new flat screen monitors throughout the office with an energy reduction of over 250 per cent per screen;
- the use of recycled paper in our corporate brochures which is at least 75 per cent recycled material; and
- introduction of a hybrid vehicle for office use.

The ANAO is reviewing its environmental management system to strengthen targets and to enhance our performance in line with best practice. Our Building Management Committee meets regularly to oversee the implementation of environmental property initiatives.

Current challenges facing the ANAO

Staffing – challenges and strategies

The ANAO has continued to commit considerable resources and effort to attract and retain qualified staff in a very tight labour market, particularly for accountants. This challenge is not unique to the ANAO—there is intense competition for qualified accounting and performance audit staff from within the APS, the private sector accounting firms as well as industry more generally.

Staff turnover in the ANAO for 2007–08 was running at some 30 per cent and the average tenure was 5.1 years. This turnover requires that a greater percentage of our managers' time be devoted to supervision and on-the-job training. However, our younger workforce has responded well to the challenge.

Reducing staff turnover and retaining sufficient capability to deliver our financial statement and performance audit programs thus remains a key focus for the ANAO. The ANAO continues to look for opportunities to promote the employment advantages of working in the Office. One significant advantage we have is the varied, wide-ranging and challenging work experiences we can offer. Other initiatives include:

- implementing strategies for retaining mature age workers, including flexible work arrangements that satisfy both parties;
- continuing to seek innovative solutions such as improved ICT tools, better systems, more comprehensive procedural guidance and manuals, and an enhanced learning and development program; and
- continuing to invest in our programs for graduates and undergraduates (taking on accountancy students on a part-time basis during their studies), our involvement in the APS wide recruitment of accountants initiative, and promoting the benefits of a career in the ANAO at job expos including in New Zealand.

Resourcing

The ANAO is also facing resourcing pressures which impact adversely on the scale of our discretionary audit work programs (performance audits and advising on better practice in public administration).

The ANAO's revenue from Government in 2007–08 was \$63.4 million. The estimated revenue from Government for 2008–09, excluding some new funding to undertake the additional work associated with reviewing major Defence acquisitions and Government information and advertising campaigns, will be \$61.7 million. This incorporates the 3.25 per cent efficiency dividend being applied to all public sector agencies in this year's budget. This reduction, in real terms, to our funding position requires that we manage a reducing expenditure trend line over the forward estimates period. This is made more difficult due to the significant increases in contract auditing costs which are incurred to supplement our employee workforce.

The ANAO sought additional funding in the 2008–09 Budget of some \$14.4 million over five years to undertake additional work. While we did not receive all of the funding sought, the Government has agreed to provide \$1.5 million annually to the ANAO from 2009–10 onwards, with initial funding of \$0.750 million for this year to allow the ANAO to proceed with the annual review of major Defence capital equipment projects. We have also received funding of 2008–09 of \$0.608 million for the new arrangements for reviewing Government information and advertising campaigns, part of a total \$2.455 million over the next four years.

We have taken steps to limit the impact of the budget constraints including closely reviewing our corporate expenditure. In 2008–09 the reduction will result in the target number of performance audits and better practice guides being reduced. In addition, we are modifying our approach to financial statements assurance work by: looking to a multi year review for systems assurance where appropriate; placing more reliance on management assurance processes; adjusting our compliance program where it does not directly affect the audit opinion; and limiting any growth in IT audit capacity.

Going forward, the JCPAA has flagged that the ANAO will not be able to continue to consistently deliver the outcomes expected of it by the Parliament, the Australian community and its agency clients on its existing funding base. The Committee made the point that the modest budget of the ANAO should be seen as a cost-effective mechanism for curbing waste and excess, and identifying areas for better administration on behalf of the Parliament and the Australian community.

I have written to the Government to propose that the Audit Office’s funding be placed on a more sustainable long-term footing, against the background that growth in the ANAO’s resource base has lagged well behind growth in the public sector over the past decade. This mismatch challenges the ANAO’s capacity to provide an effective audit coverage of the public sector.

To conclude

The high regard with which the ANAO is held is due to the commitment and professionalism of my staff in encouraging improvement in public administration and assisting the Parliament with its work.

Through the efforts of my senior leadership group and ANAO staff, I am confident we will meet our objectives in 2008–09, notwithstanding the challenges of staffing and resourcing pressures.

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, assisted by the ANAO, is responsible for undertaking audits of the financial statements and performance 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.²

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.

² With the exception of the conduct 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).



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

Organisation

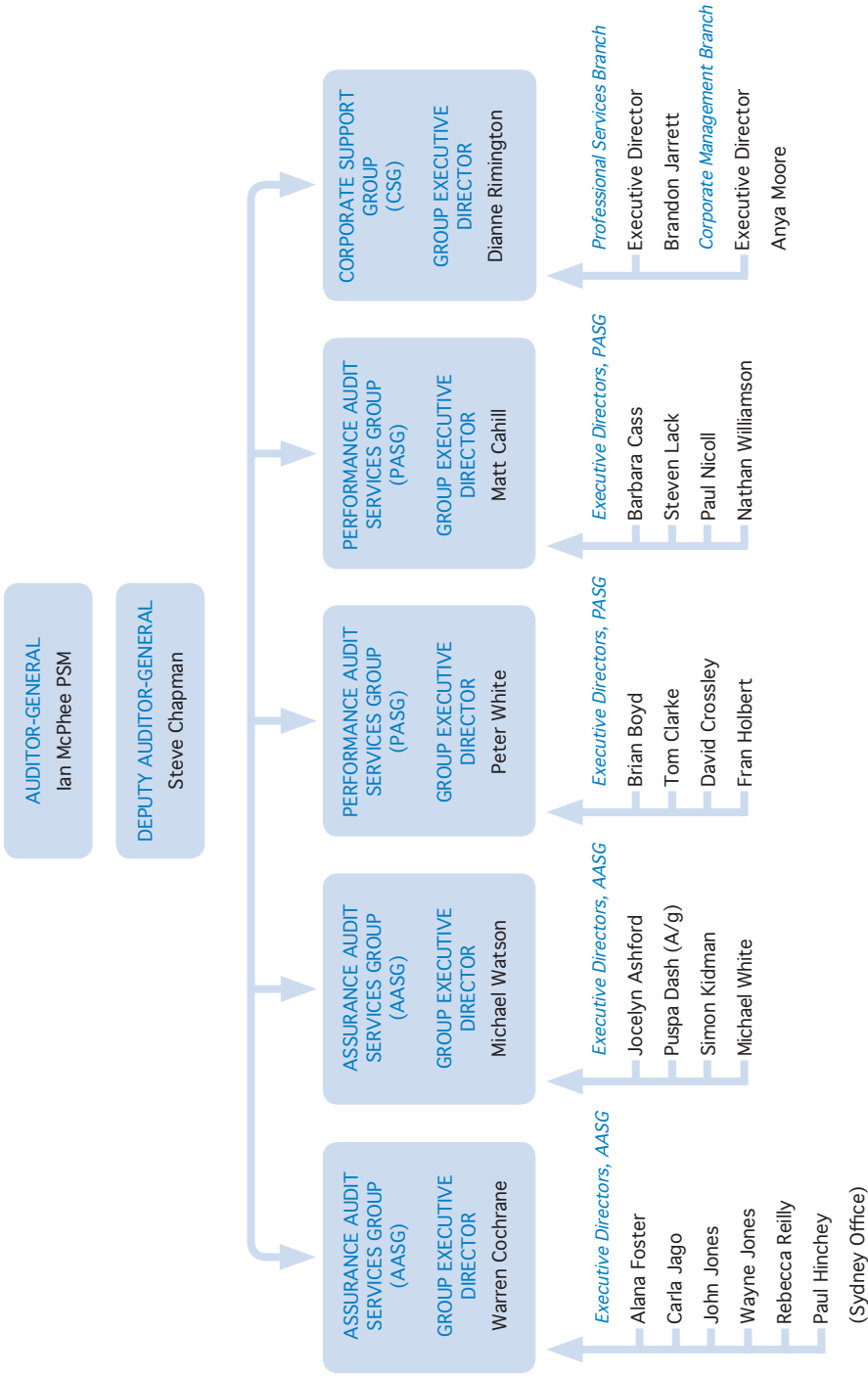
We are organised into three functional groupings. The Assurance Audit Services (AAS) Group provides independent assurance on the financial statements and financial administration of Australian Government public sector entities to the Parliament, the Executive, boards, chief executive officers and the 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 Corporate Support Group (CSG) provides administrative and technical support for our business operations.³ Administrative support is provided by Corporate Management Branch and professional services⁴ by Professional Services Branch.

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 2008, is shown in Figure 1.

³ Corporate Management and Professional Services Branches were brought together under the Corporate Support Group in 2007.

⁴ For example, technical support, quality assurance, professional newsletters and technical seminars.

Figure 1: Organisation and senior management structure as at 30 June 2008



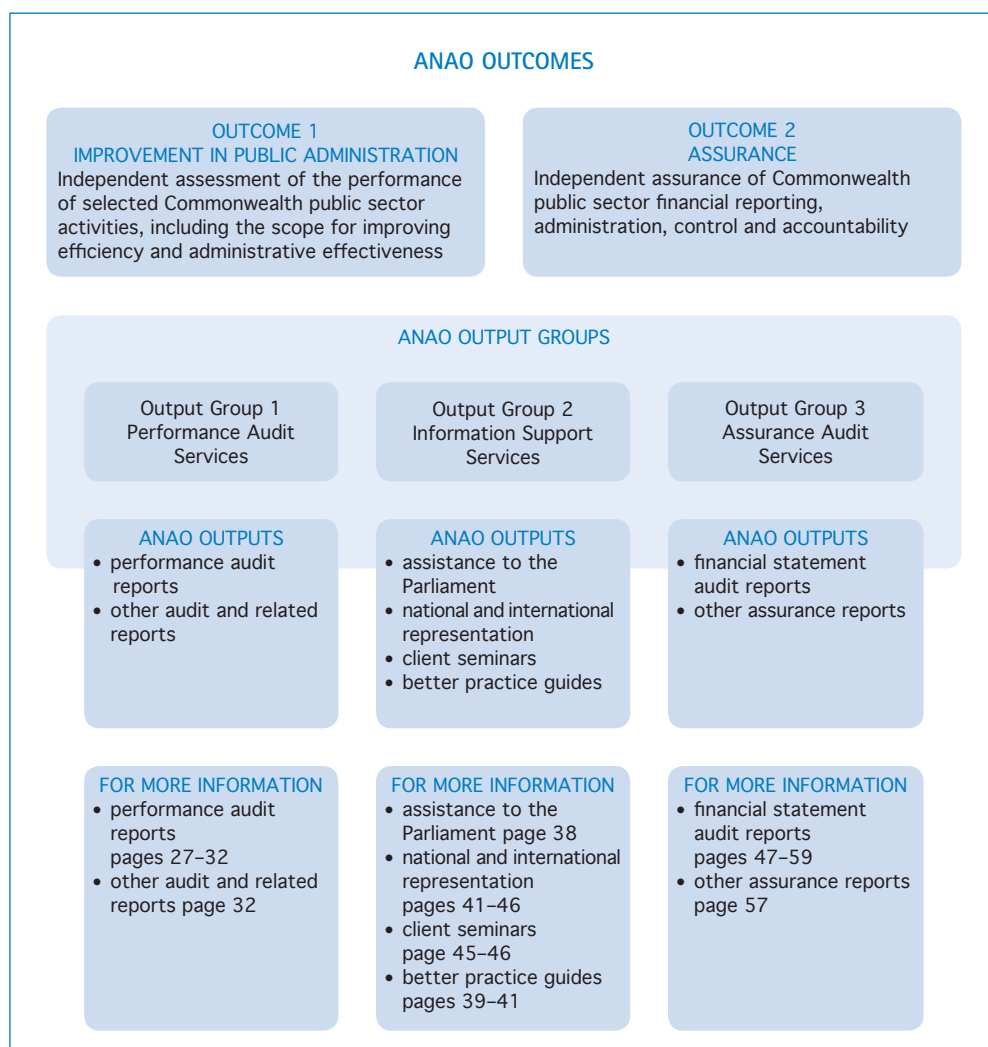
Outcome-Output framework

The following describes our Outcome-Output framework, as set out in the 2007–08 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 2007–08, 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 2007–08 and a commentary on our financial performance for the financial year are set out at Appendix 2.

Figure 2: Outcome–Output framework



Financial summary

Overall, our financial position remained sound during 2007–08 as a result of continued prudent management.

We continue 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 Appendix 2, 2007–08 Financial Results Commentary and Financial Statements.

The decrease in the operating surplus for 2007–08 (\$1 598 million) from 2006–07 (\$2 258 million) is due primarily to:

- increases in employee expenses flowing from the workplace agreement and depreciation; offset by
- reduced supplier services.

Our financial resources summary for 2007–08 is set out in Tables 1, 2 and 3.

Our 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.

Resources for outcomes

Table 1: Financial Resources Summary

Summary—ANAO by outcome	\$'000
	Actual
	2007–08
Outcome 1—Improvement in public administration	25 407
Outcome 2—Assurance	39 662
Subtotal Outcomes	65 069
Revenue from other sources	(3 221)
TOTAL PRICE FOR OUTCOMES	61 848
Revenue from Government (Appropriation) for Departmental Outputs	63 446
Operating Surplus	1 598
	\$'000
	Actual
	2007–08
Summary – By Output Group	
Output Group 1 (Performance Audit Services)	23 701
Output Group 2 (Information Support Services)	2 081
Output Group 3 (Assurance Audit Services)	39 287
Subtotal Outcomes	65 069
Revenue from other sources	(3 221)
TOTAL PRICE FOR OUTCOMES	61 848
Revenue from Government (Appropriation) for Departmental Outputs	63 446
Operating Surplus	1 598
Average Staffing Level	287

Table 2: Resources for Outcome 1

Outcome 1—Improvement in Public Administration

	\$'000 Budget 2007–08	\$'000 Actual 2007–08	\$'000 Variance	\$'000 Budget 2008–09
Price of Departmental Outputs				
Output Group 1 (Performance Audit Services)				
Output 1.1 Performance Audit Reports	21 700	23 701	2 001	20 079
Output 1.2 Other Audit and Related Reports	-	-	-	1 600
Subtotal Output Group 1	21 700	23 701	2 001	21 679
Output Group 2 (Information Support Services)				
Output 2.1 Assistance to the Parliament	520	381	-139	550
Output 2.2 National and International Representation	180	470	290	192
Output 2.3 Client Seminars	-	-	-	-
Output 2.4 Better Practice Guides	1 600	855	-745	1 693
Subtotal Output Group 2	2 300	1 706	-594	2 435
Subtotal Output Groups	24 000	25 407	1 407	24 114
Revenue from other sources	-620	-1 100	-480	-436
TOTAL PRICE FOR OUTCOME 1	23 380	24 307	927	23 678
Revenue from Government (Appropriation) for Outputs	24 000	25 029	1 029	24 114

Table 3: Resources for Outcome 2

Outcome 2—Assurance

	\$'000	\$'000	\$'000	\$'000
	Budget	Actual	Variance	Budget
	2007-08	2007-08		2008-09
Price of Departmental Outputs				
Output Group 2 (Information Support Services)				
Output 2.1 Assistance to the Parliament	100	27	-73	134
Output 2.2 National and International Representation	390	314	-76	537
Output 2.3 Client Seminars	-	33	33	-
Subtotal Output Group 2	490	374	-116	671
Output Group 3 (Assurance Audit Services)				
Output 3.1 Financial Statement Audit Reports	38 180	37 213	-967	36 972
Output 3.2 Other Assurance Reports	760	2 075	1 315	741
Subtotal Output Group 3	38 940	39 288	348	37 713
Subtotal Output Groups	39 430	39 662	232	38 384
Revenue from other sources	-1 553	-2 122	-569	-1 420
TOTAL PRICE FOR OUTCOME 2	37 877	37 540	-337	36 964
Revenue from Government (Appropriation) for Outputs	39 430	38 417	-1 013	38 384

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 2007–08 Portfolio Budget Statements (PBS) and our 2007–08 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 an understanding of the link between our products (outputs) and their resulting impacts (outcomes).

Portfolio Budget Statements Scorecard 2007–08

Whole of ANAO		Target	Actual
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
2	Public sector entities acknowledge the value added by ANAO products and services.	90% value role of ANAO	Assurance Audit Services 90% ² Performance Audit Services 79% ³
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
	Output Group 1: Performance audit services	Target	Actual
4	Number of performance audit reports to be produced.	51	44 ⁴
5	Percentage of audit recommendations supported by the JCPAA and other Parliamentary Committees.	90%	JCPAA Report No 412 was not tabled in financial year 2007–08.
6	Percentage of audits where public sector entities acknowledge the value added by the audit.	90%	93% of audit recommendations were agreed in full.
7	Quality assurance results indicate all reviewed audits meet ANAO Auditing Standards.	100% of reviewed audits	100%
8	Full costs of audit products and services are recorded and reported.	100%	100%

Output Group 2: Information support services		Target	Actual
9	Number of client seminar series.	2	5
10	Number of better practice guides to be produced.	4	4
11	Seminar topics meet the needs of participants.	75% satisfaction level.	95% of those who provided feedback indicated the seminars met their objectives and that the course content was useful.
Output Group 3: Assurance audit services		Target	Actual
12	Number of financial statement audit opinions to be issued.	240	237 ⁵
13	Number of financial statement related report products to be produced.	2	2
14	Number of other audit opinions/ reviews.	2	1 ⁵
15	Timeliness of issuing financial statement audit opinions.	100%	86% issued on the day or within two working days of signing the financial statements. ⁶
16	Percentage completed in accordance with agreed timeframes (financial statements).	100%	76% ⁷
17	Quality assurance results indicate all reviewed audits meet ANAO Auditing Standards.	100%	Quality assurance completed. Results have highlighted greater attention is required to demonstrate compliance with the auditing standards, particularly in relation to documenting audit work.
18	Full costs of audit products and services are recorded and reported.	100%	100%

Notes:

1. Parliamentary Survey, May 2005 (next survey due for completion second half of 2008).
2. AASG Client Survey, March 2008.
3. PASG Client Survey as at August 2008. The results of this survey are being evaluated.
4. Includes Business Support Process and Protective Security Audits. The reasons for this shortfall include: the redirection of resources to higher priority activities such as the major Defence capital equipment projects, the need to allocate extra resources to complete major undertakings such as the performance audit of the Regional Partnerships Program and the need to divert resources from the Performance Audit Program to respond to requests by Ministers or Parliamentarians for the review of matters of immediate concern; and a higher than anticipated level of staff turnover.
5. The actual number of audit opinions is dependent on the number of entities subject to audit which, in turn, is dependent on legalisation and government decisions.
6. Our objective is to issue the audit opinion on the same day as the signed financial statements are received by the ANAO. However, closure within two days is considered acceptable. We continue to work with entity CFO's to improve this result.
7. Performance under this indicator is the responsibility of entities, however, we continue to work closely with entity Audit Committees and CFIO's to improve this result.

Business Plan Scorecard 2007–08

As well as the targets set in the Portfolio Budget Statements, our 2007–08 Business Plan included a number of additional targets, which are set out in the table below.

Activity		Target	Actual
1	Staff satisfaction is at an acceptable level.	>70%	67% ¹
2	Staff turnover is at an agreed level.	<18% turnover	30% ² We operate in a highly competitive market for accounting skills. Recruitment and retention strategies and performance are closely monitored.
3	Public sector organisations 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.	Assurance Audit Services 91% ³ Performance Audit Services 81% ⁴
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 training.	75% of surveyed staff indicated that the professional development they received helped them to improve their performance. 31% indicated the improvement was high to very high. 44% indicated a moderate improvement.
5	Staff acknowledge ANAO values and behaviours are exhibited in the workplace.	85% of staff considers that the ANAO values of respect, integrity and excellence are exhibited in the workplace.	An average of 79% of staff surveyed agreed that the ANAO values and behaviours are exhibited in the workplace. ⁵
6	Implementation of Business Plan action items within agreed timeframes and standards.	100%	All projects have been completed or are ongoing activities.

Notes:

1. ANAO Staff Survey August 2008. The results of this survey are being evaluated. Emphasis is being placed on our learning and development and induction programs.
2. An ANAO wide target, which measures the number of staff leaving as a percentage of total ANAO staff.
3. AASG Client Survey March 2008.
4. PASG Client Survey as at August 2008. The results of this survey are being evaluated.
5. ANAO Staff Survey August 2008. The results of this survey are being evaluated. This issue will also feature in the delivery of our leadership program.

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 2007–08. 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 (GBE) or any of its subsidiaries. The Auditor-General may conduct a performance audit of a fully owned GBE or its subsidiaries if the responsible Minister, the Finance Minister or the Joint Committee of Public Accounts and Audit (JCPAA) request 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 is 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) produced by the ANAO 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 program activity. Cross-portfolio or cross-agency performance audits, which include business support process audits and protective security 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.



PAS staff members, from left, Rosanne Lawrence, Charles Higgins and Anne Svarcas.

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.

PAS staff members from left, Rosanne Lawrence, Charles Higgins, Anne Svarcas.

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.

Performance Audit Work Program

Our Performance Audit Work Program is developed annually in consultation with the JCPAA and audited entities. The JCPAA also seeks and coordinates comments from other Parliamentary committees on the 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.

Audit activity is planned having regard to risks; financial materiality; program significance; audit impact; visibility of the program; the extent of recent audit and evaluation coverage; and broad themes derived from the audit planning process. The performance audit themes identified in the 2007–08 *Planned Audit Work Program*⁵ are set out below:

- governance (including whole of government initiatives, financial management, information system integrity, and compliance with policy and legislative requirements);
- administration of border security;
- program implementation;
- service delivery;
- grants administration; and
- the environment.

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, noting that audits may address more than one theme in the coverage of the issue.

Governance

The broad area of governance continues to be a major focus for performance audit activity. In 2007–08, a wide spectrum of topics were covered under this theme including for example: the National Cervical Screening Program; Australian Apprenticeships; whole of government indigenous service delivery arrangements; Pathology Quality and Outlays Memorandum of Understanding (MOU); Senate Order for Departmental and Agency contracts; taxation administration and management of related compliance risks; data integrity in the Child Support Agency; management of cost recovery; and Defence's compliance with the Public Works Committee approval process.

Administration of border security

Australia's border security arrangements involve a considerable number of functions and activities across a number of Australian Government entities. In 2007–08, audits under this theme included: electronic travel authority; Customs' container examination facilities; and Australia's preparedness for a human influenza pandemic.

Program implementation

The delivery of many Australian Government programs involves the application of knowledge, skills, tools and techniques to a range of activities to meet specified project requirements and outcomes. The audit on the administration of building certification of residential aged care homes was carried out under this theme in 2007–08.

⁵ Available from the ANAO's website <http://www.anao.gov.au>.

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, government and the community. In 2007–08 audits carried out under this theme included: the implementation of Centrelink’s proof of identity framework; Australian Taxation Office’s administration of Australian Business Number registrations; accuracy of Medicare claims processing; management of Australian Public Service recruitment; and management of national assets.

Grants administration

Many Australian government entities administer significant grants program funding to a wide variety of public and private sector recipients and effective program management represents an important service to the community. Audits carried out under this theme in 2007–08 included: Australian Technical Colleges Program; Regional Partnerships Program; Automotive Competitiveness and Investment Scheme; Australian Rail Track Corporation; Tasmanian Forest Industry Development and Assistance Programs; and Parent Schools Partnerships Initiative.

Environment

Environmental issues continue to be matters of widespread interest. The audit of the Regional Delivery Model for the Natural Heritage Trust and the National Action Plan for Salinity and Water Quality was carried out under this theme in 2007–08.

Inclusion of agency comments in audit reports

Maintaining a relationship of professional co-operation with the audited agency during an audit is of crucial importance to the ANAO. To facilitate this, we consult fully with agencies during the planning stages, provide early information on the audit approach and objectives, maintain open and regular communication with the agency, 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 agency. If the recipient of the proposed report gives written comments to the Auditor-General within 28 days of receiving the report, the Auditor-General must consider them before preparing a final report.

In its Report 386 *Inquiry into the Auditor-General Act 1997*, tabled in September 2001, the JCPAA recommended a number of amendments 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.

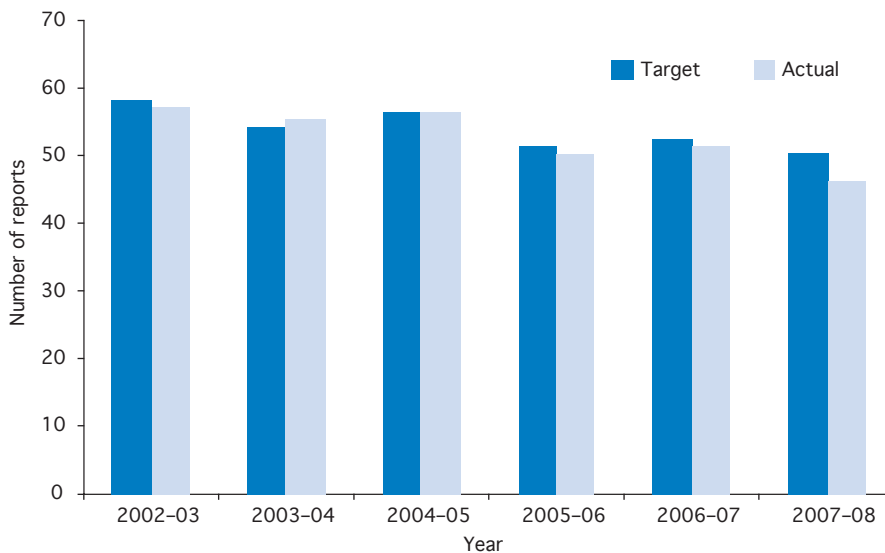
Performance

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.

Number of reports

For 2007–08, we tabled 44 performance audit reports against a target of 51. We did not meet our target this year due to the need to redirect resources to higher priority activities such as the major Defence capital equipment projects initiative, the need to allocate extra time to complete major undertakings such as the performance audit of the Regional Partnerships Program, and the need to divert resources from the Performance Audit Program to respond to requests by Ministers or Parliamentarians for the review of matters of immediate concern; and a higher than anticipated level of staff turnover. Figure 3 shows the number of performance audit reports produced under this output over the past six years.

Figure 3: Number of performance audit reports



Performance measures

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’.



PAS staff member Michael Shiel during audit fieldwork.

Average timeframes and costs

The average time taken to complete a performance audit report was 11.4 months, with a range from 6.8 to 21.4 months. (In 2006–07, 12.3 months with a range from 5 to 24 months). The average cost (including overhead allocation) was \$ 0.394 million with a range from \$0.13 million to \$1.2 million (In 2006–07 \$0.368 million with a range from \$0.170 million to \$0.665 million).

Cost of performance audit services

Performance audit services consumed \$23.701 million in 2007–08 (\$21.724 million in 2006–07).

Other audit-related products

We publish a comprehensive annual audit work program each July. The work program provides a portfolio level view of currently underway, potential and reserve audit topics. While not all audits listed will be commenced, the publication does assist agencies by providing a clear indication of our areas of interest.

Planned Audit Work Program 2008–09

We developed the *Planned Audit Work Program 2008–09*⁶ during the latter half of 2007–08. 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 2008 and lists performance audit topics from which audits for 2008–09 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.

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 by the Parliament, as our principal stakeholder, and the client entities being audited.

Outcome 1 is measured through achievement of performance objectives 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 the ANAO Scorecard. 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.

Joint Committee of Public Accounts and Audit

The JCPAA reviews all audit reports and conducts public inquiries into selected audit reports. The ANAO assists the JCPAA in its review work by providing submissions and background information to Committee hearings.

⁶ The Audit Work Program 2008–09 is on our website <<http://www.anao.gov.au>>.

The JCPAA held enquiries into a number of our audits during the year. The reports of this work had not been completed by 30 June 2008. The reports examined by the JCPAA in 2007–08 are listed below:

- Audit Report No.24 2006–07, *Customs Cargo Management Re-engineering Project*;
- Audit Report No.29 2006–07, *Implementation of the Sydney Airport Demand Management Act 1997*;
- Audit Report No.37 2006–07, *Administration of the Health Requirement of the Migration Act 1958*;
- Audit Report No.10 2007–08, *Whole of Government Indigenous Service Delivery Arrangements*; and
- Audit Report No.21 2007–08, *the Regional Delivery Model for the Natural Heritage Trust and the National Action Plan for Salinity and Water Quality*.

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

There were four audits tabled during the year as a result of a formal request of the Parliament:

- Audit Report No. 14 2007–08, *Performance Audit of the Regional Partnerships Program* was conducted in response to a recommendation of the Senate Finance and Public Administration References Committee report into the Regional Partnerships and Sustainable Regions Programs.
- Audit Report No. 28 2007–08, *Defence's Compliance with the Public Works Committee Approval Process* was conducted at the request of the Joint Standing Committee on Public Works.
- Audit Report No.29 2007–08, *Parent School Partnerships Initiative* was conducted in response to a recommendation from the Senate Employment, Workplace Relations and Education References Committees report into indigenous education.
- Audit Report No.33 2007–08, *The National Capital Authority's Management of National Assets* was suggested by the Parliamentary Joint Committee on the National Capital and External Territories.

A summary of each audit is presented in Appendix 4.

Contribution to public sector entities

Implementation of recommendations made in audit reports is not mandatory and agencies will therefore consider each recommendation on its merits. A major outcome from our performance audit work is improvement in management and administration of major Australian Government programs brought about by entities' acceptance and implementation of recommendations made in our audit reports. Performance audit reports also provide assurance to the Parliament about the way an area of public administration is being conducted.

During 2007–08, we produced a wide range of performance audits focussed on improvements to public administration. These audits not only had a direct impact on the specific area under review, but also provide opportunities for improvements for the broader public sector. For example Audit Report No. 14 2007–08, *Performance Audit of the Regional Partnerships Program* included recommendations aimed at achieving more effective and accountable governance arrangements for discretionary grants programs that involve Ministers making key decisions about projects which are to receive public funding. The audit reminded agencies of their key responsibility to advise Ministers of the statutory obligations that apply whenever considering whether to spend public money, and identified an opportunity for the financial framework to be improved by requiring the reasons for such decisions to be documented.

A key result of this and other reports focussed on the theme of grants administration, such as Audit Report No. 26 2007–08 *Tasmanian Forest Industry Development and Assistance Programs*, has been to improve grants administration more generally across the Public Sector. These audits have resulted in increased attention to grants programs drawing on the lessons from such audits. To help sustain this impact, our 2008–09 program includes issuing an update of our Better Practice Guide on grants administration.

Other examples involving significant contribution to public administration include Audit Report No. 31 2007–08 *Management of Recruitment in the Australian Public Service* which outlined opportunities to adopt more strategic approaches to recruitment. Audit Report No. 32 2007–08 *Preparation of the Tax Expenditures Statement* identified opportunities for more complete and reliable reporting on the extent of tax concessions and other tax expenditures, with the aim of the Government and the Parliament being better informed about the impact of relief provided from Commonwealth taxes and charges, and being better positioned to make decisions relating to trade-offs between such relief and other Budget priorities.

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, disagreement will occur on some occasions and when this happens, agency comments are included in full in the final report.

For 2007–08, we made 143 recommendations in our audit reports to improve agency performance and accountability. These recommendations are sometimes presented in parts for clarity, such that it is possible to agree with parts of one recommendation and disagree with other parts. Of the 143 recommendations 133, (93 per cent) were fully agreed in all parts. The remaining 10, (7 per cent) were agreed but with some qualification.

This is a slight improvement compared with the 2006–07 result where 92 per cent of our recommendations were fully agreed and 7 per cent were agreed overall, but with some qualification. Two recommendations were not agreed in 2006–07.

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 survey and an interview with the responsible manager. The completion of the survey is performed by a firm of consultants that is engaged by the ANAO, but is independent of the performance audit teams.

Based on a limited number of responses received for the 2007–08 reporting period⁷ the consultancy firm reported a reduction in our performance compared with the results of the December 2006 survey reported in the 2006–07 Annual Report. In particular, there was a fall in auditees acknowledgment of the value added by ANAO products and services and perceived level of professional knowledge demonstrated by the ANAO audit teams. The results of this survey are being evaluated.

In terms of overall performance, agencies continued to rate our conduct of performance audits positively. Some key results are set out below:

- 81 per cent of respondents considered that the audit team demonstrated that they had the professional knowledge and audit skills required to conduct the audit; and
- 96 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.

⁷ These results cover 26 of the 46 audits tabled in 2007–08.

Quality assurance

We continued our program of quality assurance reviews of selected performance audits in 2007–08. The objective of the Quality Assurance Review Program is to confirm performance audits are completed in accordance with the ANAO Auditing Standards and ANAO policy. The review of performance audits tabled in 2007–08 found that, across the audits examined, there was general compliance with these standards although there was room for improvement in documenting the fieldwork phase of performance audits and associated review of that fieldwork.

A peer review arrangement for performance audits involving the ANAO and the New Zealand Audit Office commenced in 2000. This review complements our quality assurance program with two performance audits from each Office reviewed every two years. This arrangement aims to strengthen performance audit practice at both Offices through providing constructive feedback and sharing better practices; this reflects a dual focus of compliance and adding value.

During the year the New Zealand Controller and Auditor-General reported the results of a review of two ANAO audits tabled in 2006–07. He reported that an overall strength of the ANAO, from the performance audits reviewed, is a robust process for conducting performance audits; he also reported good compliance with this process. The suggested areas for enhancement centred on the final presentation and readability of audit reports. These suggestions, together with the quality assurance findings, are taken into account during ongoing review of performance audit practice.

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 2007–08 were:

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

Through our work in this Output Group, we aim to provide the Parliament with general assistance relating to relevant public sector agencies and service-wide issues. We also aim to provide audit clients with practical insights into achieving better financial management and control within their own organisations, as well as advice on better management practice by way of our BPGs. Additionally, we contribute to the work of, and benefit from, our association with the global auditing community.

Assistance to the Parliament

Consistent with past practice, we continued to actively support the work of 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 \$0.408 million in 2007–08 (\$0.384 million in 2006–07).

Better Practice Guides

BPGs contribute to improved 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 particularly by providing guidance in areas where improvements are warranted.

Depending on the subject, BPGs may be developed utilising information collected during an audit or prepared as a result of an identified need to provide guidance material in a particular area of public administration.



AAS staff members from the left Neil Young, Dominika Wolska, Joe Rodrigo.

Performance

The primary performance measure for this output is the number of products and services published during the year. In 2007–08, the target of four BPGs was achieved. Our BPGs continue to be well received by public sector agencies, other audit offices and professional organisations.

BPGs published in 2007–08

The four BPGs published in 2007–08 are described below.

Fairness and Transparency in Purchasing Decisions: Probity in Australian Government Procurement (August 2007). This BPG provides guidance on the important topic of probity in public sector procurement. The probity guidance applies to agencies subject to the *Financial Management and Accountability Act 1997* (FMA Act) and relevant bodies subject to the *Commonwealth Authorities and Companies Act 1997* (CAC Act). While the legal and compliance procurement obligations of FMA Act agencies and CAC Act bodies may differ, the ANAO considers that the adoption of the probity measures contained in the BPG, where cost effective, will enhance fairness and transparency in purchasing decisions. In preparing the BPG, the ANAO has built on the guidance provided by the Department of Finance and Deregulation in its Financial Management Guidance series of publications, including the principles underpinning probity identified in the Commonwealth Procurement Guidelines.

Public Sector Internal Audit (September 2007). This BPG provides guidance about the operation of the public sector internal audit function. In the ANAO's experience, better practice entities consider an appropriate level of investment in internal audit to be an essential business decision. The BPG includes relevant issues and considerations that entities should take into account in determining the roles and responsibilities of internal audit, and in setting future directions and work plans. The BPG updates and replaces the BPG published by the ANAO in 1999.

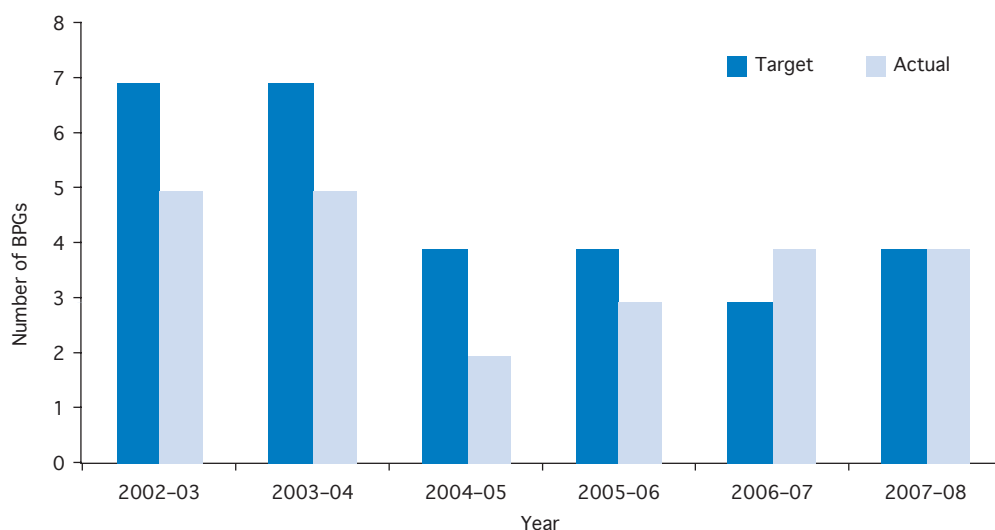
Agency Management of Parliamentary Workflow (May 2008). This BPG assists agency officers in managing parliamentary workflow activities, and updates the previous BPG released in 2003. New material includes:

- the increased use of technology in managing parliamentary workflow, that is impacting the operations of parliamentary workflow units; and
- updated central guidance that is appropriate to the conduct of parliamentary workflow activities.

The BPG covers a range of strategic and operational tasks involved in managing parliamentary workflow, including: establishing processes to ensure effective senior oversight and leadership and the preparation of ministerial speeches, briefings and media releases. As a pilot exercise to improve document access for clients this BPG is also available in HTML format.

Developing and Managing Internal Budgets (June 2008) This BPG assists organisations better manage internal budgeting activities. It discusses a range of principles and techniques designed to embed internal budgeting in an organisation's planning, control and accountability systems. It also covers the importance of direct input from operational managers in the development and management of the internal budget. It updates the *Internal Budgeting* BPG issued in February 2003.

Figure 4: Number of BPGs published over the previous five years



Cost of BPGs

BPGs cost \$0.855million in 2007–08 (\$0.747 million in 2006–07). 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 2007–08, we continued to participate in a number of Australian Public Sector forums, seminars and conferences to increase awareness of BPGs and other audit reports. We continued to encourage agencies to use BPGs to review their own practices.

National and international representation

International representation

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

- International Organisation of Supreme Audit Institutions (INTOSAI);
- Asian Organisation of Supreme Audit Institutions (ASOSAI);
- Pacific Organisation of Supreme Audit Institutions (PASAI);
- Commonwealth Auditors-General Conferences;
- Auditors-General Global Working Group;
- International Auditing and Assurance Standards Board (IAASB).

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.

INTOSAI Sub-committee on Performance Audit

The ANAO is a member of the INTOSAI Sub-committee on Performance Audit. The ANAO represents ASOSAI on this Sub-committee. The Sub-Committee's objective is to promote the INTOSAI Implementation Guidelines for Performance Audit, and to develop and disseminate other guidance that may assist the INTOSAI community. A representative from the ANAO attended a Sub-committee meeting in May 2008 and presented a paper titled '*Developments of Performance Auditing in Australia and Possible Implications for the INTOSAI Performance Audit Sub-committee*'.

INTOSAI Working Group on the Audit of Privatisation, Economic Regulation and Public Private Partnerships

We are a member of the INTOSAI Working Group on the Audit of Privatisation, Economic Regulation and Public Private Partnerships. We contribute to the Working Group by sharing information from our own experiences and commenting on draft documents. A representative from the ANAO attended a Working Group meeting in Marrakech, Morocco in October 2007 and presented a paper titled 'Auditing the Application of Proceeds from Commonwealth Asset Sales.'

INTOSAI Working Group on Environmental Auditing

To better inform our work and also contribute to international efforts in environmental auditing, we are members of the INTOSAI Working Group on Environmental Auditing.

INTOSAI working Group on IT Audit

During the year the ANAO became a member of the INTOSAI working Group on IT Audit and attended a meeting of its representatives in Tokyo in May 2008. Attendance at the meeting enabled the ANAO to gather information on the approach of other SAIs to the conduct of IT audit activities to support both financial statement and performance audits. Importantly, participation enables us to validate our current approach to IT audit against other leaders in the field.

ASOSAI

In January 2008 an ANAO representative attended the ASOSAI 12th Tokyo Audit Forum held in Japan. The theme of the forum was Financial Audit: Fair Presentation of Financial Statements and the ANAO presented a paper on Financial Statement Audit in the Australian Public Service.

PASAI

The Deputy Auditor-General attended a PASAI meeting in Papua New Guinea in September 2007 and presented a paper on risk management in performance auditing. He also attended a following forum in the Cook Islands in April 2008 and presented a paper on the role of the Public Accounts Committee. A key focus for both meetings was the strengthening and development of the Auditor-General function under the banner of the Pacific Regional Audit Initiative (PRAI). PRAI is funded by the Australian Agency for International Development (AusAID) and Asian Development Bank.

IAASB

The Auditor-General is an 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.

Commonwealth Auditors-General Conferences

There were no conferences of Commonwealth Auditors-General in 2007–08.

Auditors-General Global Working Group

The Deputy Auditor-General attended the Auditors-General Global Working Group in Marrakech in April 2008 and presented a paper on *Whole of Government approaches to program implementation*. The meeting discussed issues common to Auditors-General in developed nations.

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

AusAID has funded a three year project for the ANAO to assist the Indonesian Board of Audit (BPK). In 2007–08 our staff conducted a number of performance and financial audit training courses in Jakarta.

In addition, five BPK staff were seconded to the ANAO to develop their skills in financial and performance auditing. The purpose of the project is to strengthen the BPK's capacity to conduct performance and financial audits and fits within a broad Australian Government initiative of capacity building assistance to the Republic of Indonesia. The BPK has a key role in addressing fraud and corruption issues.

We increased our placement of staff in the Papua New Guinea Auditor-General's Office from one to two under the Australian Government's Enhanced Cooperation Program. We also continued our support of the AusAID funded Papua New Guinea-Australian Audit Offices *Twinning Scheme* following its successful one year pilot phase in 2007. A mid-year progress report concluded that the scheme should be extended beyond the pilot phase based on the positive progress achieved. We now have two officials from the PNG Auditor-General's Office participating in the ANAO graduate program in Australia. In addition, we facilitated the placement of two further officers in the NSW Auditor-General Office. We greatly appreciate the support of the NSW Auditor-General in providing assistance to expand the program. 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.

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 25 short-term visits for 307 delegates, from a number of countries including Thailand, Iraq, China, Malaysia, Indonesia, Singapore and the United States of America. Overall, delegates provided very positive feedback on their visit.



Indonesians secondees from the left Dian Angraini, Sri Herawati, Sulistyo Biantoro, Yenny, Silfia.

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. As well as providing development opportunity for the staff involved, timing of the staff exchange assists with workload peaks in the respective offices. 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 Australian Council of Auditors-General (ACAG). ACAG comprises the Auditor-General of the Australian Government 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 2008, representatives from the ANAO attended the 5th meeting of the Regional Working Group on Environmental Auditing in Melbourne. This working group is a joint initiative of ACAG and PASAI and parallels other regional initiatives in environmental auditing in other regions of the world. The conference was valuable for our staff to exchange experiences and familiarise themselves with the varied issues of environmental auditing in a state, national, regional and international context. In particular, the conference

discussed the key issue of development and dissemination of environmental auditing skills and knowledge areas. The conference discussed ways to share intelligence and methodologies to enhance the strategic impact of audits and lower costs in auditing important areas of global relevance such as climate change and sustainable water management.

Cost of national and international representation

National and international representation output cost \$0.784 million in 2007–08 (\$0.749 million in 2006–07).

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 in respect of matters that complement our primary role and fall within our area of expertise.

We arrange seminars to provide advice on topical and emerging issues. The focus of this activity is improved financial reporting. Five financial reporting seminars were conducted in 2007–08, with a total attendance of 525 agency representatives. As in previous years, these seminars generated a great deal of interest and were well received by attendees. Over 95 per cent of attendees who provided feedback indicated that the seminars met their objectives and that the course content was useful.



PSB staff members Clea Lewis and Chris Parkinson.

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

Cost of client seminars

Client seminars cost \$0.033 million in 2007–08 (\$0.033 million in 2006–07).

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*, captures the lessons from our audit work that are likely to be of general interest and application. During 2007–08, three editions of the newsletter were published and included articles on a range of issues including: cross-agency co-ordination and whole of government governance arrangements; grants administration and project management; and the ANAO's BPGs. *AUDITfocus* is 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 performance audit activity and BPGs. Three editions were published in 2007–08. *Opinions* is available on our website.

Contribution to outcomes

In 2007–08, the distribution of Information Support Services' costs were 60 per cent to Outcome 1 and 40 per cent to Outcome 2. The effectiveness of those contributions is assessed largely from formal and informal parliamentary and audit client feedback and from client demand for these services.

Our BPGs continue to be in high demand providing evidence of their usefulness to the Australian Government 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:

- financial statement audit reports; and
- other assurance reports.

The following summarises the ANAO's achievements against these 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 Australian Accounting Standards) 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 accordance with accountabilities under the annual work program.

In addition to the audit opinion on financial statements, we provide each audited entity with a report that deals with the findings of the financial statement audit and an assessment of business or accounting processes including the internal control framework. A report on the audit is also provided to the responsible Minister.

We also table two reports in the Parliament each year. The audit of the financial statements of Australian Government entities is tabled in December and the findings of interim findings financial statement audits is tabled in June. These two reports are discussed below.

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 places greater reliance on business processes and management. Our audit methodology is supported by customised technology and comprehensive training programs.

Financial statement audit—period ended 30 June 2007

Our report on the audit of the financial statements of Australian Government entities for the period ended 30 June 2007⁸ was tabled in December 2007. This report summarised the final result of the audits of the financial statements of Australian Government entities, and the Consolidated Financial Statements of the Australian Government. 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.

For 2006–07, material entities were required to submit audit cleared financial information to the Department of Finance and Deregulation by 15 August 2007. For non-material agencies, the date was 31 August 2007. In 2005–06 the dates were 30 July 2006 and 31 August 2006 respectively.

Some 76 per cent of material entities met the 15 August 2007 deadline and 59 per cent of non-material entities met the deadline of 31 August 2007. Despite the later deadline for material entities, this represents a deterioration on the position achieved for 2005–06 when 80 per cent of material entities and 60 per cent of non-material entities met the deadlines relevant to that year.

The December 2007 report on the audit of the financial statements of Australian Government entities for the period ended 30 June 2007 also provided details about the qualification of the audit opinion on the financial statements of the Department of Defence⁹ and other matters reported or emphasised in audit reports. The reporting of “Other legal and regulatory requirements” reduced to one instance in 2006–07¹⁰ from three in 2005–06. The report also detailed the results of the individual financial statement audits and any additional significant control issues identified by each audit.

The ANAO has increased its emphasis on legislative compliance as part of its financial statements audits in the last few years. This increased attention has involved the ANAO assessing key aspects of legislative compliance in relation to annual appropriations, special appropriations, annotated appropriations, special accounts and the investment of public moneys. It is encouraging to note that the results of the 2006–07 audit coverage have indicated that entities have increased their attention to complying with these requirements.

⁸ Audit Report No. 18 2007–08, *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2007*.

⁹ The audit opinion on the financial statements of the Department of Defence was qualified on an ‘except for’ basis due to an uncertainty in relation to the balance of Inventories General and the consequential effect of this uncertainty on the Income Statement; comparative information for 2005–06; and the Statement of Changes in Equity.

¹⁰ As Defence’s accounts and records did not properly record and explain the Department’s transactions and balances in respect of Inventories-General, this resulted in a contravention of section 48 of the FMA Act in relation to “Other Legal and Regulatory Requirements”.



Australian Taxation Office and ANAO representatives signing the ATO's 2006–07 Financial Statements.

The improved performance on legislative compliance was reinforced by the Government's decision that, commencing from the 2006–07 financial year, Chief Executives of each FMA agency are required to provide an annual Certificate of Compliance with specified elements of the financial management framework. The Directors of General Government Sector (GGS) CAC Act authorities and wholly-owned companies were also required to provide a report on compliance with relevant aspects of the CAC Act. The deadline for the submission of Certificates in respect of 2006–07 was 15 October 2007. The majority of entities met this deadline, with a number of Chief Executives being in the preferred position of being able to sign their certificates prior to or at the same time as the financial statements were finalised. A substantial number of breaches were identified by entities, with the most common being in respect of requirements involving the commitment, approval and spending of public moneys. Entities devoted considerable resources to enable completion of the Certificate of Compliance process and generally found that it had been beneficial in raising the awareness of staff to the requirements of the financial management framework. The breaches identified did not have any material impact on entities' financial statements.

The final phase of our 2006–07 audits identified a relatively small number of new moderate or significant control related issues. These issues generally related to the management of the IT environment, particularly the management of systems access, business continuity management and reconciliations of balances and/or transactions in key financial systems. These issues were also identified in the interim audit phase in a number of entities and encouragingly our subsequent audit activity found that entities generally had taken, or commenced action to address many of the identified issues. As a result, a number of the issues had been satisfactorily resolved or their rating downgraded.

The December 2007 report also discussed the ANAO's assessment of entities' financial statement preparation processes, noting that entity processes were generally effective, reflecting an improvement in recent years.

Interim financial statement audit—period ended 30 June 2008

Our interim phase of the audit of financial statements of GGS agencies for the year ending 30 June 2008 was tabled in June 2008.¹¹ This report presented the results of the interim phase of the 2007–08 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.

Machinery of Government changes

A significant impact on a number of agencies' governance frameworks has been the Machinery of Government (MOG) changes that took effect on 3 December 2007 and 25 January 2008. In all, these changes involved the abolition of three agencies, the creation of five new agencies, and the transfer between agencies of a number of programs and functions. Affected agencies were required to establish, or review and revise, their governance arrangements to take account of the MOG changes. In some cases, particularly where new agencies were created, revised governance arrangements have taken some time to finalise. For some agencies this has included negotiating interim arrangements involving agencies continuing to provide various levels of support for functions and programs transferred to other agencies. Some agencies' 2007–08 financial statements will require additional disclosures of financial information in respect of abolished departments and the inclusion of information relating to programs and functions transferred during the year. In light of these changes, the timely preparation of the financial statements has required a focused effort from both the affected agencies and the ANAO.

The impact of the MOG changes has required the ANAO to review, for the agencies affected, its audit approach to take into account the revised arrangements. In some cases, this has involved an increase in both interim audit coverage and the final audit activity relating to the 2007–08 financial statements.

¹¹ Audit Report No. 44 2007–08, *Interim Phase of the Audit of Financial Statements of General Government Sector Agencies for the Year Ending 30 June 2008*.

Internal control

A central component of the ANAO's audit methodology, and the focus of the interim phase of our financial statement audits, is a sound understanding of the agency and its environment, particularly as it relates to the preparation of the financial statements. Key elements of the internal control system comprise:

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

Each of these elements is discussed below.

Control environment

The ANAO assesses whether an agency's control environment comprises measures that contribute positively to sound corporate governance in the context of the preparation of an agency's financial statements. These measures should be designed to mitigate identified risks of material misstatement in the financial statements, and reflect the specific governance requirements of each agency.

Consistent with past findings, the ANAO observed that agencies have established key elements of a financial control environment designed to provide a sound basis for the effective preparation of the agency's financial statements. 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. Consistent with the results of our 2006–07 audits, no instances of non-compliance with key elements of the financial framework have been identified in our interim audits. The Certificate of Compliance process, introduced in 2006–07, has resulted in an ongoing focus on wider compliance issues.

ANAO review of accounting for appropriations in the periods following the Administrative Arrangements Orders (AAOs) of 3 December 2007 and 25 January 2008 will be finalised during the 2007–08 final audits of the relevant agencies.

Risk assessment process

An understanding of an agency's risk assessment framework is an essential element of the ANAO's financial statement audits. Agencies are expected to manage the key risks specific to their environment and our interim audits include a review of controls

relating to risks that may have a material impact on agencies' financial statements. The ANAO found that the majority of agencies have a risk assessment process and the results are generally reviewed by audit committees.

Important elements of the risk assessment process common to all agencies are business continuity and fraud control management. Our audits noted that most agencies now have Business Continuity and Disaster Recovery Plans in place. However, a number of agencies needed to give further attention to periodically testing these plans, and updating them as necessary. All agencies have in place fraud control plans prepared in accordance with the Commonwealth Fraud Control Guidelines, or were in the process of developing them as part of implementing the MOG changes. A small number of agencies needed to improve aspects of their fraud control arrangements.

Information systems

The very substantial ongoing investment in information technology (IT) by Australian Government agencies continues to impact on the nature of public sector administration and service delivery. By continuing to adopt and make use of emerging technologies, this investment is contributing to the ongoing transformation of business processes, wider access to government services and improved client service. The financial statement reporting process within agencies is also facilitated by IT. While technology and related improvements continue to represent agencies with major business opportunities, they also involve new or enhanced risks that need to be effectively managed.

During the interim phase of the 2007–08 financial statement audits, the ANAO again assessed the effectiveness of controls that affect the availability and integrity of information and information systems supporting the financial statement reporting process.

The ANAO found that all agencies had governance arrangements in place that encompassed the oversight and management of their information systems and IT change processes. However, our audits continue to identify a range of IT control weaknesses in some agencies relating to security and management controls in both Financial Management Information System (FMIS) and Human Resources Management Information System (HRMIS), the management of release management processes, and the updating and testing of Business Continuity and Disaster Recovery Plans.

Control activities

The results of the 2007–08 interim audit phase indicated that, overall, control activities relating to financial and accounting processes have been maintained at an effective level. The total number of significant audit findings has decreased, continuing the trend over recent years. However, our interim audits identified control issues relating to areas such as the conduct of key reconciliations and the timely follow up of any discrepancies, controls over the processing of transactions in agencies' FMIS and HMRIS, and the management and exercise of delegations in a number of agencies



IT auditors Roysul Khan and Susan Murray.

Monitoring of controls

Many activities undertaken by an agency contribute to their regime of monitoring controls. These include quality assurance arrangements, internal and external reviews, control self-assessment processes, and internal audit. The ANAO noted that control self-assessment arrangements, first introduced to assist agencies meet their responsibilities to provide a Certificate of Compliance in respect of 2006–07, have become an integral part of agencies' control regimes. Internal audit was also continuing to have a key role in some agencies in assisting in the Certificate of Compliance process.

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 financial control environment that required attention although our interim audits found there had been an overall improvement in agencies' financial and related controls. This is reflected in a reduction in the number of significant (Category A) and moderate risk (Category B) findings.

A summary of the trend in Category A and B audit findings between 2006–07 and 2007–08 is outlined below:

- there were four agencies with Category A audit findings in 2007–08 and three agencies in 2006–07;
- the total number of Category A audit findings in 2007–08 is ten, and 24 in 2006–07;
- the total number of Category B audit findings across all agencies decreased from 97 in 2006–07 to 86 in 2007–08; and
- there was a decrease in the number of Category B audit findings in eight agencies; five showed an increase and the number of Category B audit findings in three agencies remained the same as in 2006–07.

Interim audit conclusions

The results of our 2007–08 interim audits reflected, in general, the maturity of agencies' control environments and the effectiveness of controls over finance and accounting processes in the majority of agencies.

Control weaknesses that continue to be identified in a number of agencies predominately relate to agencies' information systems particularly in relation to the management of systems and user access, IT change management and the testing and updating of business continuity and disaster recovery plans. Other issues identified in a number of agencies related to the reconciliation of key financial accounts and reconciliations between business systems and agencies' FMIS, the segregation of duties and the management of assets.

While control weaknesses in these areas are unlikely to have a material impact on agencies' financial statements, they reinforce the importance of agencies maintaining a focus on establishing and maintaining the control regimes in their financial, human resource and business systems.

Client survey

An independent survey was completed in December 2007 to gain feedback from entities on the conduct of the audit of their 2006–07 financial statements.¹² Of the 189 entities that were included in the survey, 139 responses were received (74 per cent). The survey results received were positive overall and indicated a high degree of satisfaction with our performance in auditing entities 2006–07 financial statements. Key findings included the following:

- 91 per cent of respondents considered that our auditors demonstrated sufficient understanding of the financial reporting requirements of the entity;

¹² Due to timing of the financial statement audit cycle, this data relates to the 2006–07 financial year.

- 91 per cent of respondents agreed that our auditors' interaction with agency staff was conducted in a professional manner; and
- 90 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.

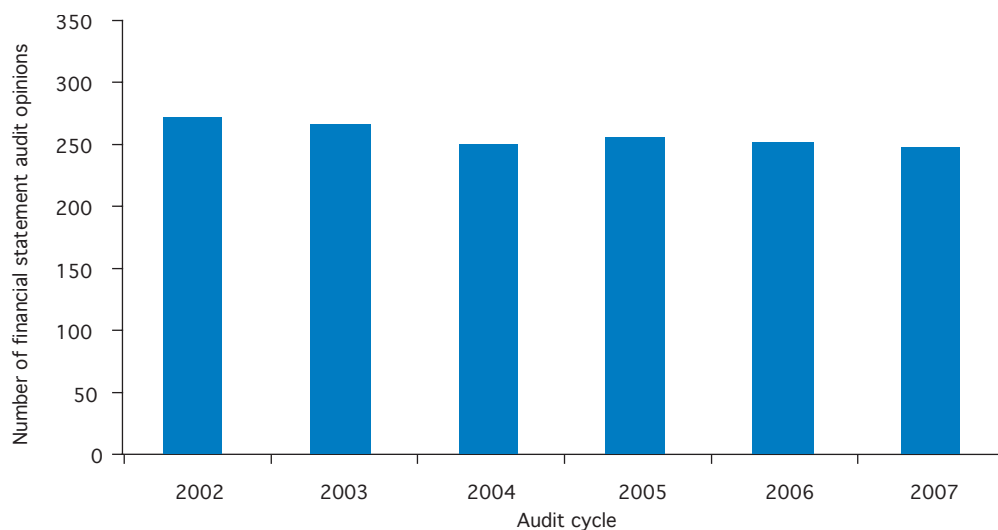
Performance

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 2006–07 financial statement audit cycle,¹³ in comparison to previous periods, is illustrated in Figure 5.¹⁴

Figure 5: Number of outputs from the financial audit process



¹³ 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 the audit of one company which is currently in the process of liquidation.

¹⁴ For the financial year ending 30 June 2008, the audit cycle is completed around November 2008. This means we report the results of 2006–07 final financial statement audit cycle in this report.

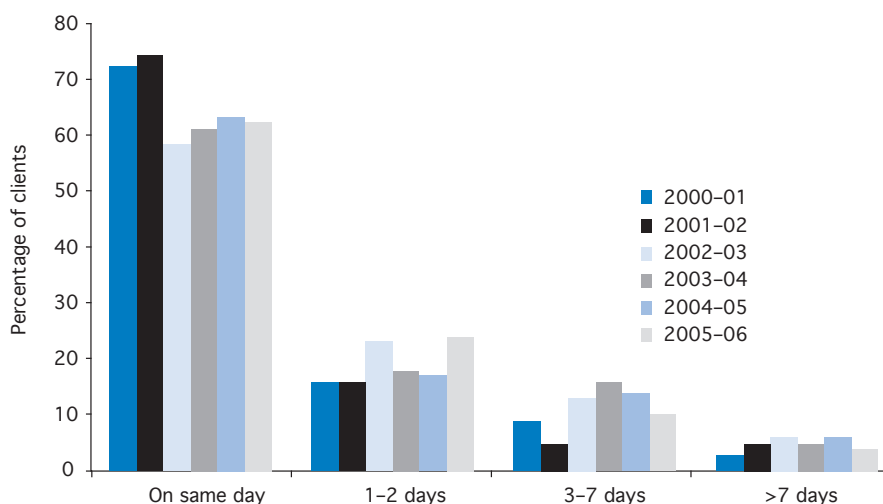
During the 2006–07 audit cycle we issued 237 audit opinions. This compares with 242 opinions in the 2005–06 audit cycle. Separate reports were also provided to Ministers on the results of all financial statement audits.

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, 86 per cent of opinions were issued on the day the financial statements were signed or within two days, compared to 87 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 able to be issued in accordance with Australian Government timelines. In the 2006–07 year, the then Department of Finance and Administration set audit clearance for material entities at 15 August.¹⁵ For the 2006–07 financial year, 76 per cent of material entities were able to provide full audit clearance to the then Department of Finance and Administration in accordance with the requirements established under the Budget Estimates and Framework Review. This compared to 80 per cent in 2005–06.

¹⁵ Due to the timing of the financial statement audits cycle, this data relates to the 2006–07 financial year.

Cost of financial statement audits

Financial statement audits (Output Group 3.1) for the 2007–08 financial year utilised approximately 179 145 direct audit hours and consumed, including overheads, \$37 213 million of resources (196 577 hours and \$38 155 million respectively in 2006–07). See Appendix 2 Note 23b of the notes to the Financial Statements.

Other assurance reports

We also provided assurance services (Output Group 3.2) to entities on matters outside the scope of the annual financial statement audit. Ministers or 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 report¹⁶ for the then Department of Families, Community Services and Indigenous Affairs.

Cost of other assurance reports

Other assurance reports (Output Group 3.2) for the 2007–08 financial year utilised approximately 11 647 direct labour hours and consumed, including overheads, \$2075 million of resources (13 780 hours and \$2 109 million in 2006–07). See Appendix 2 Note 23b of the notes to the Financial Statements.

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. FMA agencies are advised of the notional cost (fee) for the audit of their financial statements, and this amount is disclosed in 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 for each staff classification per level. The costing model takes into account all relevant costs including the attribution of overhead costs.¹⁷

¹⁶ 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.

¹⁷ 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.

Cost of assurance audit services

On an annualised basis audit costs are recovered either notionally¹⁸ or actually. In 2007–08, Assurance Audit Services Group charged 190 792 hours, resulting in the recovery of departmental expenses, including overheads, of \$39 288 million. (209 357 hours in 2006–07 resulting in the recovery of departmental expenses of \$40 264). See Appendix 2 Note 23b of the notes to the Financial Statements.

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. The audits are designed to give assurance to stakeholders that an entity's financial statements fairly represent the financial operations and financial position at year end. The ANAO makes recommendations for improvements in financial administration, further contributing to improvements in efficiency.

Other assurance reports provide assurance to entities on selected matters outside the scope of the annual financial statement audit.

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*¹⁹ an audit opinion can arise for a number of reasons. However, through a professional working relationship, we seek to support initiatives of the management of each entity to mitigate factors that may result in a qualified opinion. The percentage of unqualified audit opinions issued in the 2006–07²⁰ audit cycle was 99.6 per cent. There was only one qualified audit opinion in 2006–07²¹.

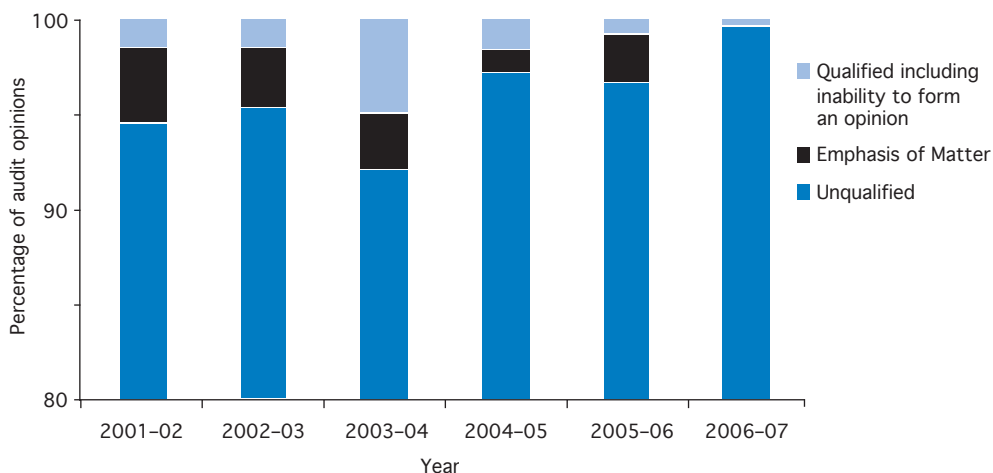
¹⁸ Notional cost recovery means we account for the costs of performing the audit service without actually billing the auditee. The auditee accounts for the provision of these services as a resource received free of charge and discloses the fee by way of a note in their financial statements.

¹⁹ Where an entities financial statements do not fairly represent its financial operations and position, the audit report is qualified.

²⁰ Due to the timing of the financial statement audits cycle, this data relates to the 2006–07 financial year.

²¹ The audit opinion on the financial statements of the Department of Defence was qualified on an 'except for' basis due to an uncertainty in relation to the balance of Inventories - General and the consequential effect of this uncertainty on the Income Statement, comparative information for 2005–06 and the Statement of Changes in Equity.

Figure 7: Comparison of audit opinions²²



Developments in the accounting profession

Australian equivalents to International Financial Reporting Standards were adopted in 2005 and have become embedded in the financial reporting practices of private and public sector entities. The focus has now shifted to improving these standards and adding material to address issues specific to the public sector.

There were relatively few changes in the accounting standards applying in 2007-08. The most significant was AASB 7 Financial Instruments: Disclosures, which has required all entities to enhance disclosure of financial instruments and the risks arising from these instruments.

Looking forward, the trend toward globally harmonised financial reporting continues. The International Accounting Standards Board (IASB) and its US equivalent (FASB) have started work on a joint conceptual framework. When completed, this will provide a common basis for the development of accounting standards by these two major standard-setters.

While this IASB/FASB project is initially focussing on the needs of the private sector, others are acting to improve financial reporting by the public sector. The International Public Sector Accounting Standards Board is now developing a public sector conceptual framework.

²² 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.

The Australian Accounting Standards Board also has an ongoing project to address issues specific to the public sector. Some aspects of this project are well advanced. In a key development, reporting by the Australian, State and Territory governments is expected to be in accordance with the new standard *AASB 1049 Whole of Government and General Government Sector Financial Reporting* from 2008–09. This standard brings together the two accounting frameworks currently used by governments—Generally Accepted Accounting Principles (GAAP) and the Government Finance Statistics framework of the IMF. Australian governments are already using AASB 1049 as the basis for their 2008–09 budgets.

Another encouraging development has been the AASB’s decision to allow not-for-profit government bodies to use the forthcoming financial reporting standards for small and medium sized entities, currently under development by the IASB. Adoption of this standard by Australian Government entities will be a matter for decision by the Minister for Finance and Deregulation.

Auditing standards are also changing. The International Auditing and Assurance Standards Board (IAASB) is revising its standards to improve their clarity and aid consistency of application. This is a significant revision of these auditing standards, adding to the requirements that must be met by auditors in undertaking audits of financial statements. The Australian Auditing and Assurance Standards Board (AUASB) plans to review these IAASB standards for adoption in Australia with effect from reporting periods beginning on or after 1 January 2010.

The AUASB has also been giving priority to audit projects of relevance to the public sector, including developing standards on performance engagements and compliance engagements.

Quality assurance

We continued our program of quality assurance reviews of selected financial statement audits. 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 by Professional Services Branch under the authority of the Deputy Auditor-General.

For 2007–08, the quality assurance program for financial statement audits comprised the review of nine completed audits (both performed in-house and contracted out) and seven in progress. The main areas highlighted by the review that required attention related to planning and documentation and the valuation of significant liabilities, particularly involving actuarial advice.

The results of these reviews are considered by the senior executive and action is taken to implement an appropriate response so that our audit practices benefit from the quality assurance program.

4 MANAGEMENT AND ACCOUNTABILITY

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

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

The Executive Board of Management (EBOM) provides leadership to the ANAO in achieving the objectives and strategies outlined in our Corporate Plan, and assists the Auditor-General to meet his statutory responsibilities under both the *Auditor-General Act 1997* and the *Financial Management and Accountability Act 1997*. EBOM is responsible for setting and monitoring our strategic directions, overseeing key business opportunities and risks, and our budget.



The Executive Board of Management, back row from left Steve Chapman, Michael Watson, Matt Cahill, Peter White. Front row from left Anthony Howatson, Warren Cochrane, Ian McPhee, Dianne Rimington.

EBOM generally meets each month. At 30 June 2008 the membership of the Board comprised:

- Ian McPhee, Auditor-General (Chair);
- Steve Chapman, Deputy Auditor-General;
- Peter White, Group Executive Director, Performance Audit Services;
- Matt Cahill, Group Executive Director, Performance Audit Services;
- Warren Cochrane, Group Executive Director, Assurance Audit Services;
- Michael Watson, Group Executive Director, Assurance Audit Services;

- Dianne Rimington, Group Executive Director, Corporate Support Group; and
- Anthony Howatson, Chief Finance Officer.

The Auditor-General 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 Audit Committee met four times in 2007–08. At 30 June 2008 its membership comprised:

- Bruce Jones, Chair and external independent member;
- Steve Chapman, Deputy Auditor-General;
- Jocelyn Ashford, Executive Director, Assurance Audit Services; and
- Nathan Williamson, Executive Director, Performance Audit Services.

Observers include: Geoff Wilson, Independent Auditor; Internal Auditors from *Oakton Group*, Mark Saunders, Mark Maskell and David Berkelmans; Dianne Rimington, Group Executive Director Corporate Support Group; and Anthony Howatson, 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 10 times in 2007–08. At 30 June 2008 the membership of this committee comprised:

- Steve Chapman (Chair), Deputy Auditor-General;
- David Crossley, Executive Director, Performance Audit Services;
- Anya Moore, 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 2007–08 ISC Annual Report presented advances in our IT support to clients, staff, systems and operations and also outlined planning for 2008–09.

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 2007–08.

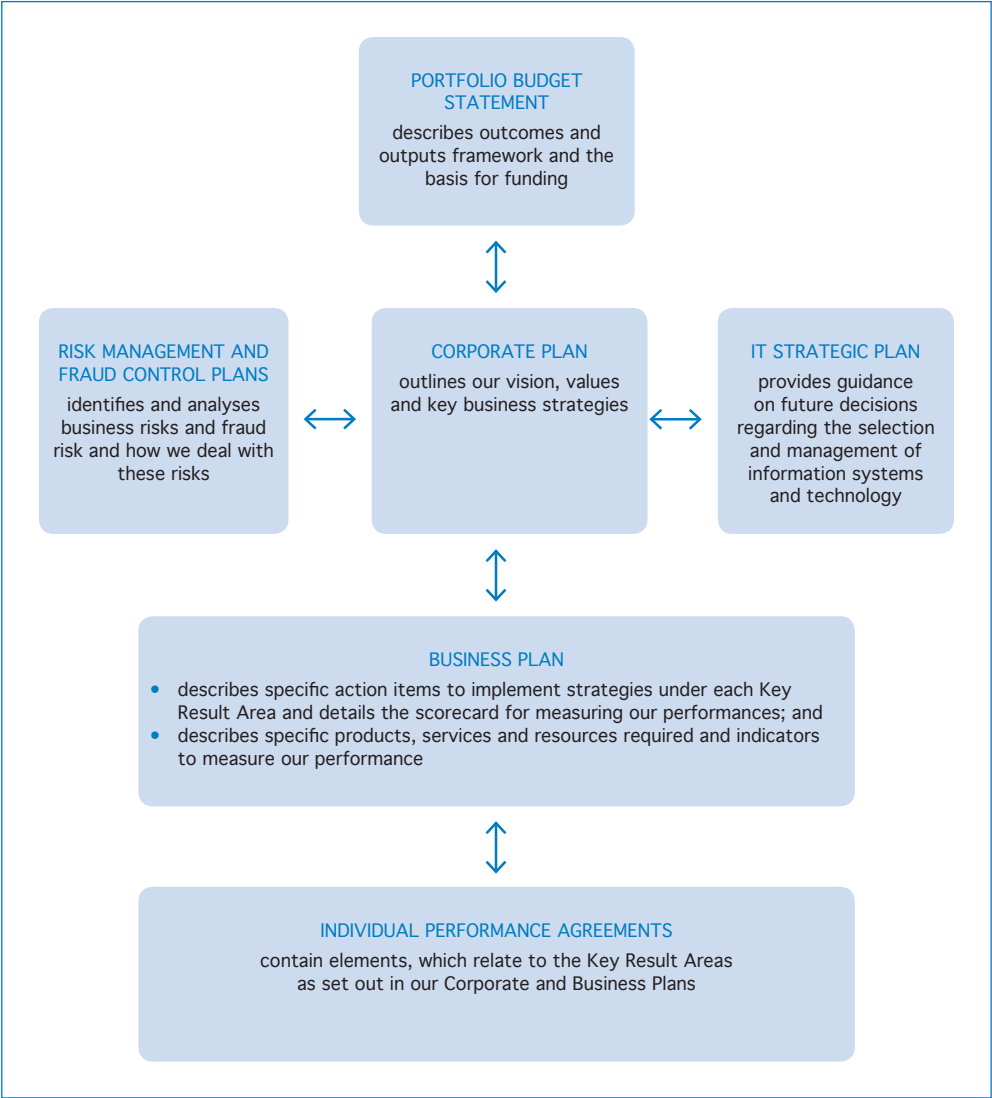
At 30 June 2008, the membership of this committee comprised:

- Steve Chapman (Chair), Deputy Auditor-General;
- Michael Watson, Group Executive Director, Assurance Audit Services;
- Warren Cochrane, Group Executive Director, Assurance Audit Services;
- Peter White, Group Executive Director, Performance Audit Services;
- Matt Cahill, Group Executive Director, Performance Audit Services;
- Dianne Rimington, Group Executive Director, Corporate Support Group; and
- Anya Moore (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* is the defining document for all planning and other strategic and operational activities for its three-year period 2007–10. 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 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 in the coming year. In 2007–08 all action item projects were either completed or are ongoing activities. More detail on our achievements is presented in our Scorecard in Section 3, Performance Overview.



CMB staff members from the left Tracey Kendall, Imogen Atanassoff, Robert Douros.

Risk Management Framework

The ANAO Risk Management framework comprises an overarching ANAO Risk Management Policy and Plan and individual risk management plans for each Service Group. These Plans are consistent with Joint Standard AS/NZS 4360: 2004. All our risk plans 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?
- do we have sufficient resources and capacity to deliver our products?

Our reputation for integrity 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 to an overarching reputational risk. Any serious business risks are monitored by EBOM each month as a standing agenda item. There were no serious risk incidents in 2007–08 and all risks were assessed as being acceptable with relevant controls in place.

Fraud Control Framework

A comprehensive Fraud Risk Assessment and Fraud Control Plan is maintained in accordance with the requirements of the *Commonwealth Fraud Control Guidelines (CFCG)*. The Fraud Control Plan is an important strategic document that links with our risk management framework and draws together all fraud prevention and detection initiatives that have been adopted into one consolidated document. Similar to 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 2008–10 Fraud Control Policy Plan and the Fraud Risk Assessment were completed in June 2008. These documents were reviewed by the Audit Committee and approved by EBOM. Any risks assessed as “major” or above are monitored by EBOM each month as a standing agenda item. There were no known incidents of fraud in 2007–08 and all fraud risks were assessed as being acceptable with relevant controls in place.

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 Guidelines.

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 reviewed in 2008. The Information and Communications Technology Plan 2008–09 was derived from this review and incorporated into the 2008–09 Business Plan.

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* was revised this year and 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: ANAO values and behaviours



Senior Executive Service Conferences

Senior Executive Service (SES) conferences provide the executive and senior management with a forum to consider business issues and plan future strategic directions consistent with our KRAs. Two SES conferences were conducted over the reporting year, the first in November 2007 and the second in March 2008.

In the context of our Corporate Plan and Scorecard, the November 2007 Conference considered current and future strategies for each service group and the implications for the ANAO overall. The agenda included discussion on business models to meet work challenges including: execution of the audit program through use of contracted labour; client consultancies; and staff experience and other issues surrounding staff needs, recruitment and retention.

The March 2008 Conference provided the opportunity to focus on our business planning for the coming year within the framework of the Corporate Plan and revised business risks. This Conference provided the basis for completing our 2008–09 Risk Management Plan and also identified key initiatives in the development of the 2008–09 Business Plan (both Plans subsequently completed).

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 on the ANAO's financial statements for the year ended 30 June 2008.

Internal audit

The internal audit function is responsible to the Auditor-General through the Audit Committee for providing an assurance about the integrity of our systems and processes, and identifying any opportunities for improvement.

In 2007–08 the internal audit program continued to have a strong emphasis on compliance and consequently a focus on corporate functions. Internal audits completed in 2007–08 included:

- reviews of ANAO's compliance with recommendations from ANAO quality assurance processes and ethics and fraud arrangements;
- progress against recommendations in 2006–07 audits of: the payroll process; certificate of compliance; time recording and charging; *Teammate* system implementation (system under development); finance system upgrade (system under development); and HRMIS upgrade post-implementation review;
- rolling compliance reviews on: petty cash/advance accounts; purchasing; accounts receivable; receipts; Fringe Benefits Tax 2006–07; travel and purchasing cards; business activity statements; cheque procedures; OH&S; contract management; and physical/protective security.

Audits in progress at 30 June 2007 were IT Security; and record keeping strategy (including review of the Electronic Document and Records Management System).

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 2007–08.

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.

Staff turnover

Staff turnover in the ANAO for 2007–08 was running at some 30 per cent and the average tenure was 5.1 years.

This turnover requires that a greater percentage of our managers' time be devoted to supervision and on-the-job training. As explained below, steps are being taken to slow the level of staff turnover.

Attraction and retention of staff

In a very tight labour market, the ANAO has continued to commit considerable resources and effort to the attraction and retention of suitably qualified staff. A number of key initiatives were maintained or implemented, including:

- maintaining our graduate and undergraduate programs;
- continuing our involvement in the APS-wide Recruitment of Accountants initiative;
- targeted advertising to encourage part-time applications;
- strengthening our relationship with external recruitment agencies, both locally and interstate;
- attending a jobs expo in New Zealand;
- engaging external advice to review our overall recruitment marketing/advertising strategy and approach;
- developing and implementing a structured learning and development curriculum for staff, including two leadership programs;
- reinvigorating our mentor program; and
- expanding our secondment program for AASG and PASG staff.

Staff induction

We have enhanced our existing approach to staff induction to include online tools and expanded issue coverage 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.

ANAO Workplace Agreement

The three year collective agreement negotiated with staff and effective from 1 June 2006 continues to underpin the employment framework of ANAO staff. The implementation of the ANAO Remuneration Model which flowed from the Workplace Agreement, and administered by the Remuneration Committee, was used to advance the salary of more than 100 ANAO employees during the course of the 2007–08 financial year. The Remuneration Model provides an evidenced based procedure for salary advancement for staff who demonstrate the required skills and proficiency at their nominal work level.

The Australian Government Employment Bargaining Framework was released in February 2008 and is required to be followed by all Australian Public Service agencies. The framework provides for the negotiation of new collective agreements. We ceased to offer AWAs from January 2008. Existing AWAs will continue to apply until terminated or replaced in accordance with the *Workplace Relations Act 1996* (as amended).

The nominal expiry date of our present *Workplace Agreement 2006–09* is 1 June 2009. We have commenced the process of negotiating a new workplace agreement with staff with the aim of having new arrangements in place by June 2009.

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 appointed representatives. The Forum met formally on two occasions during the course of the year and informally on several more occasions to discuss and consider a range of issues including, in some depth, the Canberra office accommodation refurbishment arrangements.

Workforce Plan

Our *Workforce Plan 2006–08* focussed attention on workforce and business success, concentrating on identifying and implementing high priority tasks to ensure that we have key risks associated with human resource management relate to the attraction and retention of staff with accounting and auditing experience, to execute our audit mandate. Similar risks are faced by professional services firms and attention and retention of staff is an issue being faced across the public sector.

As the current Workforce Plan expires at the end of 2008, we have agreed a timetable and process for updating the Plan, which includes developing scenarios to take into account current and future labour requirements. Both more immediate and longer term workforce planning strategies will be included in the Plan with a key aim of building organisational capability.

Performance and Assessment Scheme

Our Performance Assessment Scheme provides for three levels of performance pay. In 2007–08 staff rated as ‘fully effective’ during the 12 months performance cycle were eligible to receive a one percent salary increase, staff rated ‘more than fully effective’ were eligible for the one percent salary increase and a three per cent performance bonus, and those staff rated as ‘outstanding’ were eligible for a seven per cent performance bonus in addition to the one percent salary increase.

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 2007

Rating	Outstanding	More than fully effective	Fully effective	Unsatisfactory	Total
ANAO Bands 3 and 4 (Exec level 1 and 2)	11	56	48	0	115
ANAO Bands 1 and 2 (APS 1–6)	8	60	60	0	128
Total	19 (8%)	116 (48%)	108 (44%)	0	243

Performance pay

In 2007–08, a total of \$0.520 million in performance bonuses was paid to eligible staff (\$0.775 million in 2006–07). Aggregated information on performance pay is set out in Appendix 1, Table A1-8

SES remuneration

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

Learning and professional development

Following a comprehensive review of our learning and development programs in 2007, the ANAO released the 2008 Learning and Development Handbook in January 2008 which included:

- progression listings—which identify specific tasks and behaviours sought at each classification level across the office;
- learning options tailored to progression listing requirements for each classification/level by Service Group/Branch; and
- 2008 Learning and Development Calendar and course outlines.

We have made significant progress in building our in-house capability to develop and deliver core training programs, including Leadership programs at the APS 6 – EL 2 level, with the objective of delivering a structured and holistic program for all staff.

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.

Productivity gains

Our most significant productivity gains have been achieved through greater utilisation of ANAO employees and therefore reducing our reliance on the use of contractors to complete our audit program. Other improvements have been made through initiatives in IT support.



ANAO staff from the APS 6/EL 1 Leadership and Personal Development Program from 28-30 May 2008. From left to right are: Deborah Ross, Sarah Pfeiffer, Daniel Flood, Garry Sutherland, Kim Murray, David Evans, Chris Clarke, Tracey Vassallo, Jason McKenzie, Kirsty Reye, Janna Gilbert, Sally Ramsey, Shiu Prasad, Adrian Rowles and Kris Arnold.

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. Details of the program are set out in Table 5.

Placement in APS agencies

In 2007–08, one performance audit services staff member who participated in the APS Exchange Program was placed in *Centrelink*.

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 with four staff members from Assurance Audit Services participating. The placements involved staff members working overseas for a four to eight week period, with reciprocal arrangements as shown 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.

Table 5: Summary of Staff Secondments and Exchanges

Secondments/Exchanges to the ANAO	From
Margaret Atcherly	Centrelink
Marie-Noelle Beauchamp	Office of the Auditor-General of Canada
Brian Hill	Office of the Comptroller and Auditor-General of Ireland
Niamh Kilkenny	Office of the Comptroller and Auditor-General of Ireland
Christopher Perry	Office of the Auditor-General of Canada
Kay Robinson	Department of Immigration and Citizenship
Secondments/Exchanges from the ANAO	To
Rachel Brockman	Office of the Comptroller and Auditor-General of Ireland
Anne Cronin	Centrelink
Kristian Gage	Office of the Auditor-General of Canada
Sue Knox	Office of the Comptroller and Auditor-General of Ireland
Suzannah Ridley	Office of the Auditor-General of Canada

Undergraduate program

In 2007–08, we continued to build our relationship with the Australian National University, University of Canberra, CPA Australia and the Institute of Chartered Accountants in Australia (ICAA) to recruit students for our Assurance Audit undergraduate program. In addition, we have commenced similar arrangements with the Canberra Institute of Technology. The program is a successful vehicle for transitioning undergraduates into the ANAO Graduate Program.

Professional qualifications and representation studies assistance

Studies assistance

During 2007–08, 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 successfully complete their CPA Australia and ICAA programs and other tertiary studies during the year.

Table 6: Summary of Studies Completed by Staff Members

Staff Member	Studies Completed
Michelle Apoderado	CPA
Matthew Biernat	CA, CISA
Rachel Brockman	CA
Michelle Crampton	CPA
Claire Dunstall	Graduate Certificate in Applied Finance
Amy Fox	MBA
David Graver	CA
Jeffery Hobson	CA
Donna McShane	Diploma of Project Management
Chris Parkinson	CA
Catherine Pauli	CPA
Leigh Pierce	CA
Tony Prcevich	CA
Adrian Rowles	CA
Amelia Stevens	CA
Daniel Tomach	CISA
Ann Towers	CPA

Representation

A number of ANAO staff members 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 Australian 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 a Director of the CPA Australia National Board and past president and current member of the CPA Australia ACT Divisional Council.
- Michael Watson is a Director of the National Board of The Institute of Chartered Accountants Australia.
- Paul Hinchey is the convenor of the CPA Australia Sydney Accountants in Government Discussion Group.
- Jodi George is a member of the Institute of Chartered Accountants ACT Council.
- Ann Towers is the Deputy Chair of the CPA Young Professionals Committee.
- Brian Boyd is a member of the INTOSAI Working Group on the Audit of Privatisation, Economic Regulation and Public Private Partnerships.

- Wayne Jones is the Oceana representative on the Information Systems Audit and Control Association Nominating Committee.
- Paul Nicoll represents ASOSAI on the INTOSAI Performance Audit Sub Committee.
- Peter McVay is a member of the INTOSAI Working Group on Environmental Auditing.

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 4 February 2008. 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 12 month program, all graduates participate in an intensive development program, including technical training, people management, and a range of general training and skill development programs. Also, graduates will conduct a research project and form part of a short-term rotation within the ANAO, which is intended to enhance their overall development and provide them with a broader appreciation of the ANAO's operations.



The 2008 Graduates with Ian McPhee and Steve Chapman.

Seated front from left to right (seated front) Steve Chapman, Emma Octigan, Ian McPhee, Simone Ellul and Aaron McCreadie.

Second row left to right: Nick Hetherington, Nick Scholar, Belinda Maokhamphieu, Cathy Blasius (PNG secondment), Mary Han, Jennifer Hutchinson, Michael Wandl (PNG secondment) and Stewart Ashe.

Back row left to right: Ambrose Sharp, Thierry Guerin, Alex Chumakoff, Shubhang Mehta, Adam Thomas, Darren Molineux, Adrian Chu, Ian McDonald, Jennifer Eddie and Rebecca Tutalo.

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 Certificate of Appreciation.

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

The Auditor-General's Annual Outstanding Achievement Awards for 2008, were awarded to the following members of staff:

Jocelyn Ashford—*For her contribution to our work with the Indonesian Audit Office and for her commitment to high quality audit work and participation in corporate activities across the ANAO.*

Grant Caine—*For his contribution in the delivery of high quality audit products and his ability to maintain rapport with his clients and staff. Also his contribution to our work with the Indonesian Audit Office.*

Rosemary Faddoul—*For her commitment to the effective and efficient administration of the Sydney Office over many years.*

Sarah Rebbeck—*For her dedication to the provision of high quality services to users of the Information Research Centre.*



Outstanding Achievement Award winners. From left Sarah Rebbeck, Ian McPhee and Jocelyn Ashford (not present are Grant Caine and Rosemary Faddoul)

National Australia Day Council Medallions

The Auditor-General presented the 2008 *National Australia Day Council Medallions* to the following members of staff:

Cable Dohnt—For his long serving and valuable contribution to the ANAO's Corporate Management Branch, in particular as the ANAO's Publications Officer.

Janna Gilbert—For her significant contribution to enhancing public administration, and her active interest in developing and supporting staff.

Neil Young—For his valuable contribution to financial statement auditing in the ANAO and his active involvement in a range of corporate activities and events.



National Australia Day Council Medallists—from left to right, Cable Dohnt, Janna Gilbert and Neil Young.

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 Diversity and Harassment Contact Officers to provide support and advice to staff as required. Appendix 1, 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 2007–08. The Committee also addresses a variety of OH&S issues that arise throughout the year. Minutes of the Committee’s 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 accredited²³ training. OH&S training is also an integral part of the induction process for new employees.

Free influenza vaccinations were again provided to all staff who wished to participate in this initiative. We also provided free health assessments to interested staff. 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.

During 2007–08 we made significant advances in updating our OH&S policy and agreement in light of amendments to the *Occupational Health and Safety (Commonwealth Employment) Act 1991* (the Act). Accordingly, we have developed health and safety management arrangements (HSMA) in line with the legislation. These new arrangements will enable the ANAO and our employees to better manage the promotion and development of measures to ensure the health, safety and welfare of our people at work. Staff have been provided with an opportunity to provide feedback on the proposed HSMAs including attendance at two information sessions. This work will position the ANAO to meet its obligations under the amended legislation.

Incidents during 2007–08

Eight incidents were reported in 2007–08 under the *Occupational Health & Safety (CE) Act 1991*. Four of these incidents occurred in an office environment, one was a motor vehicle accident, and three were due to ill health whilst involved in audit field work away from the office. There were no serious injuries. There were two minor compensation claims as a result of the motor vehicle accident and one injury 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.

²³ Accredited by the Safety Rehabilitation and Compensation Commission.

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 2007–08 by members of staff and their families for both work-related and personal circumstances.

Commonwealth Disability Strategy

The 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. In addition as part of our refurbishment project we have upgraded our building support arrangements for the disabled to include such initiatives as new ramps, audio lift arrangements and dimples on pavement and stairs for the blind.
- *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 current *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 three 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.

International Women’s Day

The ANAO was one of the sponsors for the *United Nations Development Fund for Women* (UNIFEM) International Women’s Day lunch held in Canberra in March 2008. International Women’s Day was first celebrated in 1908. Over 950 attended the lunch in Canberra. All money raised went directly towards projects and programs that support full participation of women in under-developed states to achieve gender equality and sustainable economic and social development.



Attendees at International Womens Day Lunch. Standing behind from the left, Imogen Atanassoff, Sarah Rebbeck, Susan Saarikko, Rosanne Lawrence, Saane Touli, Joan Heckendorf. Seated from the left Claire Dunstall, Janna Gilbert, Kirsty Stewart, Dianne Rimington.

Recruitment advertising and market research

During 2007–08 we spent \$0.106 million on recruitment advertising (in 2006–07 \$0.088 million).

Payments over \$10,500 (inclusive of GST) to advertising agencies, market research organisations, polling organisations, direct mail organisations and media advertising organisations are set out in Table 7.

Table 7: Advertising and market research

Organisation	Service provided	Paid \$
Advertising Agencies		
Not applicable	Not applicable	Not applicable
Market Research Organisations		
Orima Research	Conduct AASG Client Survey 2006–07	31,350
Orima Research	Conduct ANAO Staff Survey 2007–08	14,725
Orima Research	Conduct PASG Client Survey 2006–07	19,800
Orima Research	Further analysis of responses to ANAO Staff Survey 2007–08	20,240
Orima Research	PASG Public Sector Survey 2007–08	20,323
Polling Organisations		
Not Applicable	Not Applicable	Nil
Direct Mail Organisations		
Not Applicable	Not Applicable	Nil
Media Advertising Organisations		
Not Applicable	Not Applicable	Nil

Environmental protection and biodiversity conservation

Section 516A of the *Environment Protection and Biodiversity Conservation Act 1999* (the EPBC Act) requires that Australian Government entities include in their annual report a section detailing their environmental performance and contribution to ecologically sustainable development (ESD). We lease our office premises and are working with lessors to improve our environmental performance. In particular, in Canberra we are aiming to improve our *Australian Building Greenhouse Rating* (ABGR) from 3.5 star to 4 stars by the end of 2008, noting that we are exempt from achieving a 4.5 star ABGR as we entered into the current lease prior to the introduction of the Government policy on energy efficiency. The ANAO's performance and activities against the five requirements are set out below.

How the activities of, and the administration (if any) of legislation by the agency during the period accorded with the principles of ESD.

We do not administer any programs or legislation that explicitly mentions ESD. However, some of our performance audits of agencies and programs have a direct influence on the environment. In 2007–08, we produced a report with an emphasis on the environment namely Audit Report No. 21 *Regional Delivery Model for the Natural Heritage Trust and the National Action Plan for Salinity and Water Quality*.

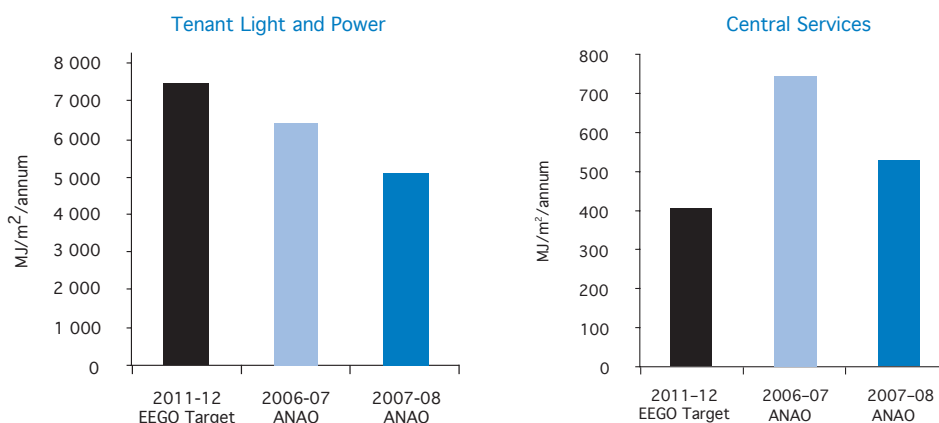
How the outcomes specified for the organisation in an Appropriations Act contribute to ESD

Our stated outcomes do not directly contribute to ESD. However, our audit reports make an indirect contribution though improving accountability and providing an independent assessment of Commonwealth government programs to Parliament.

The effect of agency's activities on the environment

Our activities impact on the environment by consuming resources such as energy, water, paper, office supplies and equipment. The majority of our staff, (and therefore our ecological footprint), are in our head office in Canberra (97 per cent), with a small number in Sydney (3 per cent). The following information covers our Canberra office site as the Sydney lease does not provide the opportunity to materially affect their environmental circumstances. However, the Sydney site does share office wide initiatives such as energy efficient computers, the data centre and their own office hybrid vehicle.

Figure 10: Tenant Light and Power and Central Services



Energy. Energy efficiency in Government Operations (EEGO) sets energy intensity targets of 7,500 MJ/person/annum for tenant light and power, and 400 MJ/m²/year for central services. As a result of initiatives taken during the year, electricity use for the Canberra Head Office decreased 20.3 per cent compared to the 2006–07 financial year.

Water. Water usage for 2007–08 was estimated at 2,957 kL. Based on our occupied building floor area, our building water use intensity was 0.42 kL/m²/year, which equates to a 4.5 star National Australian Built Environment Rating System²⁴ office water rating. The water use figure is an estimate due to an operating failure of the water meter for a period during the year.

Waste. Through a local organic recycler, we recycled 2.07 tonnes of organic waste for 2007–08. The primary waste service provider does not measure the weight of waste collected. However based on volumes of bins and frequency of pickups approximately 149.7m³ of paper and 57.2 m³ of co-mingled waste was sent for recycling and 312 m³ of general waste was sent to landfill.

The measures (if any) taken by the organisation to minimise the impact of activities on the environment

A wide range of new measures were undertaken in 2007–08 to further minimise the impact of our activities and operations on the environment. These measures included:

- a lamp replacement program with the installation of more energy efficient T5 lighting. The savings associated with this initiative have been estimated at 267,000 to 344,000 KW hours per annum;
- upgrading the electricity and water metering to individual floors to enable better management of usage;
- upgrading hydraulic services; the installation of flow restrictors to taps; and hand wash basins; and the introduction of waterless urinals to minimise water consumption;
- the introduction of new flat screen monitors throughout the office with an energy reduction of over 250 per cent per screen;
- the use of recycled paper in our corporate brochures which is at least 75 per cent recycled material; and
- introduction of a hybrid vehicle for office use.

²⁴ National Australian Built Environment Rating System (NABERS) is a national initiative managed by the Department of Energy Utilities and Sustainability NSW Government.



Christina Brauer and David Evans with our environmentally friendly hybrid office car.

The mechanisms (if any) for reviewing and increasing the effectiveness of those measures

We are reviewing our environmental management system in order to strengthen targets and enhance our performance in line with best practice. In accordance with our Green Lease Schedule (GLS) the Building Management Committee (BMC) meets regularly to oversee the implementation of environmental property initiatives. The BMC is currently negotiating the development of an Energy Management Plan as required under the GLS.

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 2007–08, 163 new consultancy contracts were entered into involving total expenditure of \$0.750 million. In addition, 37 ongoing consultancy contracts were active during the 2007–08 year, involving a total actual expenditure of \$0.910 million.

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 2007–08. All tenders and contractual arrangements are carried out in accordance with the *Commonwealth Procurement Guidelines*, and contracts are subject to evaluation. Our procedures effectively meet our business needs and achieve value-for-money for the Australian Government.

- *IT Services*—Our IT contract with Unisys Australia was renewed in July 2007 for a further two years. The partnership with Unisys is a professional and effective arrangement that continues to meet the business needs of the ANAO.
- *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 with Canprint Communications Pty Ltd ends in December 2009. There is an option to extend the contract for a further two years.
- *Contracting out major financial statement audits*—During the 2007–08 financial year we contracted out the conduct of a number of financial statement audits. The major audits put out to tender in this period were: Australian National University awarded to RSM Bird Cameron; Centrelink awarded to Ernst & Young; and the Future Fund and Comsuper audits awarded to Deloitte.
- *Performance Audit Services 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. We will be approaching the market again in 2009.

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.

Service charter

We do not have a service charter as we do not provide a direct service to members of the public. However, we recognise that 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

Our assets management policy is set out in *Auditor-General Instructions* and supporting procedural rules. High value assets are subject to 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

Our procurement guidelines are 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 reviewed and tested under the name *Operation Hygienieia* at the end of June in our off site operations room in Canberra. The scenario was a localised flu infection which required our head office in Canberra to be quarantined. The scenario tested both our plans and the effectiveness of our crisis organisation team, which had many new members. As a result of this exercise our documentation and some of our procedures have been revised to provide greater flexibility, direction and understanding, both prior to and during a crisis.

Refurbishment of 19 National Circuit ACT

We are undertaking a limited refurbishment of our leased accommodation at 19 National Circuit ACT. The current fit-out is 15 years old and has fallen behind current standards in meeting present and future needs. We have engaged a project manager and design consultant and are currently tendering for a construction manager. The Public Works Committee has given approval to proceed as ‘medium works’. We anticipates that the work will commence in October 2008 and be completed by the end of April 2009.

5 APPENDICES

- Appendix 1 Staffing overview
- Appendix 2 2007–08 Financial results commentary and financial statements
- Appendix 3 Audit reports tabled in 2007–08
- Appendix 4 Summary of performance audits tabled in 2007–08
- Appendix 5 Addresses by the Auditor-General and senior staff
- Appendix 6 Procurement activities
- Appendix 7 Contact directory
- Appendix 8 Compliance index

Appendix 1

Staffing overview

Table A1–1: Staffing profile as at 30 June 2008

Classification	ACT	NSW	Total	
			2007–08	2006–07
SES Band 3	1		1	1
SES Band 2	6		6 ¹	5
SES Band 1	19		19 ²	16
Exec 2	79	4	83	83
Exec 1	38	1	39	49
APS 6	46	5	51	49
APS 5	39		39	48
APS 4	36	1	37	36
APS 3	16		16	15
APS 2	3		3	3
APS 1	1		1	1
Graduate	20		20	18
Undergraduate	7		7	6
Total	311	11	322	330

Includes 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.

Notes

1. One SES Band 2 currently inoperative on extended secondment.
2. One SES Band 1 currently inoperative on extended secondment. Two positions vacant as at 30 June 07, recruitment has now filled the two positions.

Table A1–2: ANAO paid operative staff (employed under the *Public Service Act 1999*) as at 30 June 2008

Location	June 2007		June 2008	
	Audit	Non-audit	Audit	Non-audit
ACT	247	52	230	63
NSW	9	1	9	1
Sub-total	256	53	239	64
TOTAL	309		303	

Note: Excludes 32 inoperative staff.

Table A1–3: Paid full-time, part-time and non ongoing staff as at 30 June 2008

Classification	Full-time		Part-time		Non ongoing		Total	
	M	F	M	F	M	F	M	F
SES Band 3	1						1	
SES Band 2	4	1					4	1
SES Band 1	12	6		1			12	7
Exec 2	46	27	2	6	1	1	49	34
Exec 1	16	17		6			16	23
APS 6	22	26	1	2			23	28
APS 5	19	14		6			19	20
APS 4	12	21	1	2	1		14	23
APS 3		11		2		3		16
APS 2						3		3
APS 1					1		1	
Graduate	12	8					12	8
Undergraduate					3	3	3	3
Sub-total	143	127	4	27	6	12	152	165
Total	270		31		17		318	

Note 1: includes paid operative and inoperative staff, but excludes 17 unpaid staff who were on leave without pay.

Table A1–4: Analysis of workplace diversity groups within salary levels 2007–08

Salary Range	Women	NESB1	NESB2	ATSI	PWD
Below \$43 403 (includes APS 1 and Undergraduates)	4	1	-	-	-
\$43 403 to \$56 078 (includes APS 2–3 and Graduates)	27	-	8	-	-
\$56 079 to \$73 612 (includes APS 4–5)	44	12	5	-	1
\$73 613 to \$96 534 (includes APS 6–Exec 1)	55	13	1	-	-
\$96 535 and above	44	6	9	-	2
Total Staff: 322	174 (54%)	32 (10%)	23 (7%)	-	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	36	46	1	-	6	89	81
NSW	-	-	-	-	-	-	-
Total	36	46	1	-	6	89	81

Table A1–6: Expenditure on staff training

Description	2007–08 \$	2006–07 \$	2005–06 \$	2004–05 \$	2003–04 \$	2002–03 \$
Net eligible training expenditure (excluding salaries)	993 759	1 161 057	993 236	847 755	608 791	622 967
Total number of person-days spent by staff on eligible training programs	1 753	2 176	2 044	1 898	1 763	1 591
Total number of staff eligible to participate in training programs	297	321	319	280	274	266

Table A1–7: Basis of employment of staff

Level	Basis of Employment of Staff		
	Employment under Certified Agreement	Employment under AWA	Employment under Common Law Contract
SES	-	22	3
Non SES Staff	207	93	
Sub-total	207	115	3
Total			322

Table A1–8: Performance payments

Classification	Number	Total for classification \$	Average Payment \$	Minimum payment \$	Maximum payment \$
SES	23	154 800	6 730	2 500	10 000
EXEC 2	71	162 457	2 288	1 274	7 980
EXEC 1	44	57 623	1 309	1 496	7 138
APS 6	52	71 242	1 370	901	4 749
APS 5	50	59 856	1 197	1 622	4 358
APS 4	14	6 691	478	1 642	1 791
APS 1-3	12	6 941	578	1 060	1 658
Total	266	519 610			

Appendix 2

2007–08 Financial results commentary and financial statements

2007–08 Financial results commentary

Introduction

Overview of financial performance

Detailed analysis

2007–08 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

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 was reasonably static during 2007–08. 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

	2007–08 \$'000	2006–07 \$'000	Variance \$'000	Variance %
Operating Statement				
Total operating revenue	66 667	66 159	508	0.8
Total operating expenses	65 069	63 901	1 168	1.8
Net surplus	1 598	2 258	(660)	-29.2
Balance Sheet				
Total Assets	21 707	24 193	(2 486)	-10.3
Total Liabilities	14 098	18 177	(4 079)	-22.4
Net Assets	7 609	6 016	1 593	26.5
Equity	7 609	6 016	1 593	26.5

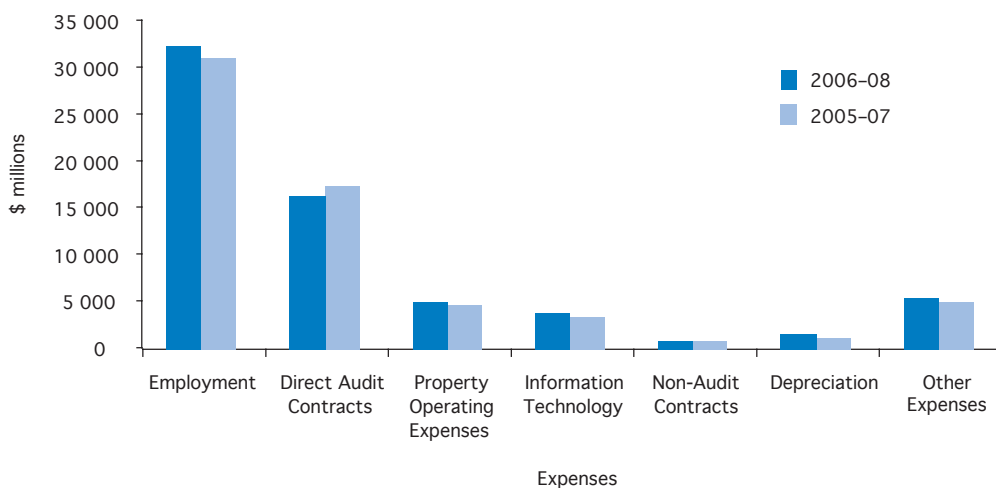
Detailed analysis

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

Operating expenses

Total operating expenses of \$65.069 million for the year ended 30 June 2008 was \$1.168 million (1.8 per cent) higher than for 2006–07. This increase in costs is due to employee expenses of \$1.174 million and additional depreciation of \$0.419 million, offset by lower supplier costs of \$0.360 million and other expenses of \$0.065 million. A breakdown of total operating expenses into major expense categories is shown in Figure A2–1.

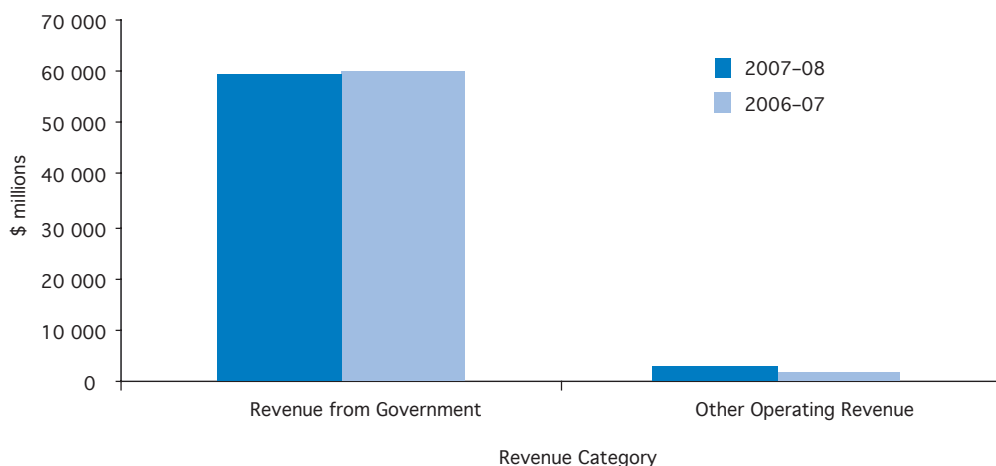
Figure A2–1: Operating expenses



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 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 \$1 598 million, as well as continued tight management of balance sheet items, has resulted in an improvement in the retained surpluses and equity position, which stands at \$7 609 million (2006-07: \$6 016 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. In addition, there was a minor decrease in employee entitlements in line with our high staff turnover.



Chief Finance Officer Anthony Howatson with senior accountant Devini Jayawardane.

Administered funds financial summary

Audit fees billed to Commonwealth authorities and companies for non-discretionary audit work have decreased from 2006–07. 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

	2007–08 \$'000	2006–07 \$'000
Administered Revenue and Expenses		
Sale of goods and services	7 992	10 217
Cash transferred to the Official Public Account	8 574	11 452
Administered Assets and Liabilities		
Financial assets	2 743	3 303
Equity and liabilities	2 743	3 303

Net outlays to Government

We received appropriations totalling \$63 446 million (2006–07: \$64 046 million) and generated \$7 992 million in the sale of goods and services (predominantly audit fees), the net outlay by Government was \$55 454 million (2006–07: \$53 785 million).

2007–08 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 2008, 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.

Auditor's Responsibility

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 Australian National Audit Office, 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 2008, and of its financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards, including the Australian Accounting Interpretations.

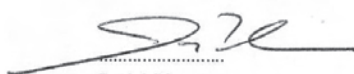
Geoff Wilson
Independent Auditor

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

Canberra,
1 August 2008

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 2008 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

/ August 2008



Anthony Howatson
Chief Finance Officer

/ August 2008

Australian National Audit Office
INCOME STATEMENT
for the year ended 30 June 2008

	Notes	2008 \$'000	2007 \$'000
REVENUE			
Revenue from Government	3A	63,446	64,046
Rendering of services	3B	2,614	1,568
Rental income	3C	547	545
Other income	3D	60	-
Total Revenue		66,667	66,159
EXPENSES			
Employee benefits	4A	32,179	31,005
Suppliers	4B	30,549	30,909
Depreciation and amortisation	4C	1,591	1,172
Net losses from asset sales	4D	-	3
Write-down and impairment of assets	4E	56	136
Finance costs	4F	694	676
Total Expenses		65,069	63,901
Surplus attributable to the Australian Government		1,598	2,258

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

Australian National Audit Office
BALANCE SHEET
as at 30 June 2008

	Notes	2008 \$'000	2007 \$'000
ASSETS			
Financial Assets			
Cash and cash equivalents	5A	882	980
Trade and other receivables	5B	16,872	19,723
Other financial assets	5C	26	69
Total Financial Assets		17,780	20,772
Non-Financial Assets			
Land and buildings	6A	1,078	877
Infrastructure, plant and equipment	6B	630	474
Intangibles	6C	1,029	1,118
Other non-financial assets	6D	1,190	952
Total Non-Financial Assets		3,927	3,421
TOTAL ASSETS		21,707	24,193
LIABILITIES			
Payables			
Suppliers	7A	4,767	7,893
Total Payables		4,767	7,893
Interest Bearing Liabilities			
Leases	8	217	803
Total Interest Bearing Liabilities		217	803
Provisions			
Employee provisions	9A	9,074	9,441
Other provisions	9B	40	40
Total Provisions		9,114	9,481
TOTAL LIABILITIES		14,098	18,177
NET ASSETS		7,609	6,016
EQUITY			
Contributed equity		4,929	4,929
Reserves		572	577
Retained surpluses		2,108	510
TOTAL EQUITY		7,609	6,016
Current Assets		18,970	21,687
Non-Current Assets		2,737	2,506
Current Liabilities		11,865	15,211
Non-Current Liabilities		2,233	2,966

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 2008

	Retained Surpluses / (Accumulated Deficits)		Asset Revaluation Reserve		Contributed Equity/Capital		Total Equity	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Opening balance	510	(1,748)	577	423	4,929	4,929	6,016	3,604
Income and expense								
Revaluation adjustment	-	-	(5)	154	-	-	(5)	154
<i>Sub-total income and expenses recognised directly in equity</i>	-	-	(5)	154	-	-	(5)	154
Surplus for the period	1,598	2,258	-	-	-	-	1,598	2,258
Total income and expenses	1,598	2,258	-	-	-	-	1,598	2,258
Closing balance as at 30 June	2,108	510	572	577	4,929	4,929	7,609	6,016

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

Australian National Audit Office
CASH FLOW STATEMENT
for the year ended 30 June 2008

	Notes	2008 \$'000	2007 \$'000
OPERATING ACTIVITIES			
Cash received			
Goods and services		3,474	1,837
Appropriations		66,406	63,812
Net GST received from ATO		18	75
Total cash received		69,898	65,724
Cash used			
Employees		32,942	30,392
Suppliers		35,194	34,677
Total cash used		68,136	65,069
Net cash flows from operating activities	10	1,762	655
INVESTING ACTIVITIES			
Cash received			
Proceeds from sale of infrastructure, plant and equipment		-	21
Total cash received		-	21
Cash used			
Purchase of land and buildings		897	44
Purchase of infrastructure, plant and equipment		394	93
Purchase of intangibles		569	540
Total cash used		1,860	677
Net cash flows used by investing activities		(1,860)	(656)
FINANCING ACTIVITIES			
Cash received		-	-
Cash used		-	-
Net cash flows from or (used by) financing activities		-	-
Net (decrease) in cash held		(98)	(1)
Cash and cash equivalents at the beginning of the year		980	981
Cash and cash equivalents at the end of the year		882	980

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 2008

	2008 \$'000	2007 \$'000
BY TYPE		
Commitments receivable		
Sublease rental income	-	802
GST recoverable on commitments	5,710	6,587
Total commitments receivable	5,710	7,389
Commitments payable		
Capital commitments		
Infrastructure, plant and equipment	683	597
Intangibles	74	147
Total capital commitments	757	744
Other commitments		
Operating leases	40,211	49,072
Other commitments	21,832	21,765
Total other commitments	62,043	70,837
Total commitments payable	62,800	71,581
Net commitments by type	57,090	64,192
BY MATURITY		
Commitments receivable		
Operating lease income		
One year or less	-	702
From one to five years	-	100
Over five years	-	-
Total operating lease income	-	802
Other commitments receivable		
One year or less	1,969	2,316
From one to five years	1,801	1,994
Over five years	1,940	2,277
Total other commitments receivable	5,710	6,587
Total commitments receivable	5,710	7,389
Commitments payable		
Capital commitments		
One year or less	757	693
From one to five years	-	51
Over five years	-	-
Total capital commitments	757	744
Operating lease commitments		
One year or less	4,455	8,888
From one to five years	14,412	15,131
Over five years	21,344	25,053
Total operating lease commitments	40,211	49,072
Other commitments		
One year or less	16,437	15,124
From one to five years	5,395	6,641
Over five years	-	-
Total other commitments	21,832	21,765
Total commitments payable	62,800	71,581
Net commitments by maturity	57,090	64,192

NB: Commitments are GST inclusive where relevant

Australian National Audit Office
SCHEDULE OF COMMITMENTS
for the year ended 30 June 2008

1. Operating leases included for 2007-08 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. 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 2007 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 from the Landlord. The ANAO is not entitled to the payment until the commencement of the new lease and therefore has not accounted for this in the 2007-08 financial statements.</p> <p>The NSW lease expired on 30 June 2007. A new lease agreement was signed on 3 October 2007 for a further term of three years and has a rent escalation clause of 4.5% each year.</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 \$14.024 million (2006-07: \$9.326 million) and other corporate contracts totalling \$7.808 million (2006-07: \$12.439 million).

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

Australian National Audit Office
SCHEDULE OF ADMINISTERED ITEMS
for the year ended 30 June 2008

	Notes	2008 \$'000	2007 \$'000
Income administered on behalf of Government <i>for the year ended 30 June 2008</i>			
Revenue			
Non-Taxation Revenue			
Rendering of services (audit fees)	14	7,992	10,217
Total revenue administered on behalf of Government		7,992	10,217
Assets administered on behalf of Government <i>as at 30 June 2008</i>			
Financial Assets			
Cash and cash equivalents	15	-	-
Receivables (audit fees)	15	1,721	2,059
Work in progress	15	1,022	1,244
Total assets administered on behalf of Government		2,743	3,303
Liabilities administered on behalf of Government <i>as at 30 June 2008</i>			
Payables			
GST payable	16	219	197
Total liabilities administered on behalf of Government		219	197
Current Assets		2,743	3,303
Non-Current Assets		-	-
Current Liabilities		219	197
Non-Current Liabilities		-	-

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

Australian National Audit Office
 SCHEDULE OF ADMINISTERED ITEMS (cont'd)
 for the year ended 30 June 2008

	Notes	2008 \$'000	2007 \$'000
Administered Cash Flows <i>for the year ended 30 June 2008</i>			
Operating Activities			
Cash received			
Rendering of services (audit fees)		8,574	11,452
Total cash received	17	<u>8,574</u>	<u>11,452</u>
Cash used			
Net GST paid to the Australian Taxation Office		857	1,145
Total cash used		<u>857</u>	<u>1,145</u>
Net cash flows from (used by) operating activities		<u>7,717</u>	<u>10,307</u>
Net increase in cash held		<u>7,717</u>	<u>10,307</u>
Cash to the Official Public Account for:			
Transfer from other entities		7,717	10,307
Cash and cash equivalents at the end of the reporting period		<u>7,717</u>	<u>10,307</u>
Administered Commitments as at 30 June 2008			
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 2007-08, which was tabled in Parliament.

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2008

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	Financial Instruments
14	Income Administered on Behalf of Government
15	Assets Administered on Behalf of Government
16	Liabilities Administered on Behalf of Government
17	Administered Reconciliation Table
18	Administered Contingent Liabilities
19	Financial Instruments
20	Appropriations
21	Special Accounts
22	Compensation and Debt Relief
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 dissemination of better practice guides and the provision of direct and indirect assistance to the Parliament, the ANAO contributes 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 the parliament and individual entities.

The continued existence of the ANAO in its present form, and with its present programs, is dependent on the support of the Parliament, Government policy and on the ANAO's 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), for reporting periods ending on or after 1 July 2007), 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 the historical cost convention, except for certain assets, which, as noted, are at fair value. 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 otherwise specified.

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 or a future sacrifice of economic benefits will be required 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 1.22.

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.

1.4 Statement of Compliance

Adoption of new Australian Accounting Standard requirements

No accounting standard has been adopted earlier than the application date as stated in the standard. The following new standards are applicable to the current reporting period:

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 previously required. 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 affect the disclosure presented in future financial reports.

The following new standards, amendments to standards or interpretations for the current financial year have no material financial impact on the ANAO.

2007-4 *Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments and Erratum: Proportionate Consolidation*

2007-7 *Amendments to Australian Accounting Standards*

UIG Interpretation 11 AASB 2 – *Group and Treasury Share Transactions* and 2007-1 *Amendments to Australian Accounting Standards arising from AASB Interpretation 11*

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.

AASB Interpretation 12 *Service Concession Arrangements* and 2007-2 *Amendments to Australian Accounting Standards arising from AASB Interpretation 12*

AASB 8 *Operating Segments* and 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8*

UIG Interpretation 11 AASB 2 – *Group and Treasury Share Transaction* and 2007-1 *Amendments to Australian Accounting Standards arising from AASB Interpretation 11*

2007-6 *Amendments to Australian Accounting Standards arising from AASB 123*

AASB Interpretation 13 *Customer Loyalty Programmes*

AASB Interpretation 14 AASB 119 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

Other

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

AASB 1049 *Whole of Government and General Government Sector Financial Reporting*

AASB 1049 specifies the reporting requirements for the General Government Sector, and therefore, has no affect on the ANAO's financial statements.

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 when the agency gains control of the appropriation, 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 13, 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 the sale of goods is recognised when:

- a. The risks and rewards of ownership have been transferred to the buyer;
- b. The seller retains no managerial involvement nor effective control over the goods;
- c. The revenue and transaction costs incurred can be reliably measured; and
- d. It is probable that the economic benefits associated with the transaction will flow to the ANAO.

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 ANAO.

The stage of completion of contracts at the reporting date is determined by reference to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

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. 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

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 2007-08 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 2007-08 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' (as defined in AASB 119) 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.

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 2008. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

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. This liability is reported by the Department of Finance and Deregulation as an administered item.

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.

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 2008.

Operating lease payments are expensed on a straight-line basis which is representative of the pattern of benefits derived from the leased assets.

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 and cash equivalents includes 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 Financial Assets

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate.

1.13 Financial Liabilities

Supplier and other payables

Supplier and other payables are recognised at their amortised cost. 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 reported in the relevant schedules and notes. They may arise from uncertainty as to the existence of a liability or asset, or represent an existing liability or asset in respect of which the amount cannot be reliably measured. Contingent assets are disclosed when settlement is probable but not virtually certain and contingent liabilities are disclosed when settlement is greater than remote.

There were no departmental contingent liabilities or assets as at 30 June 2008 (2007: 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' recognised.

Revaluations

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

Asset class	Fair value measured at:
Land and buildings (leasehold improvements)	Depreciated replacement cost
Infrastructure, plant and equipment	Market selling price

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.

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>2008</u>	<u>2007</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 2008. 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 less accumulated amortisation and accumulated impairment losses.

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 (2006-07: 3 to 5 years).

All software assets were assessed for indications of impairment as at 30 June 2008. 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:

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

Further disclosure of the ANAO's exposure to risks, objectives and policies for managing risk are set out in note 13.

1.22 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 Deregulation. 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 17. 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.

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2008

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 2007-08 financial statements.

	2008	2007
	\$'000	\$'000

Note 3 - Income

Note 3A: Revenue from Government

Appropriations		
Departmental outputs	63,038	63,615
Special Appropriations	408	431
Total revenue from government	63,446	64,046

Note 3B: Sale of goods and rendering of services

Audit related services	936	885
Other	1,678	683
Total sale of goods and rendering of services	2,614	1,568

Sale of goods and rendering of services to:

Related entities	936	885
External entities	1,678	683
Total sale of goods and rendering of services	2,614	1,568

Note 3C: Rental income

Rental income		
Operating lease - other	547	545
Total rental income	547	545

Note 3D: Other income

Other	60	-
Total other income	60	-

Note 4 - Expenses

Note 4A: Employee benefits

Wages and salaries	24,102	23,192
Superannuation:		
Defined contribution plan	791	430
Defined benefits plan	3,864	4,317
Leave and other entitlements	3,322	3,021
Other employee expenses	100	45
Total employee benefits	32,179	31,005

Note 4B: Suppliers

Provision of goods - external entities	188	215
Rendering of services - external entities	24,975	25,472
Operating lease rentals*	5,291	5,040
Worker's compensation premiums	95	182
Total supplier expenses	30,549	30,909

* These comprise minimum lease payments only.

Australian National Audit Office
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Note 4 - Expenses (cont'd)

	2008 \$'000	2007 \$'000
Note 4C: Depreciation and amortisation		
<i>Depreciation</i>		
Plant and equipment	182	211
Infrastructure (Leasehold improvements)	751	537
Total depreciation	933	748
<i>Amortisation</i>		
Intangibles - Computer software	658	424
Total depreciation and amortisation	1,591	1,172
Note 4D: Net losses from asset sales		
Infrastructure, plant and equipment:		
Proceeds from sale	-	(21)
Carrying value of assets sold	-	24
Net losses from asset sales	-	3
Note 4E: Write down and impairment of assets		
Asset write downs from		
Impairment of infrastructure, plant and equipment	56	136
Total write down and impairment of assets	56	136
Note 4F: Finance costs		
Unwinding of discount on surplus space liability	694	657
Unwinding of discount on makegood provision	-	19
Total finance costs	694	676

Australian National Audit Office
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	2008	2007
	\$'000	\$'000

Note 5 - Financial Assets

Note 5A: Cash and cash equivalents

Cash on hand or deposit

882	980
-----	-----

Total cash and cash equivalents

882	980
-----	-----

All cash recognised is a current asset.

Note 5B: Trade and other receivables

Goods and services

146	261
-----	-----

Less: Allowance for doubtful debts

-	-
---	---

146	261
-----	-----

GST receivable from the Australian Taxation Office

555	478
-----	-----

Appropriation receivable but undrawn for existing outputs

15,564	18,524
--------	--------

Other

607	460
-----	-----

Total trade and other receivables (net)

16,872	19,723
--------	--------

Trade and other receivables are represented by:

Current

16,872	19,686
--------	--------

Non-current

-	37
---	----

Total trade and other receivables (net)

16,872	19,723
--------	--------

All receivables have credit terms of net 30 days (2007: 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:

Not overdue

16,651	19,530
--------	--------

Overdue by:

Less than 30 days

221	185
-----	-----

30 to 60 days

-	8
---	---

61 to 90 days

-	-
---	---

More than 90 days

-	-
---	---

221	193
-----	-----

Total trade and other receivables (gross)

16,872	19,723
--------	--------

Note 5C: Other

Work in progress - audit related services

26	69
----	----

All work in progress is recognised as a current asset.

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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	2008 \$'000	2007 \$'000
Note 6 - Non-Financial Assets		
<u>Note 6A: Land and buildings</u>		
Leasehold improvements		
- at fair value	1,078	877
- accumulated amortisation	-	-
Total leasehold improvements	1,078	877
Total land and buildings (non-current)	1,078	877
No indicators of impairment were found for leasehold improvements.		
<u>Note 6B: Infrastructure, plant and equipment</u>		
Infrastructure, plant and equipment		
- at fair value	630	474
- accumulated depreciation	-	-
Total infrastructure, plant and equipment	630	474
Total infrastructure, plant and equipment (non-current)	630	474

All revaluations are independent and are conducted in accordance with the revaluations policy stated at Note 1. In 2007-08, the revaluations were conducted by an independent valuer - Australian Valuation Office on 16 June 2008.

Analysis of land and buildings and infrastructure, plant and equipment

TABLE A - Reconciliation of the Opening and Closing Balances of Land and Buildings and Infrastructure, Plant and Equipment

Item	Leasehold Improvements \$'000	Infrastructure, Plant & Equipment \$'000	TOTAL \$'000
As at 1 July 2007			
Gross book value	877	474	1,351
Accumulated depreciation/amortisation	-	-	-
Opening net book value	877	474	1,351
Additions by purchase	897	394	1,291
Addition by recognition of makegood obligation	60	-	60
Impairments recognised in the operating result	(5)	(51)	(56)
Depreciation/amortisation expense	(751)	(182)	(933)
Net revaluation (decrement)	-	(5)	(5)
Disposals	-	-	-
As at 30 June 2008			
Gross book value	1,078	630	1,708
Accumulated depreciation/amortisation	-	-	-
Closing net book value	1,078	630	1,708

Item	Leasehold Improvements \$'000	Infrastructure, 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
Depreciation/amortisation expense	(537)	(211)	(748)
Net Revaluation increment/(decrement)	170	(132)	38
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 6C: Intangible assets

	2008 \$'000	2007 \$'000
Computer software		
- at cost	2,806	2,237
- accumulated amortisation	(1,777)	(1,119)
Total intangibles (non-current)	1,029	1,118

No indicators of impairment were found for intangible assets.

TABLE A - Reconciliation of opening and closing balances of intangibles

Item	Computer Software \$'000
As at 1 July 2007	
Gross book value	2,237
Accumulated amortisation	(1,119)
Opening net book value	1,118
Amortisation expense	(658)
Additions by purchase	569
As at 30 June 2008	
Gross book value	2,806
Accumulated amortisation	(1,777)
Closing net book value	1,029

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	1,190	952
-------------	-------	-----

All other non-financial assets are current assets.

Note 7 - Payables

Note 7A: Suppliers

Trade creditors	3,023	3,351
Operating lease rentals	1,744	4,542
Total supplier payables	4,767	7,893

Supplier payables are represented by:

Current	3,684	6,068
Non-current	1,083	1,825
Total supplier payables	4,767	7,893

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	2008 \$'000	2007 \$'000
Note 8 - Interest Bearing Liabilities		
<u>Note 8: Leases</u>		
Surplus lease space	217	803
Other interest bearing liabilities are represented by:		
Current	217	662
Non-current	-	141
Total leases	217	803
Note 9 - Provisions		
<u>Note 9A: Employee provisions</u>		
Salaries and wages	368	676
Leave	7,956	7,946
Superannuation	750	819
Total employee provisions	9,074	9,441
Employee provisions are represented by:		
Current	7,964	8,481
Non-current	1,110	960
Total employee provisions	9,074	9,441
<u>Note 9B: Other provisions</u>		
Make good provision	40	40
Other provisions are represented by:		
Current	-	-
Non-current	40	40
Total other provisions	40	40
	Make good Provision \$'000	
Carrying amount at beginning of year	40	
Unwinding of discount amount arising from the passage of time	-	
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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Note 10 - Cash Flow Reconciliation

Reconciliation of cash and cash equivalents per Balance Sheet to Cash Flow Statement

	2008 \$'000	2007 \$'000
Cash and cash equivalents at year end per Cash Flow Statement	882	980
Balance Sheet items comprising above cash: 'Financial Asset - Cash and cash equivalents'	882	980
Reconciliation of surplus to net cash flows from operating activities:		
Surplus	1,598	2,258
Depreciation/amortisation	1,591	1,172
Net write down of non-financial assets	56	136
Contribution of asset	(60)	-
Loss/(gain) on disposal of assets	-	3
Decrease/(increase) in net receivables	2,851	(30)
Decrease/(increase) in other financial assets	43	(29)
(Increase)/decrease in prepayments	(238)	13
(Decrease)/increase in employee provisions	(367)	552
(Decrease)/increase in supplier payables	(3,126)	(2,882)
(Decrease)/increase in other payables	-	977
(Decrease)/increase in other interest bearing liabilities	(586)	(557)
(Decrease)/increase in other provisions	-	(958)
Net cash flow from/(used by) operating activities	1,762	655

Note 11 - Executive Remuneration

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

	2008 No.	2007 No.
\$130 000 to \$144 999	2	2
\$145 000 to \$159 999	2	1
\$160 000 to \$174 999	2	-
\$175 000 to \$189 999	1	2
\$190 000 to \$204 999	6	5
\$205 000 to \$219 999	5	5
\$220 000 to \$234 999	1	3
\$235 000 to \$249 999	2	2
\$250 000 to \$264 999	1	-
\$265 000 to \$279 999	1	1
\$280 000 to \$294 999	-	1
\$295 000 to \$309 999	2	-
\$355 000 to \$369 999	1	1
\$415 000 to \$429 999	1	-
\$445,000 to \$459,999	-	1
\$490 000 to \$504 999	1	-
Total	28	24

The aggregate amount of total remuneration of senior executives shown above.

\$ 6,763,625 **\$ 5,425,884**

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

The number of senior executives remained unchanged through the financial year. The increase reflects staff turnover.

Australian National Audit Office
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Note 12 - Remuneration of Auditors

	2008	2007
Amounts received, or due and receivable by the Independent Auditor for:		
Financial statement audit	86,350	71,820
Performance audit	80,000	-
	166,350	71,820

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.

Note 13 - Financial Instruments

Note 13A: Categories of financial instruments

	Notes	2008 \$'000	2007 \$'000
Financial Assets			
Loans and Receivables			
Cash and cash equivalents	5A	882	980
Receivables for goods and services	5B	146	261
Employee related receivables		569	268
GST receivable	5B	555	478
Total Financial Assets		2,152	1,987
Financial Liabilities			
Supplier payables	7A	3,023	3,351
Total Financial Liabilities		3,023	3,351

The net fair values of the financial assets and financial liabilities approximate their carrying amounts.

Note 13B: Credit Risk

The ANAO is exposed to minimal credit risk as financial assets represent cash and cash equivalents and trade and other receivables. For the purposes of this note appropriations receivable are not disclosed as financial instruments as it does not meet the definition of a financial asset. The maximum exposure to credit risk is the risk that arises from potential default of a debtor. This amount is equal to the total amount of trade and other receivables (2008: \$2,152,000 and 2007: \$1,987,000). The ANAO has assessed the risk of the default on payment to be nil as at 30 June 2008 (2007: nil).

The ANAO manages its credit risk by undertaking background and credit checks prior to allowing a debtor relationship. In addition, the ANAO has policies and procedures that guide employees debt recovery techniques that are to be applied. The ANAO does not require collateral in respect of trade and other receivables.

The ANAO has determined that none of its financial assets that are past due are impaired.

Ageing of financial assets that are past due can be found in note 5B.

Note 13C: Liquidity Risk

The ANAO's financial liabilities are supplier payables. The exposure to liquidity risk is based on the notion that the ANAO will encounter difficulty in meeting its obligations associated with financial liabilities. This is highly unlikely due to appropriation funding mechanisms available to the ANAO (e.g. Advance to the Finance Minister) and internal policies and procedures put in place to ensure there are appropriate resources to meet its financial obligations.

Financial liabilities represent current liabilities which are expected to mature within 30 days.

Note 13D: Market Risk

The ANAO holds basic financial instruments that do not expose the ANAO to any market risk. The ANAO is not exposed to 'Currency risk' or 'Other price risk'.

Note 13E: Interest Rate Risk

The ANAO is not subject to interest rate risk.

	2008 \$'000	2007 \$'000
Note 14 - Income Administered on Behalf of Government		
Revenue		
Services		
Rendering of services - Financial statement audit fees	7,992	10,217
Total Revenues Administered on Behalf of Government	7,992	10,217
Note 15 - 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	1,721	2,059
Receivables (gross) are aged as follows:		
Not overdue	1,706	1,817
Overdue by:		
Less than 30 days	-	87
30 to 60 days	-	110
61 to 90 days	15	45
More than 90 days	-	-
Total receivables (gross)	1,721	2,059
Work in progress		
Financial statement audits	1,022	1,244
Total Assets Administered on Behalf of Government	2,743	3,303
Note 16 - Liabilities Administered on Behalf of Government		
Other payables		
GST payable to Australian Taxation Office	219	197
Total other payables	219	197
Total Liabilities Administered on Behalf of Government	219	197
All liabilities are expected to be settled within 30 days of balance date.		
Note 17 - Administered Reconciliation Table		
Opening administered assets less administered liabilities as at 1 July	3,106	4,341
Plus: Administered income	7,992	10,217
Transfers to the OPA	(8,574)	(11,452)
Closing administered assets less administered liabilities as at 30 June	2,524	3,106
Note 18 - Administered Contingent Liabilities		
Quantifiable Administered Contingencies		
There were no quantifiable Administered Contingent Liabilities as at 30 June 2008 (2007: Nil).		
Unquantifiable Administered Contingencies		
There were no unquantifiable Administered Contingent Liabilities as at 30 June 2008 (2007: Nil).		
Remote Administered Contingencies		
There were no remote Administered Contingent Liabilities as at 30 June 2008 (2007: Nil).		
Note 19 - Financial Instruments		
Financial Assets		
Cash and cash equivalents	-	-
Receivables (audit fees)	1,721	2,059
Carrying amount of financial assets	1,721	2,059
Financial Liabilities		
GST payables	219	197
Carrying amount of financial liabilities	219	197

Australian National Audit Office
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Note 20 - Appropriations

Note 20A: Acquitment 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 2008				
Balance carried from previous period	-	-	14,950,136	14,950,136
Reductions of appropriations (Appropriation Act section 9)	-	-	-	-
Adjusted Balance carried from previous period	-	-	14,950,136	14,950,136
Appropriation Act (No.1)	-	-	63,446,000	63,446,000
Appropriation Act (No.3)	-	-	-	-
Appropriation Act (No.5)	-	-	-	-
Administered Appropriations Lapsed (Appropriation Act section 8)	-	-	-	-
Sub-total 2007-2008 Appropriation	-	-	63,446,000	63,446,000
Appropriations to take account of recoverable GST (FMAA s30A)	-	-	3,497,694	3,497,694
Amendations to 'net appropriations' (FMAA s31)	-	-	3,472,962	3,472,962
Total appropriations available for payments	-	-	85,366,792	85,366,792
Cash payments made during the year (GST inclusive)	-	-	(72,556,991)	(72,556,991)
Balance of Authority to Draw Cash from the CRF for Ordinary Annual Services Appropriations	-	-	12,809,801	12,809,801
Represented by:				
Cash at bank and on hand	-	-	882,069	882,069
Receivables - departmental appropriations	-	-	11,452,114	11,452,114
Receivables - GST receivable from customers	-	-	-	-
Receivables - GST receivable from the ATO	-	-	554,567	554,567
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	-	-	(78,949)	(78,949)
Undrawn, unapplied administered appropriations	-	-	-	-
Total	-	-	12,809,801	12,809,801

Note 20 - Appropriations (cont'd)

Note 20A: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (CRF) for Ordinary Annual Services Appropriations (cont'd)

Particulars	Administered Expenses Outcome 1	Administered Expenses Outcome 2	Departmental Outputs	Total
Year ended 30 June 2007 (comparative period)				
Balance carried from previous period	-	-	14,618,035	14,618,035
Reductions of appropriations (Appropriation Act section 9)	-	-	-	-
Adjusted Balance carried from previous period	-	-	14,618,035	14,618,035
Appropriation Act (No.1)	-	-	64,045,650	64,045,650
Appropriation Act (No.3)	-	-	-	-
Appropriation Act (No.5)	-	-	-	-
Administered Appropriations Lapsed (Appropriation Act section 8)	-	-	-	-
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
Annulations 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 at bank and on hand	-	-	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, unexpired administered appropriations	-	-	-	-
Total	-	-	14,950,136	14,950,136

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Note 20 - Appropriations (cont'd)

Note 20B: Acquittal 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 SPPs	NAE	Outcome 2 SPPs	NAE	Equity	Loans	Previous years' outputs	Admin assets and liabilities
Year ended 30 June 2008	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,330,000	\$ -
Balance carried from previous period	-	-	-	-	-	-	-	-
Reductions of appropriations (Appropriation Act section 9)	-	-	-	-	-	-	-	-
Adjusted balance carried from previous period	-	-	-	-	-	-	-	-
Appropriation Act (No.2) 2007-2008	-	-	-	-	-	-	5,330,000	-
Appropriation Act (No.4) 2007-2008	-	-	-	-	-	-	-	-
Departmental Adjustments and Borrowings	-	-	-	-	-	-	-	-
Advance to the Finance Minister	-	-	-	-	-	-	-	-
Adjustment of appropriations on change of entity function (FMAAA s32)	-	-	-	-	-	-	-	-
Refunds credited (net) (FMAAA s30)	-	-	-	-	-	-	-	-
Appropriation reduced by a section 11 determination (current year)	-	-	-	-	-	-	-	-
Sub-total 2007-08 Annual Appropriation	-	-	-	-	-	-	-	-
Appropriations to take account of recoverable GST (FMAAA 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	-	-	-	-	-	-	5,330,000	-
Total	-	-	-	-	-	-	5,330,000	-

Particulars	Administered			Non-operating				Total
	Outcome 1 SPPs	NAE	Outcome 2 SPPs	NAE	Equity	Loans	Previous years' outputs	Admin assets and liabilities
<i>Represented by:</i>								
Cash at bank and on hand	-	-	-	-	-	-	-	-
Departmental appropriation receivable	-	-	-	-	-	-	-	-
GST receivable from the ATO	-	-	-	-	-	-	5,330,000	-
Departmental appropriation receivable - Drawing rights withheld by the Finance Minister (FMAAA s27(4))	-	-	-	-	-	-	-	-
Formal reductions of appropriation revenue	-	-	-	-	-	-	-	-
Departmental appropriation receivable (appropriation for additional outputs)	-	-	-	-	-	-	-	-
Undrawn, unapplied administered appropriations	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	5,330,000	-

Note 20 - Appropriations (cont'd)

Note 20B: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund (CRF) for other than Ordinary Annual Services Appropriations (cont'd)

Particulars	Administered				Non-operating				Total
	Outcome 1		Outcome 2		Equity	Loans	Previous years' outputs	Admin assets and liabilities	
	SPPs	NAE	SPPs	NAE					
Year ended 30 June 2007									
Balance carried from previous period	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Reductions of appropriations (Appropriation Act section 9)	-	-	-	-	-	-	5,330,000	-	
Adjusted balance carried from previous period	-	-	-	-	-	-	5,330,000	-	
Appropriation Act (No.2) 2006-2007	-	-	-	-	-	-	-	-	
Appropriation Act (No.4) 2006-2007	-	-	-	-	-	-	-	-	
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 2006-07 Annual Appropriation	-	-	-	-	-	-	-	-	
Appropriations to take account of recoverable GST (FMAA s30A)	-	-	-	-	-	-	-	-	
Total appropriations available for payments	-	-	-	-	-	-	5,330,000	-	
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	-	-	-	-	-	-	5,330,000	-	

Particulars	Administered				Non-operating				Total
	Outcome 1		Outcome 2		Equity	Loans	Previous years' outputs	Admin assets and liabilities	
	SPPs	NAE	SPPs	NAE					
Represented by:									
Cash at bank and on hand	-	-	-	-	-	-	-	-	
Departmental appropriation receivable	-	-	-	-	-	-	5,330,000	-	
GST receivable from the ATO	-	-	-	-	-	-	-	-	
Departmental appropriation receivable - Drawing rights withheld by the Finance Minister (FMAA s27(4))	-	-	-	-	-	-	-	-	
Formal reductions of appropriation revenue	-	-	-	-	-	-	-	-	
Departmental appropriation receivable (appropriation for additional outputs)	-	-	-	-	-	-	-	-	
Undrawn, unapplied administered appropriations	-	-	-	-	-	-	-	-	
Total	-	-	-	-	-	-	5,330,000	-	
							5,330,000	5,330,000	

Note 20C - 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	2008	2007
	\$	\$
Purpose: Remuneration expenses and allowances of the office of the Auditor-General		
	Outcome 1	
Cash payments made during the year	204,000	215,325
Actual estimate	196,000	193,500
	Outcome 2	
Cash payments made during the year	204,000	215,325
Budget estimate	196,000	193,500
Total payments made	408,000	430,650
Total actual estimate	392,000	387,000

For the periods 2006-07 and 2007-08, the ANAO has not used section 28 of the FMA Act or any other legislative provision allowing for refunds to be paid..

Note 21 - Special Accounts

Other Trust Monies Special Account - Special Public Monies (departmental)	2008	2007
	\$	\$
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	165	28,276
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> .	221	11,012
Available for payments	386	39,288
Payments made to employees	(385)	(39,123)
Repayments debited from the Special Account (s28)	-	-
Investments debited from the Special Account (FMA s39)	-	-
Balance carried to the next period	1	165
<i>Represented by:</i>		
Cash - transferred to the Official Public Account	-	-
Cash - held by the entity	1	165
Total	1	165

The note above discloses the transactions relating to Comcare.

The ANAO's Services for Other Government and Non-agency Bodies Special Account (Special Public Money) was not used during the 2007-08 or 2006-07 financial years.

Note 22 – Compensation and Debt Relief

	2008 \$'000	2007 \$'000
<i>Departmental</i>		
No payments made under section 73 of the Public Service Act 1999 (2006-07: No payments made).	Nil	Nil
<i>Administered</i>		
No 'Act of Grace' expenses were incurred during the reporting period (2006-07: No payments made).	Nil	Nil
No waivers of amounts owing to the Commonwealth were made pursuant to subsection 34(1) of the <i>Financial Management and Accountability Act 1997</i> . (2006-07: No waivers made).	Nil	Nil
No ex-gratia payments were made during the year (2006-07: No payments made).	Nil	Nil

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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 2007-08 Budget.

Note 23A: Net Cost of Outcome Delivery

	Outcome 1		Outcome 2		Total	
	Improvement in		Assurance			
	2008	2007	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Administered expenses	-	-	-	-	-	-
Departmental expenses	25,407	23,256	39,662	40,645	65,069	63,901
Total expenses	25,407	23,256	39,662	40,645	65,069	63,901
Costs recovered from provision of goods and services to the non-government sector						
Administered	-	-	-	-	-	-
Departmental	274	273	273	272	547	545
Total costs recovered	274	273	273	272	547	545
Other external revenues						
Administered	-	-	-	-	-	-
Departmental	799	305	1,875	1,263	2,674	1,568
Total other external revenues	799	305	1,875	1,263	2,674	1,568
Net cost/(contribution) of outcome	24,334	22,678	37,514	39,110	61,848	61,788

Note 23 - Reporting of Outcomes (cont'd)

Note 23B: Major Classes of Departmental Revenues and Expenses by Output Groups and Outputs

Outcome 1	Output Group 1		Output Group 2								Total - Outcome 1	
	Performance Audit Services		Information Support Services								Improvement in Public Administration	
	Output Group 1.1 Performance Audit Services		Output Group 1.2 Other Audit and Related Products		Output Group 2.1 Assistance to Parliament		Output Group 2.2 National and International Representation		Output Group 2.3 Client Seminars		Output Group 2.4 Better Practice Guides	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Departmental expenses												
Employee benefits	13,976	13,774	-	-	258	258	260	260	-	-	336	335
Suppliers	8,850	7,196	-	-	107	85	194	154	-	-	497	394
Depreciation and amortisation	551	372	-	-	10	7	10	7	-	-	13	9
Other expenses	324	382	-	-	6	6	6	7	-	-	9	9
Total departmental expenses	23,701	21,724	-	-	381	357	470	428	-	-	855	747
Funded by:												
Revenues from Government	23,368	21,739	-	-	387	360	464	431	-	-	810	754
Sale of goods and services	785	213	-	-	10	5	11	6	-	-	14	7
Other non-taxation revenue	-	-	-	-	-	-	279	347	-	-	-	-
Total departmental revenues	24,153	21,952	-	-	397	365	754	784	-	-	824	761
											26,128	23,862

Outcome 2	Output Group 2		Output Group 3								Total - Outcome 2	
	Information Support Services		Assurance Audit Services								Assurance	
	Output Group 2.1 Assistance to Parliament		Output Group 2.2 National and International Representation		Output Group 2.3 Client Seminars		Output Group 2.4 Better Practice Guides		Output Group 3.1 Financial Statement Audit Reports		Output Group 3.2 Other Assurance Reports	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Departmental expenses												
Employee benefits	19	18	141	133	19	18	-	-	15,152	15,248	1,018	961
Suppliers	6	7	160	177	13	14	-	-	19,737	21,794	985	1,088
Depreciation and amortisation	1	1	9	7	1	1	-	-	945	729	51	39
Other expenses	1	1	4	4	-	-	-	-	379	384	21	21
Total departmental expenses	27	27	314	321	33	33	-	-	37,213	38,155	2,075	2,109
Funded by:												
Revenues from Government	25	27	305	323	31	33	-	-	36,223	38,434	1,833	1,945
Sale of goods and services	-	-	5	3	-	-	-	-	345	257	1,444	1,077
Other non-taxation revenue	-	-	328	198	-	-	-	-	-	-	-	-
Total departmental revenues	25	27	638	524	31	33	-	-	36,568	38,691	3,277	3,022
											40,539	42,297

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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	
	2008	2007	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Administered Revenue						
Sale of goods and services (audit fees)	-	-	7,992	10,217	7,992	10,217
Total Administered Revenues	-	-	7,992	10,217	7,992	10,217
Administered Expenses						
Total Administered Expenses	-	-	-	-	-	-

Appendix 3

Audit reports tabled in 2007–08

Report Title	Date Tabled	Cost \$ ¹
Audit Report No.1 2007–08 Performance Audit <i>Acquisition of the ABRAMS Main Battle Tank</i>	17 Jul 2007	244 800
Audit Report No.2 2007–08 Performance Audit <i>Electronic Travel Authority—Follow-up Audit</i>	18 Jul 2007	251 400
Audit Report No.3 2007–08 Performance Audit <i>Australian Technical Colleges Program</i>	19 Jul 2007	375 000
Audit Report No.4 2007–08 Performance Audit <i>Container Examination Facilities – Follow-up Audit</i>	8 Aug 2007	172 000
Audit Report No.5 2007–08 Performance Audit <i>The National Cervical Screening Program – Follow-up Audit</i>	16 Aug 2007	201 000
Audit Report No.6 2007–08 Performance Audit <i>Australia’s Preparedness for a Human Influenza Pandemic</i>	11 Sep 2007	380 000
Audit Report No.7 2007–08 Performance Audit <i>The Senate Order for Departmental and Agency Contracts (Calendar Year 2006 Compliance)</i>	27 Sep 2007	347 000
Audit Report No.8 2007–08 Performance Audit <i>Proof of Identify for Accessing Centrelink Payments</i>	3 Oct 2007	754 000
Audit Report No.9 2007–08 Performance Audit <i>Australian Apprenticeships</i>	4 Oct 2007	508 000
Audit Report No.10 2007–08 Performance Audit <i>Whole of Government Indigenous Service Delivery Arrangements</i>	17 Oct 2007	527 000
Audit Report No.11 2007–08 Performance Audit <i>Management for the FFG Capability Upgrade Project</i>	31 Oct 2007	384 000
Audit Report No.12 2007–08 Performance Audit <i>Administration of the High risk Income Tax Refunds in the Individuals and Micro Enterprises Market Segments</i>	1 Nov 2007	287 000

Report Title	Date Tabled	Cost \$ ¹
Audit Report No.13 2007–08 Performance Audit <i>The Australian Taxation Office's Approach to Managing Self Managed Superannuation Fund Compliance Risks</i>	1 Nov 2007	148 000
Audit Report No.14 2007–08 Performance Audit <i>Administration of the Regional Partnerships Program</i>	15 Nov 2007	1 202 000
Audit Report No.15 2007–08 Performance Audit <i>ATO's Administration of Australian Business Number Registration – Follow-up Audit</i>	29 Nov 2007	216 000
Audit Report No.16 2007–08 Performance Audit <i>Data Integrity in the Child Support Agency</i>	30 Nov 2007	431 000
Audit Report No.17 2007–08 Performance Audit <i>Management of the IT Refresh Program</i>	19 Dec 2007	349 000
Audit Report No.18 2007–08 Performance Audit <i>Audit of the Financial Statements of Australian Government Entities for the period ended 30 June 2007.</i>	20 Dec 2007	269 000 ²
Audit Report No.19 2007–08 Performance Audit <i>Administration of the Automotive Competitiveness and Investment Scheme</i>	22 Jan 2008	304 000
Audit Report No.20 2007–08 Performance Audit <i>Accuracy of Medicare Claims Processing</i>	23 Jan 2008	433 000
Audit Report No.21 2007–08 Performance Audit <i>Regional Delivery Model for Natural Heritage Trust and National Action Plan for Salinity and Water Quality</i>	7 Feb 2008	394 000
Audit Report No.22 2007–08 Performance Audit <i>Administration of Grants to the Australian Rail Track Corporation</i>	14 Feb 2008	354 000
Audit Report No.23 2007–08 Performance Audit <i>The Management of Cost Recovery by Selected Regulators</i>	21 Feb 2008	488 000
Audit Report No.24 2007–08 Performance Audit <i>DIAC's Management of the Introduction of Biometric Technologies</i>	26 Feb 2008	359 000

Report Title	Date Tabled	Cost \$ ¹
Audit Report No.25 2007–08 Performance Audit <i>Administering Round the Clock Medicare Grants</i>	27 Feb 2008	230 000
Audit Report No.26 2007–08 Performance Audit <i>Tasmanian Forest Industry Development and Assistance Programs</i>	28 Feb 2008	684 000
Audit Report No.27 2007–08 Performance Audit <i>Emergency Management Australia</i>	16 Apr 2008	250 000
Audit Report No.28 2007–08 Performance Audit <i>Defence's Compliance with the Public Works Committee Approval Processes</i>	22 Apr 2008	211 000
Audit Report No.29 2007–08 Performance Audit <i>Parent School Partnerships Initiative</i>	23 Apr 2008	257 000
Audit Report No.30 2007–08 Performance Audit <i>The Australian Taxation's Office Use of Data Matching and Analytics in Tax Administration</i>	24 Apr 2008	482 000
Audit Report No.31 2007–08 Performance Audit <i>Management of Recruitment in the Australian Public Service</i>	29 Apr 2008	969 000
Audit Report No.32 2007–08 Performance Audit <i>Preparation of the Tax Expenditure Statement</i>	8 May 2008	429 000
Audit Report No.33 2007–08 Performance Audit <i>The National Capital Authority's Management of National Assets</i>	15 May 2008	392 000
Audit Report No.34 2007–08 Performance Audit <i>Pathology Payments under Medicare</i>	21 May 2008	263 000
Audit Report No.35 2007–08 Performance Audit <i>Building Certification of Residential Aged Care Homes</i>	22 May 2008	337 000
Audit Report No.36 2007–08 Performance Audit <i>ATO Strategies to Address Tax Haven Compliance Risks</i>	28 May 2008	322 000
Audit Report No.37 2007–08 Performance Audit <i>Management of Credit Cards</i>	3 Jun 2008	460 000
Audit Report No.38 2007–08 Performance Audit <i>Administration of Job Network Service Fees</i>	4 Jun 2008	424 000

Report Title	Date Tabled	Cost \$ ¹
Audit Report No.39 2007–08 Performance Audit <i>Managing e-Business Applications-Follow-up Audit</i>	5 Jun 2008	128 000
Audit Report No.40 2007–08 Performance Audit <i>Taxpayers' Charter-Follow-up Audit</i>	11 Jun 2008	158 000
Audit Report No.41 2007–08 Performance Audit <i>Management of Personnel Security-Follow-up Audit</i>	18 Jun 2008	429 000
Audit Report No.42 2007–08 Performance Audit <i>Management of Customer Debt-Follow-up Audit</i>	19 Jun 2008	482 000
Audit Report No.43 2007–08 Performance Audit <i>Third Tranche Sale of Telstra Shares</i>	24 Jun 2008	568 000
Audit Report No.44 2007–08 Performance Audit <i>Interim Phase of the Audit of Financial Statements of General Government Sector Agencies for the Year ending 30 June 2008</i>	25 Jun 2008	357 000 ³
Audit Report No.45 2007–08 Performance Audit <i>Specific Purpose Payments: General Recurrent Grants for Government Schools</i>	26 Jun 2008	377 000
Audit Report No.46 2007–08 Performance Audit <i>Regulation of Commercial Broadcasting</i>	27 Jun 2008	390 000

Notes

- 1 These are final figures rounded to the nearest 100 and may differ from the published costs in the audit report.
- 2 This represents the cost of preparing the audit itself but does not include the cost of agencies financial statements.
- 3 This represents the cost of preparing the audit itself but does not include the cost of agencies financial statements.

Appendix 4

Summary of performance audit reports tabled in 2007–08

This Appendix summarises the main issues raised in performance audit reports tabled during the year (including business support process audits and protective security audits). The summaries are grouped according to following audit themes:

- governance (including whole of government initiatives, financial management, information system integrity, and compliance with policy and legislative requirements);
- administration of border security;
- program implementation;
- service delivery;
- grants administration; and
- the environment.

Audits examining governance

Audit Report No.1 2007–08 Acquisition of the ABRAMS Main Battle Tank

This audit examined the procurement of a major replacement capability for the Australian Defence Force by the DMO and Defence. The objective of the audit was to assess the effectiveness of Defence’s and the Defence Materiel Organisation’s management of this procurement. The audit was conducted under the themes of project management and governance.

The ANAO found that the project to acquire the ABRAMS tank capability has effectively reduced acquisition and development risks by procuring equipment that is part of a fully developed ‘military off-the-shelf’ US Government program. In parallel, Defence did not vary the product performance specifications during the acquisition, which has served to ensure the delivery of the required capability on time, to budget, and to the required quality.

Audit Report No. 5 2007–08 National Cervical Screening Program—Follow-up Audit.

The National Cervical Screening Program (NCSP) aims to reduce morbidity and deaths from cervical cancer, in a cost-effective manner through an organised approach to cervical screening. The ANAO concluded that Department of Health and Aging (DoHA) has made progress against the recommendations of Audit Report No.50, 2000–01 directed to improvements in the administration of NCSP, with three recommendations implemented and one recommendation (recommendation 4) partially implemented.

Notwithstanding, the ANAO considers that DoHA’s implementation of all the recommendations from the earlier audit would have benefited from a more structured

approach to planning and greater consideration of the risks to timely implementation. The ANAO also noted weaknesses in DoHA's monitoring of implementation activities, which impacted upon the department's ability to make informed decisions regarding the actions required to successfully implement the recommendations.

Audit Report No. 7 2007–08 The Senate Order for Departmental and Agency Contracts (Calendar Year 2006 Compliance).

This was the ninth 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 compliance with the Senate Order in seven agencies and report on the appropriateness of the use of confidentiality provisions in contracts. The audit found there was a lack of compliance with key Senate Order reporting requirements which is consistent with the findings from previous ANAO audits on the Senate Order. The results indicated a lack of training, quality control and general care. Agencies had not sufficiently utilised information available from, or direct contact with the Department of Finance and Deregulation, nor previous ANAO audit findings to assist in meeting the requirements of the Senate Order.

Audit Report No. 9 2007–08 Australian Apprenticeships: Department of Education, Science and Training

DEST contracts Australian Apprenticeships Centres to promote, market and administer Australian Apprenticeships. These Centres act as points of contact between DEST and employers, apprentices and State Training Authorities. DEST has sound processes and procedures for the day-to-day management of these contracts.

Recognising the Department of Education Science and Training's (DEST) national leadership role, there would be benefit in DEST consulting with the States and Territories to explore whether gaps in performance and financial information on Australian Apprenticeships may be addressed.

The Incentives Program administered by DEST is well utilised by employers for apprentices and trainees in occupations in national demand; and the large majority of employers are not abusing the Incentives Program by 'churning' apprentices and trainees. The cost-effectiveness of the program has remained broadly the same as it was in 1999-2000. Australian Apprenticeships has a non-completion rate of approximately 40 per cent. In light of this, performing a sensitivity analysis of incentives payments to employers compared with Australian Apprenticeships completions, is likely to assist DEST to better understand the influence of any potential policy variations on the cost-effectiveness of the Incentives Program.

Audit Report No. 10 2007–08 Whole of Government Indigenous Service Delivery Arrangements

This audit examined how four key departments were implementing the Indigenous Affairs Arrangements (IAAs) that were introduced by the Government in July 2004. The Government 'mainstreamed' its approach to indigenous affairs requiring departments

to deliver services to indigenous people in a coordinated whole of government way. While implementation of the Government's policy objective is progressing, it is apparent that there are opportunities to streamline the administrative arrangements supporting the delivery of services to indigenous communities and regions. The ANAO identified a number of areas for improvement including:

- implementation of the IAAs and the role of a lead agency;
- whole of government governance and accountability arrangements;
- collaborative efforts to support effective service delivery including the development of joint funding agreements; and
- program responding flexibly to Indigenous need.

Audit Report No. 11 2007–08 Management of the FFG Capability Upgrade Project

The audit reviewed the performance of the Guided Missile Frigate System Program Office (FFGSPO) management of the Guided Missile Frigate (FFG) Capability Upgrade Project. It focused on the delivery and acceptance of HMAS Sydney and the arrangements in place for upgrading the remaining three FFGs. The audit also included an examination of the implementation of the SM-I Missile Replacement Project and the delays in the FFG Upgrade Project.

The FFG Upgrade Project has experienced extensive delays in meeting the contracted capability upgrade requirements specified in the late 1990s. The number of FFGs to be upgraded has been reduced from six to four, and the scheduled acceptance of the fourth and final ship has been delayed by four and a half years to June 2009. Since the last ANAO audit in 2005, the project delays are attributable to a range of underwater warfare system; and electronic support system performance deficiencies. Considerable risk remains to the delivery of contractually compliant capability to Navy, given the maturity of these systems. The FFG Upgrade Prime Contract is less robust than more recent Defence contracts in terms of providing Defence Materiel Organisation with adequate opportunity to exercise suitable management authority over the project's acceptance test and evaluation program. Nevertheless, FFGSPO has monitored the Prime Contractor's performance and provided extensive feedback aimed at achieving improved visibility into the project's engineering development, testing procedures and test results. But the overall result has been long-running design review, test program and requirements completion verification difficulties.

Audit Report No. 13 2007–08 The Australian Taxation Office's Approach to Managing Self Managed Superannuation Fund Compliance Risks

The Tax Office's management of compliance risks has been influenced by its initial approach to regulating and registering Self Managed Superannuation Funds (SMSF). A previous ANAO audit report identified that the Tax Office could have taken steps to improve the collection and assessment of registration data, and fund income tax and regulatory return data, prior to issuing SMSFs with complying fund status.

Since 2003–04 the Tax Office has sought to resolve SMSF non-compliance through a combination of educational strategies and increased active compliance activity. However, low Tax Office compliance audit coverage and the Tax Office’s discretionary use of the SMSF penalty regime has resulted in few funds in breach of the *Superannuation industry Supervision Act 1993* (SISA) being subjected to remedial measures.

The ANAO considers the implementation of *Simplified Superannuation* reforms and the additional resources provided to the Tax Office will impact on the Tax Office’s management of SMSF compliance risks in the future. Notwithstanding the increase in compliance activity associated with these reforms, the ANAO considers that the Tax Office has significant potential to establish more effective processes for identifying and mitigating SMSF compliance risks. Until it does so, it will not be in a position to provide adequate assurance that its compliance approach is effective and that SMSF’s are complying with their obligations.

Audit Report No. 16 2007–08 Data Integrity in the Child Support Agency

The audit examined the integrity of electronic records stored on the Child Support Register—a database called ‘Cuba’—and to report on the effectiveness of the Child Support Agency’s (CSA’s) management of the data. In particular, the audit examined the CSA’s electronic records and data management practices for: accuracy and completeness; reliability and internal consistency; and adequacy of controls and procedures to ensure a high quality of data capture and recording.

Based on its analysis of an extensive extract of CSA records, the ANAO concluded that the majority of records in ‘Cuba’ are sufficiently accurate, complete and reliable to support the effective administration of the Child Support Scheme. Where the ANAO detected anomalous records, these usually accounted for a relatively small proportion of all records in the database. Nevertheless, the presence of erroneous records in the database indicates a weakness in effective control systems for data entry and recording.

Most of the errors and weaknesses pose a minimal risk to the CSA’s overall administration of the Child Support Scheme. However, particular errors or anomalies on individual records can result in an inaccurate calculation of child support liability. For the families involved, the effects can be significant.

In addition to improving the quality of individual customer records, the CSA also has an opportunity to improve the overall management of data in Cuba through a more consistent enforcement of business rules and the further development of its Data Quality Improvement Program.

Audit Report No 17 2007–08 Management of the IT Refresh Program (Centrelink)

The IT Refresh Program (Refresh) is a five year \$364 million program to modernise Centrelink’s Information Technology (IT) systems and improve customer access to Centrelink services that was announced in the 2003–04 Budget. The expectation was that Centrelink would achieve offsetting savings over five years of \$304.9 million. The audit found that Centrelink had effectively met its commitments to the Government, including the savings commitments. However, the savings in administered expenses

did not result from the originally envisaged technology improvements, but from reductions in customer payments as a result of additional data matching activities that identified increases in Centrelink customers' asset values and income. Similarly, the Refresh program did not generate the expected savings in departmental expenses and Centrelink therefore had to find the savings from non-Refresh reallocations. The audit found that Centrelink's management of Refresh has been effective, but there is scope for improvement in terms of benefits management, in obtaining the more active engagement of its business areas and in its management of the overall cost of the program. A challenge for Centrelink will be to ensure that the considerable experience and knowledge gained in terms of good program and project management (and which can be usefully applied to future programs and projects) is not dissipated as the Refresh Program Office is dismantled at the end of Refresh.

Audit Report No. 28 2007–08 Defence's Compliance with the Public Works Committee Approval Process

This audit examined selected Defence public works projects to assess whether they had been submitted to the Public Works Committee in accordance with the Committee's prevailing requirements for notification and review prior to entering into financial commitments for the works.

The ANAO found that Defence complies with the requirements of the *Public Works Committee Act 1969*, and largely complies with the requirements in the Committee's Manual, when referring projects to the Committee for notification and review prior to entering into financial commitments for the relevant public works.

Audit Report No. 30 2007–08 The Australian Taxation Office's Use of Data Matching and Analytics in Tax Administration

The ANAO examined the Tax Office's strategic goals and governance arrangements for data matching and analytics, including compliance with privacy requirements and whether the Tax Office is achieving intended results, which include revenue collection, optimised compliance and provision of improved services to taxpayers. The audit found that the Tax Office is making use of its data matching and analytical capability in a more corporate and strategic way and as a consequence has reported improved compliance, better service delivery, and more efficient and effective use of resources. The improving capability has also allowed the Tax Office to better understand risks. The development of a strategic plan for acquiring and using external data would be a key step in further improving the management of the capability.

The Tax Office would also benefit from the consolidation of knowledge of the scope, achievements, lessons learnt and potential of data matching and analytics. Implementation of pre-filling; other online web based services; and the *Easier, Cheaper and More Personalised Change Program*; provides the potential for the Tax office to further reduce post assessment processing compliance activities.

Audit Report No. 31 2007–08 Management of Recruitment in the Australian Public Service

The audit assessed whether Australian Public Service (APS) agencies had sound approaches to recruitment that assist in providing the workforce capability to deliver government programs effectively. The achievement of agency objectives and staff satisfaction requires recruitment activities to be undertaken effectively, efficiently, and in a fair and transparent manner, consistent with legislative requirements. While ongoing APS employment increased in 2006–07, many positions remained unfilled, and most agencies reported having continued difficulty in recruiting people (other than for the graduate program) with the required skills. In this context, the audit found that three distinct challenges for the APS are: implementing more strategic approaches to recruitment; improving the quality of recruitment processes; and adopting APS-wide approaches to recruiting key occupations.

Audit Report No. 32 2007–08 Preparation of the Tax Expenditures Statement (TES)

Tax Expenditure Statements (TES) were intended to form part of an integrated fiscal framework that provides for greater discipline, transparency and accountability in fiscal policy. However, due to methodological challenges, integration of the reporting of outlays and tax expenditures has not occurred, with the result that the detailed estimates of tax expenditures are reported in a separate TES document rather than integrated within the Mid-Year Economic and Fiscal Outlook (MYEFO) report.

In addition, better practice in controlling tax expenditures is considered to be at the policy development stage by ensuring that the Budget processes require that the cost of any new tax concession proposal (and any savings offsets) be examined in the same way as occurs for outlays. However, past practices in this area have been inconsistent. This has been compounded by shortcomings in the post-implementation measurement, monitoring and reporting (through the TES) of tax expenditures.

Six audit recommendations were made directed at improving the quality of information relating to tax expenditures over time so that the Government and the Parliament are better placed to be informed about the impact of relief provided from Australian Government taxes and charges, and to be positioned to make decisions relating to trade-offs between such relief and other Budget priorities involving outlays.

Audit Report No. 34 2007–08 Administration of the Pathology Quality and Outlays MoUs Department of Health and Ageing

A key objective of the current Pathology Quality and Outlays Memorandum of Understanding (MoU) is to manage Australian Government outlays for pathology services over the period 2004 to 2009. The MoU is based on an average annual rate of growth in pathology outlays of 5.3 per cent between 2004 and 2009. Over the first three years of the MoU, the number of Medicare funded pathology services increased from 77.7 million per year to 87.5 million per year and the average annual rate of growth of actual pathology outlays was 7 per cent. As at October 2007, adjustments to allowable Medicare outlays/benefits under the Pathology MoU had been increased by \$530.57 million, bringing the revised total to \$8.564 billion.

In examining the Department of Health and Ageing's (DoHA's) administration of the Pathology MoU, the ANAO focused on the MoU objective of most concern to the department, namely, to manage pathology outlays. Based on this analysis, areas for consideration by DoHA include: better managing the risks related to increasing pathology outlays; improving the timeliness in assessing claims submitted by the pathology profession; and reviewing the effectiveness of the MoU.

The MoU is the third in a series of MoUs designed to provide for stable growth in pathology outlays. It is due to end in 2009. The ANAO's recommendation was framed to assist DoHA in the work it is already undertaking to ensure that any future arrangement incorporates the lessons learned.

Audit Report No. 36 2007–08 The Australian Taxation Office's Strategies to Address Tax Haven Compliance Risks

The ANAO examined the Tax Office's strategies to address tax haven compliance risks through an investigation of its risk management framework. The Tax Office has adopted a risk management framework for its compliance program where risks are identified and assessed, and in response treatment mitigation strategies are developed, implemented and evaluated. However, the main strategic body responsible for providing leadership and high level co-ordination for the tax haven risk was not meeting on a regular basis to fulfil its charter role. The Tax Office has a strong basis for informed risk identification and evaluation through the use of internal and external data sources. The audit found that the Tax Office can increase the uses of this information through trend analysis. The Tax Office is undertaking a variety of treatment strategies to mitigate the assessed tax haven compliance risks. The audit made three recommendations that are focused on improving the ability to measure the effectiveness of Tax Office strategies to address the tax haven compliance risk.

Audit Report No. 37 2007–08 Management of Credit Cards

The audit examined whether four agencies had effectively administered credit cards, including compliance with legislative and internal requirements. The agencies were: the Department of Human Services, the Department of Agriculture, Fisheries and Forestry, the Department of Broadband, Communications and the Digital Economy and the Australian Competition and Consumer Commission.

The selected agencies generally had sound controls over the issue and cancellation of credit cards and had all issued specific guidance on their use. However, the effectiveness of controls over the use of Commonwealth credit cards varied across agencies. Instances of poorly operating controls typically arose from: failure of the cardholder to obtain proper approval for expenditures and to retain sufficient supporting documentation; and inadequate credit card reconciliations, which were not completed correctly, supported by appropriate documentation and verified by the cardholder and independent reviewer.

The audit did not identify inappropriate expenditure or fraud in any of the audited agencies. However the ANAO considers that all selected agencies need to strengthen key controls over credit cards to further reduce the risk of misuse of credit cards.

The ANAO also considered there was merit in two agencies reviewing existing credit card arrangements to decide whether it is appropriate to continue with their current provider or assess the merits of approaching the market for the provision of credit card services.

Audit Report No. 40 2007–08 Taxpayers’ Charter—Follow-up Audit

The ANAO examined the Tax Office’s implementation of the nine recommendations of Audit Report No. 19 2004–05 *Taxpayers’ Charter*, having regard to any changed circumstances affecting the implementation of the recommendations. The audit found the Tax Office has progressed well in implementing the recommendations made in the first audit, implementing all recommendations in full or part. The Tax Office has undertaken two reviews of the Taxpayers’ Charter since its implementation, with the second in 2005–06 providing information to inform the management of the Charter, and in several cases the broader management of the Tax Office. The Tax Office’s commitment to the Charter is now being demonstrated through explicit references to the Charter in its strategic planning processes. New and updated practice statements provide staff with practical guidance on how to meet Charter commitments. In addition, processes are planned which will assist information and guidance products, as well as advice, issued by the Tax Office to comply with Charter principles. Complaints information is now analysed and coordinated between ATO Complaints and the Charter Team, to help identify issues relating to Charter performance. Further, the Tax Office now effectively monitors and reports on its performance against the Charter. The ANAO made four new recommendations to further improve the Tax Office’s management of its responsibilities under the Charter.

Audit Report No. 41 2007–08 Management of Personnel Security—Follow-up Audit

The audit assessed the effectiveness of personnel security arrangements in a number of Australian Government agencies including whether they complied with the requirements of the Australian Government Protective Security Manual. The audit followed up recommendations contained in recent ANAO audits and a JCPAA inquiry concerning the administration of personnel security clearances.

The ANAO concluded that while there has been a general improvement in the administration of personnel security since the previous reports, there remains considerable scope for some organisations to improve many key personnel security processes.

The ANAO made two recommendations designed to improve personnel security: conduct regular reviews of agency risk assessments to identify new or emerging risks or changes in risk ratings, and assess the effectiveness of risk treatments; and clearly specify security aftercare arrangements, and promoting these arrangements in security education and training activities.

Audit Report No. 43 2007–08 Performance Audit of Third Tranche Sale of Telstra Shares

The audit examined the Department of Finance and Deregulation’s (Finance’s) administration of the third tranche sale of Telstra shares, which occurred in November 2006. In relation to Finance’s sale coordination and management of the sale,

the audit found that the transaction was completed in accordance with the timetable and within budget. However, the audit noted there was limited competitive pressure for some key adviser appointments and a need for improved accountability processes in relation to expenditure on marketing roadshow. In respect to overall financial returns, the audit found that Finance and its advisers developed and implemented an array of offer structure mechanisms that were successful in achieving a high level of demand for shares. In addition, the available evidence was that the offer was fully priced at \$3.70.

Audit Report No. 46 2007–08 *Regulation of Commercial Broadcasting*

This audit examined whether the Australian Communications and Media Authority (ACMA) is, in respect of commercial broadcasting services, effectively discharging its regulatory responsibilities under the *Broadcasting Services Act 1992* (BSA). The ANAO found that, for ACMA's co-regulatory approach to commercial broadcasting services to operate effectively, more attention needs to be given to certain areas of ACMA's and the commercial broadcasters' systems, processes and procedures for handling complaints from television viewers, radio listeners and other industry stakeholders. While ACMA has adequately addressed the majority of complaints it has received, the timeliness of its response to these complaints has deteriorated in the last couple of years. ACMA's management practices for investigating complaints could also be improved in a number of areas. ACMA has recently advised the ANAO that it is implementing a number of initiatives to improve its complaints and investigation processes.

Audits examining border security

Audit Report No 2 2007–08 *Electronic Travel Authority —Follow-up Audit*

The audit assessed progress by the Department of Immigration and Citizenship (DIAC) in implementing the recommendations in Audit Report No.3 1999–2000 *Electronic Travel Authority*. It found that DIAC had fully implemented six of the recommendations from the earlier audit, substantially implemented one, and partially implemented two. DIAC needs to complete work to improve the robustness of its computer link with its contractor, and to specify performance information for passenger processing in its Memorandum of Understanding with Customs. The audit also assessed Electronic Travel Authority (ETA) decision-making processes and recommended that DIAC introduce a program of quality assurance to improve data completeness in the Movement Alert List. In addition, it found that DIAC could improve compliance by ETA visa-holders visiting Australia by making them more aware of their visa conditions.

Audit Report No. 4 2007–08 *Container Examination Facilities—Follow-up Audit*

This report assessed the Australian Customs Service's (Customs') progress in implementing the eight recommendations in Audit Report No.16 2004–05, *Container Examination Facilities* and the two related recommendations in Joint Committee of Public Accounts and Audit Report 404. The follow-up audit found that Customs has made substantial progress in implementing these recommendations.

The report considered the effectiveness of Customs' targeting of cargo containers for X-ray and examination, data management and performance reporting, logistical operations

and contract management. Since the previous audit, Customs has undertaken a number of initiatives to improve the operations of the Container Examination Facilities (CEF), including conducting reviews of both intelligence operations and CEF effectiveness. The ANAO identified two areas which offer further opportunities for improvement. These are the adoption of improved analytical tools for evaluating cargo information and developing mechanisms for measuring the effectiveness of cargo profiles.

Audit Report No. 6 2007–08 Australia’s Preparedness for a Human Influenza Pandemic

The audit was conducted in the Department of Agriculture, Fisheries and Forestry (DAFF) and the Department of Health and Ageing (DoHA) with the objective to examine Australia’s preparedness to respond to a human influenza pandemic and an outbreak of avian influenza in domestic poultry. The audit found that key influenza pandemic plans have been developed and tested. DAFF has made considerable progress in implementing the recommendations from Exercise Eleusis, which tested the response to an outbreak of avian influenza in 2005. Australia’s National Medical Stockpile, which is integral to an effective response to an influenza pandemic, was established to provide essential medicines and equipment for use in a health emergency. DoHA’s focus has primarily been on procuring and storing the Stockpile, rather than ongoing management and deployment. This audit has highlighted that it is now timely for DoHA to transition from short term ‘supply and store’ to a longer-term management storage strategy, which should be underpinned by a proper assessment of the risks involved in managing and deploying the Stockpile.

Audit Report No. 24 2007–08 DIAC’s Management of the Introduction of Biometric Technologies

The audit assessed whether the Department of Immigration and Citizenship’s (DIAC’s) biometrics program had appropriate: business review processes (including a business case); authorisation; business and IT governance arrangements; and IT project management and systems development arrangements.

DIAC’s planning for the introduction of biometrics including its business case, was generally sound. DIAC’s planning documents established clear timelines and adequate review points. The business case identified the reasons for, and the expected benefits of costs that could accrue from introducing biometrics. The business governance arrangements for the introduction of biometrics technologies were also sound. However, DIAC would benefit from a more structured approach to monitoring changes arising from the introduction of biometrics over time and evaluating the effectiveness of the chosen biometric solution in delivering its expected benefits.

DIAC’s introduction of biometric technologies has been challenging given the rapidly evolving nature of the technologies involved and the dynamic international environment in which the technology is being deployed. The DIAC biometrics program area has also had to adapt to substantial changes to the internal DIAC systems environment during the design and deployment phase of the program. Consequently, there have been delays in the delivery of planned biometric capabilities.

Audits examining program implementation

Audit Report No. 35 2007–08 Building Certification of Residential Aged Care Homes

The certification program for residual aged care homes has been in operation since 1997 and is expected to be reviewed in 2008. As such, it is timely for the Department of Health and Ageing (DoHA) to consider the lessons learned during the past ten years and the extent to which the certification program has met its objectives. Based on this audit, areas that could be strengthened include: a more effective performance information framework to assist internal decision making and provide more comprehensive information on program outcomes; and a more formal, structured communication strategy that better allows DoHA to engage with key industry stakeholders to identify emerging certification issues.

The certification program is expected to be reviewed in 2008, and DoHA is considering the design of any future initiative to maintain and improve the physical standards of residential aged care buildings. Subject to the future design of the certification program beyond 2008, the ANAO made two recommendations that focus on: a balanced set of effectiveness measures; and communication with key industry stakeholders.

Audits examining service delivery

Audit Report No. 8 2007–08 Proof of Identity for Accessing Centrelink Payments

For specified Centrelink payments (and/or services) Centrelink's Customer Service Advisors (CSAs) are required in all circumstances to collect sufficient proof of identity (POI) from customers before granting a payment (and/or service).

Based on the results of a sampling exercise conducted for this audit, it is estimated that there is a 95 per cent probability that 15.5 per cent (± 2.1 per cent), or between 573 778 (13.4 per cent) and 751 798 (17.6 per cent), of the approximately 4.3 million Centrelink customers who are required to provide POI before they are granted a payment have insufficient POI on their Centrelink file to meet the POI guidelines in place at the time a payment was granted to them.

The results of this sampling exercise indicate a weakness in Centrelink's control framework for social security payments and a risk to the integrity of outlays because, for customers with insufficient POI on their Centrelink file, there is an increased risk that Centrelink may be making payments to which the recipients are not entitled.

Audit Report No. 12 2007–08 Administration of High Risk Income Tax Refunds in the Individuals and Micro Enterprises Market Segments

The audit examined the effectiveness of the Tax Office's compliance approach for high risk income tax refunds in the individuals and micro enterprises market segments. The ANAO acknowledges that in administering high risk income tax refunds processes, the Tax Office seeks to balance client service against the need to maintain refund integrity and protect Australian Government revenue.

Due to the relatively low number of high risk income tax refunds that are adjusted following review, there is considerable scope for the Tax Office to refine its high risk income tax refund tests to better target the underlying risks associated with the payment of high risk income tax refunds.

As part of the audit, the ANAO examined the information technology systems, processes and controls supporting the processing of income tax returns and refunds. The ANAO considered that the Tax Office needed to strengthen its information technology and security controls around the Risk Assessment Profiling Tools.

Audit Report No. 15 2007–08 Administration of Australian Business Number Registrations—Follow-up Audit

This follow-up audit assessed the Tax Office’s progress in implementing the recommendations of *Audit Report No. 59 2002-03, Administration of Australian Business Number Registrations*, having regard to any changed circumstances, or new administrative issues, affecting the implementation of those recommendations. Overall, the Tax Office had substantially implemented the recommendations of the previous audit.

The governance framework of the Australian Business Register (ABR) was also reviewed with the objective of extracting any ‘lessons learnt’ that may be useful to other agencies in developing whole-of-government initiatives. Drawing on observations made in assessing the planning, monitoring and reporting by the Tax Office on the whole-of-government outcomes of the Australian Business Register, this report highlighted some matters to be considered by agencies when developing whole-of-government initiatives.

Audit Report No. 20 2007–08 Accuracy of Medicare Claims Processing

The audit found that the majority of Medicare claims are assessed automatically using system based business rules, with less than two per cent of claims processed requiring manual assessing intervention.

To support ongoing accuracy Medicare Australia has a number of activities that are directed, over time, to ensure, monitor, maintain, and improve the quality of both the system and manually aspects of Medicare claim processing. These quality activities were found to be of particular importance where manual processing of a claim is involved. While these quality processes were found to be generally effective, the audit recommendations identify opportunities for Medicare Australia to improve the robustness and, possibly, the efficiency of these quality processes.

Audit Report No. 23 2007–08 The Management of Cost Recovery by Selected Regulators Cross Portfolio Audit

The audit assessed whether selected regulatory agencies had cost recovery procedures and practices which comply with the Government’s guidelines. Overall, the audited regulatory agencies had cost recovery procedures and practices which did comply. However, there were opportunities for improvement.

The audited agencies' internal cost recovery policies and procedures were contained in a range of documents. This was likely to create inefficiencies in agency management of cost recovery, and it made access by customers and stakeholders difficult. All the audited agencies used activity based or similar costing methodologies to allocate their direct, indirect and capital costs to their activities. However, the agencies could to improve the documentation which outlined their methodologies to ensure that it was up to date, accessible and easily understood by staff. The report made one recommendation which was agreed by the audited agencies and the Department of Finance.

Audit Report No. 27 2007–08 Emergency Management Australia

The primary Australian Government agency tasked with emergency management is Emergency Management Australia (EMA), a Division within the Attorney-General's Department (AGD). The audit assessed how well EMA is meeting its objective of providing national leadership in the development of measures to reduce risk to communities and manage the consequences of disasters.

In an environment where responsibilities relating to emergency management are shared between the Australian Government and the states and territories, EMA's ability to provide leadership relies heavily on effective consultation and agreement with the states and territories, and with other Australian Government agencies. At a practical level, EMA has greater ability to influence key stakeholders when its strategies and initiatives are backed by dedicated Australian Government resources.

EMA's planning and reporting arrangements largely focus on its operational-level projects and activities. However, the alignment of these activities to EMA's strategic directions and their contribution to overall intended outcomes often is unclear. There would be benefit in EMA undertaking further work to define its roles and responsibilities, review critically its activities and align these with strategic directions, and develop and report measures to allow a better assessment of the impact of its activities.

Audit Report No. 33 2007–08 The National Capital Authority's Management of National Assets

The audit found that although requiring review and update, the National Capital Authority (NCA) has generally appropriate asset management policies and a documented asset management framework.

The audit highlighted the importance of the NCA establishing funding priorities to ensure that key assets for which it is responsible are properly maintained. It also highlighted the need for improved governance arrangements to ensure that outsourced maintenance contracts are effectively administered and that any identified shortcomings in the condition of national assets are brought to attention and addressed in a timely manner.

[Audit Report No. 38 2007–08 *Administration of Job Network Service Fees*](#)

The Job Network Program is in its tenth year of operation and is an established and mature program. Overall, DEEWR was effectively administering Job Network service fees. DEEWR's business model for specifying, paying and monitoring service fees paid to Job Network Members (JNMs) is based on:

- a contract that specifies the services to be delivered by JNMs, supported by DEEWR's IT system and guidelines to assist JNMs to understand their contractual obligations;
- mechanisms to calculate and provide advance payments made to JNMs; and
- a contract monitoring program designed to provide assurance that the JNM services have been appropriately delivered.

DEEWR relies on its monitoring activities to ensure contractual compliance by JNMs and, as a result, obtain assurance that service fees have been used for the purpose for which they were provided. Overall, the post-payment checking model adopted by DEEWR to administer the service fees of the Job Network Program is adequate. Consequently, the ANAO did not make any recommendations in this audit.

[Report No. 39 2007–08 *Managing e-Business Applications: A Follow-up Audit*](#)

The audit examined the implementation of the six recommendations made in the ANAO Audit Report No.33 2002–03. *Management of e-Business in the Department of Education, Science and Training*. In this report, e-Business refers to conducting government service delivery online through the Internet. The Department of Education, Employment and Workplace Relations (DEEWR) actioned the recommendations from the previous audit. Three have been implemented, with a further recommendation in the process of being implemented. Two recommendations are partially implemented. DEEWR continued to enhance its management of e-Business since the previous audit. Nonetheless, there are opportunities to improve the governance of the agreement between DEEWR and the Department of Immigration and Citizenship (DIAC) for timely resolution of IT issues that have arisen in DIAC systems, affecting the accuracy and completeness of PRISMS, a database that supports education providers for international students. The ANAO also considers that there is scope for improving the evaluation of e-Business projects to assist in both assessing the benefits achieved from investment in such projects, as well as supporting continuous improvement in project management.

[Audit Report No. 42 2007–08 *Management of Customer Debt—Follow-up Audit*](#)

The audit examined Centrelink's progress in implementing the recommendations of ANAO Audit Report No. 4 2004–05 *Management of Customer Debt* and the subsequent JCPAA inquiry.

The ANAO found that Centrelink and its purchaser departments had either fully or partially implemented all of the recommendations of the previous audit and JCPAA inquiry, with the exception of JCPAA Recommendation No. 22 which recommended that the debt waiver amount be raised from \$50 to \$100.

Centrelink had undertaken a significant ongoing restructure of its debt management operations that had improved consistency, efficiency and performance measurement. However, the ANAO still found notable inconsistencies across the Centrelink network, particularly in its allocation of resources to debt prevention; its application of debt waivers; and its approach to recovering debts.

Despite the identified improvements to debt management administration, the ANAO also found that the value of the debt base and its associated characteristics (including the number of debtors and the age profile of the debt base), had continued to increase. Accordingly, in these circumstances, it is particularly important that Centrelink focuses on gaining a better understanding of the drivers of the debt base. This in turn would allow Centrelink and its purchaser departments to put in place more effective measures to prevent the circumstances that result in customer debt arising in the first place.

Audits examining grants administration

Audit Report No.3 2007–08 Australian Technical Colleges Program

The ANAO concluded that the Department of Education Science and Training (DEST) adequately planned the implementation of the Australian Technical Colleges Program. In addition, DEST consistently assessed the proposals to establish and operate the colleges to achieve the program's objectives. The department advised its Minister on the ratings of proposals for each region.

In administering the program, experience has shown some of the risks associated with managing grants may have been higher than originally envisaged. Some of the consortia selected by Government to establish a college had limited experience working with DEST and in managing Australian Government grant funding. Considering this program's new features, DEST would have benefited from development of a strategy to identify and work closely with those colleges most at risk of implementing their financial and educational models. However, DEST managed the program's implementation within a demanding timetable as was shown by four colleges opening at the beginning of 2006, approximately six months after the Government approved their funding, a further college opened later in that year, and 15 additional colleges opened by May 2007. As with all new programs, close monitoring of risks to the achievement of the program's objectives will be required. In this context, DEST has indicated that it has measures in place to guide the colleges and to monitor progress towards achieving the program's objectives.

Audit Report No. 14 2007–08 Performance Audit of the Regional Partnerships Program

The Regional Partnerships Program had been subject to Parliamentary and media comment that it was open to misuse for political purposes. Questions about whether decisions are merit-based arise partly due to the design of the Program, which was a matter for Government policy, and partly due to its administration, which was the responsibility of the Transport and Regional Services portfolio Ministers and Department of Transport and Regional Services. In this context, the ANAO found that:

- the flexibility in the application assessment and Ministerial approval processes created challenges in ensuring transparent, accountable and cost-effective administration and in demonstrating the equitable treatment of applicants; and
- the manner in which the Program had been administered over the three year period to 30 June 2006 examined by the ANAO had fallen short of an acceptable standard of public administration, particularly in respect to the assessment of grant applications and the management of Funding Agreements.
- During the course of the audit, a number of changes to the administration of the Program were introduced by the department, or proposed to (and agreed by) the Ministerial Committee, in response to audit findings and the department's observations of the administration of the Program.

The ANAO made 19 recommendations to further improve departmental procedures and practices, and to encourage further attention to aspects of the Program's administration in the interests of improving transparency and accountability. A further recommendation was directed at enhancing the existing framework governing the expenditure of public money, including through discretionary grants programs such as Regional Partnerships.

Audit Report No. 19 2007–08 Administration of the Automotive Competitiveness and Investment Scheme

The audit examined whether the Automotive Competitiveness and Investment Scheme (ACIS), which provides up to \$7 billion in import duty benefits to the Australian automotive industry over 15 years, was being administered effectively by the Department of Innovation, Industry, Science and Research (DIISR) and, as relevant, by the Australian Customs Service. It concluded that, overall, DIISR has implemented effective internal controls to assess the eligibility of participants to receive duty credits; to calculate duty credits claims accurately, based on the information provided by participants; and to adhere to the funding limits for the Scheme. However, the audit highlighted opportunities for DIISR to strengthen its arrangements for checking the integrity of participants' duty credit claims, which are self-assessed; and to improve its arrangements with Customs for managing the transfer, use and reporting of duty credits between the agencies. In addition, the audit noted that little information has been reported publicly on ACIS for the benefit of external stakeholders, including the Parliament.

Audit Report No. 22 2007–08 Administration of Grants to the Australian Rail Track Corporation

Project-specific governance arrangements exist for administering the eight grants to the Australian Rail Track Corporation (ARTC) totalling \$155.3 million that were approved and paid under the applicable land transport legislation. The audit found that these arrangements, and their administration, have been effective. However, a similar situation did not exist for the \$820 million in Special Grants.

This audit highlights the importance of departmental advice to Ministers being well informed, or suitably qualified where not all initial information is firm. It further highlights the importance of departments having suitable arrangements in place to ensure that grant funding is applied for the purposes approved by Ministers. In situations where circumstances or new information suggests the approved funding purposes would benefit from review, further advice should be provided to the decision-makers to provide the opportunity for the original decision to be reconsidered or confirmed.

Audit Report No. 25 2007–08 Administering Round the Clock Medicare Grants

The Department of Health and Ageing (DoHA) administers the Round the Clock Medicare: Investing in After Hours General Practice Services Program (RTCM). The program aims to improve after hours General Practice and General Practitioner (GP) access in metropolitan and regional Australia by providing grants to providers of after hours general practice services. As at October 2007, DoHA had executed 144 funding agreements and was negotiating a further 85. The audit examined how effectively DoHA administered RTCM grants. The audit concluded that DoHA rapidly responded to the previous Government's decision to introduce RTCM in 2004, but that, as the grants program has been established for three years, it is now timely for DoHA to consolidate and build on the lessons learned. For example, DoHA's administration of RTCM could be strengthened by improvements at the operational level and by evaluating RTCM's progress towards meeting its objectives. The ANAO made three recommendations and a number of suggestions to DoHA to assist it to improve its administration of RTCM.

Audit Report No. 26 2007–08 Tasmanian Forest Industry Development and Assistance Programs

The objective of the audit was to assess the Department of Agriculture Fisheries and Forestry's (DAFF) implementation and administration of the three forest industry assistance programs under the Tasmanian Community Forest Agreement. The three agreements were:

- Tasmanian Forest Industry Development Program (\$42 million over three years) to assist the Tasmanian hardwood industry to upgrade, add value to forest resources and to improve the efficiency and competitiveness of the industry;
- Tasmanian Country Sawmills Assistance Program (\$4 million over three years) to introduce new technologies, products and markets to increase the use of smaller re-growth and plantation logs; and

- Tasmanian Softwood Industry Development Program (\$10 million over three years) to assist the Tasmanian softwood industry to retool existing mills and to improve the efficiency and competitiveness of the industry.

The programs had not been subject to any coverage by the department's internal audit, and reporting arrangements did not bring to notice the extent of shortcomings in the administration of the programs. The audit found that the lack of documentation supporting the assessment of applications and the reasons justifying assessment decisions means that the assessment process was not transparent and not consistent with the commonly applied standards of grants administration.

The ANAO noted that in the absence of advice to the contrary, it would be reasonable for the Ministers to expect that the assessment process undertaken would demonstrate that the proposed expenditure they were approving represented the efficient and effective use of public money, and met the requirements of the Financial Management and Accountability Regulations. However, the audit found that, for a number of applications, the advice provided to Ministers did not accurately reflect the nature of assessments.

Audit Report No. 29 2007–08 Parent School Partnerships Initiative

The audit reviewed the effectiveness of the Department of Education Employment and Workplace Relations (DEEWR's) administration of the Parent School Partnership Initiative (PSPI). Overall, DEEWR funded a large number of initiatives aimed at addressing local barriers to education. Of the committed funding, 48 per cent has been granted to remote areas, consistent with a target of 50 per cent. However, there were opportunities for improvement.

DEEWR did not develop program-specific objectives for the PSPI that were distinct from other elements of the Indigenous Education Program. This made it difficult for the Department to measure the program's effectiveness and contribution to the achievement of outcomes from the Indigenous Education Programs.

The Department implemented different service delivery arrangements across some State and Territory Offices. This affected consistency in project funding decisions, Indigenous involvement in project decision-making, the targeting of program funding towards those in greatest need, and project contractual arrangements.

DEEWR already addressed a number of monitoring and reporting issues in response to ANAO findings. More focused program objectives would assist the Department to address its difficulty with measuring the program's effectiveness and contribution to the Indigenous Education Programs, and be commensurate with the resources allocated to this part of the Indigenous Education Programs. The report made three recommendations which were agreed to by DEEWR.

Audit Report No.45 2007–08 Specific Purpose Payments: General Recurrent Grants for Government Schools

The audit assessed the effectiveness of the Department of Education Employment and Workplace Relation’s administration of general recurrent grants paid to the States and Territories for government schools. The Department has met its responsibilities in administering general recurrent grants paid to the States and Territories for government schools.

The Department has also implemented compliance certificates for the States and Territories to report their adherence to certain performance requirements in the agreements. Currently, the Department does not have information on the completeness and accuracy of the information that the States and Territories use to prepare their compliance certificates. Therefore, there would be benefit in consulting with the States and Territories on the consistency of their approaches and the level of assurance being provided through these certificates. It would also be beneficial to seek the agreement of the States and Territories to a structured approach that more clearly links the national goals with the various requirements of the agreements. This may be accomplished by identifying intermediate outcomes or targets to assist in assessing progress towards the desired medium term agreement goals. The absence of intermediate outcomes or targets limits the department’s ability to support the Ministerial Council in managing and reporting performance against the national goals.

Similarly, current performance requirements could be enhanced in future agreements to measure and report on performance within the various State and Territory school systems, including at the regional level. This would assist policy development and decision-making on educational programs and the allocation of resources to achieve the agreed national goals for schooling.

Audit examining environment

Audit Report No. 21 2007–08 The Administration of the Regional Delivery Model for the Natural Heritage Trust and the National Action Plan for Salinity and Water Quality

The ANAO reviewed the regional delivery model for the National Heritage Trust 2 (NHT) and the National Action Plan for Salinity and Water Quality (involving \$2 billion in outlays) which was based on the views of a wide range of stakeholders. It was supported by well designed bilateral agreements and a comprehensive planning and accreditation process based on the ‘best available’ science. However, there was little evidence that the programs are adequately achieving the anticipated national outcomes or giving sufficient attention to the ‘radically altered and degraded Australian landscape’ highlighted in the 1996 Australia: State of the Environment Report. Performance measurement has been an ongoing issue covered by three previous ANAO audits since 1996-97.

The audit found significant areas of non-compliance by State agencies with the bilateral agreements—particularly in terms of meeting the auditing requirements of the agreements and offsetting unspent funds.

The quality and measurability of the targets in the regional plans is an issue for attention. Dissemination of good practice and, in particular, the documentation of the cost effectiveness of actions will need to be a priority. Overall, the ANAO considers the information reported in the Department of Agriculture Fisheries and Forestry and NHT Annual Reports has been insufficient to make an informed judgement as to the progress of the programs towards either outcomes or intermediate outcomes.

Appendix 5

Addresses by the Auditor-General and senior staff

Ian McPhee PSM

IAASB-IFAC International Auditing Standards Setting Activities

Trans Tasman Accounting and Auditing Standards Advisory Group (video conference),
Canberra.

27 June 2008

Steve Chapman

Internal Governance and Control – Building Organisational Success

CPA Australia Accounting at the Top End Conference, Darwin.

6 June 2008

Paul Nicoll

*Development of Performance Auditing in Australia and Possible Implications for the
INTOSAI Performance Audit Subcommittee*

Second Meeting of the INTOSAI Performance Audit Subcommittee, Brasilia.

28 May 2008

Russell Coleman

Public Sector Internal Audit Better Practice Guide

Canberra Chapter of the Institute of Internal Auditors, Canberra.

27 May 2008

Carla Jago

Measurement and Presentation of National Government Assets in Australia

Czech Republic Supreme Audit Office, Prague.

15 May 2008

Peter McVay

*Presentation on Audit Report No 21; 2007–08, Regional Delivery model for the Natural
Heritage Trust and the National Action Plan for Salinity and Water Quality*

International Natural Resource Management Conference, Canberra.

30 April 2008

Peter McVay

*Presentation on International Collaboration on Climate Change and also on Audit Report
No 31, 2006–07, The Conservation and Protection of National Threatened Species and
Ecological Communities*

Working Group on Environmental Auditing of the Australian Council of Auditors General/
Pacific Association of Supreme Audit Institutions, Melbourne.

21 April 2008

Steve Chapman

The Role of the Public Accounts Committee
PASAI, Cook Islands
15 April 2008

Paul Nicoll

Parliamentary Public Accounts and Audit committees in Australia and their Possible Relevance to Indonesia
Annual Conference of Members of Indonesian Parliaments, Lombok Indonesia.
5 April 2008

David Crossley

Public Sector Governance—An ANAO Performance Audit Perspective'
Australian APEC Training Program, Melbourne.
4 April 2008

Steve Chapman

Whole of Government Governance Arrangements
Global Working Group, Morocco
1 April 2008

Steve Chapman

An Innovative Approach to Management in a Challenging Environment and Sustainability in a Fast Evolving Sector
CPA Australia Conference on Public Sector Standards and Reporting, Canberra
13 March 2008

Andrew Morris

Managing Risks when Distributing Public Money
IIR Conference – Successful Corporate governance in the Public Sector, Melbourne.
6 March 2008

Wendy Michaels

Overview of performance audit: Proof of Identity for Accessing Centrelink Payments
Comsuper Audit Committee, Canberra.
4 March 2008

Brandon Jarrett

Financial Reporting, Accrual Accounting and Auditing Workshop
Senior Public Sector Staff Jakarta, Indonesia.
3 to 7 March 2008

Peter McVay

Presentation on Audit Report No 21: 2007–08, Regional Delivery Model for the Natural Heritage Trust and the National Action Plan for Salinity and Water Quality
NSW Natural Resources Commission, Sydney.
22 February 2008

Ian McPhee PSM

The ANAO's Contribution to Improving Public Sector Administration
Canberra Evaluation Forum, Canberra.
 21 February 2008

Ian McPhee PSM

Managing Performance -International Comparisons
 Book Launch, University of Canberra. Authors Geert Bouckaert & and John Halligan.
 20 February 2008

Michael Watson

Financial Statement Audit in the Australian Public Service
 Tokyo Audit Forum, Tokyo.
 1 February 2008

Steven Lack

Probity in Australian Government Procurement
 Reserve Bank of Australia, Sydney
 28 November 2007

Steven Lack

The Roles of Performance Auditing and Program Evaluation
 2nd Annual Public Sector Program Evaluation Conference, Canberra.
 21 November 2007

Ian McPhee PSM with Tu Pham, ACT Auditor-General

Panel Discussion: CPA Congress 15th November 2007: Performance Audit Reports
 ACT Congress for CPA Australia, Canberra
 16 November 2007

Andrew Morris

Building Integrity into Government Procurement – Theory and Practice
 Australian Public Sector Anti-Corruption Conference, Sydney
 24 October 2007

Alicia Hall

Auditing the Application of Proceeds from Commonwealth Assets Sales
 INTOSAI Working Group on the audit of Privatisation, Economic Regulation and Public Private Partnerships. Marrakech, Morocco
 16-18 October 2008

Ian McPhee PSM

Project Management—Some Reflections on the Management of Projects in the Australian Public Sector
 Australian Institute of Project Management, Hobart
 9 October 2007

[Steven Lack](#)

Probity in Australian Government Procurement

Department of Finance and Administration, Canberra

2 October 2007

[Steve Chapman](#)

Engaging with Risk

PASAI Conference, Port Moresby

10 September 2007

[Wayne Jones](#)

Accessing and Interrogating Financial Information

BUSN 3002 Class—ANU Manning Clarke Centre, Canberra.

28 August 2008

[Ian McPhee PSM](#)

What Government lawyers can do to bring about positive change in their agency

Australian Corporate Lawyers Association (ACT Division) Conference, Canberra.

27 August 2007

[Ron Richards](#)

Contract Management: Assessing and Managing Risks Involved in Procurement Contracts to reduce Organisational Loss

Government Procurement 2007 Conference, Canberra.

18 July 2007

Appendix 6

Procurement activities

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

ANAO performance against core purchasing policies

The ANAO's purchasing activities in 2007–08 have adhered to the objectives set out in the Guidelines. 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 2007–08 was published in *AusTender* in June 2007.

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.

ANAO 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;
- provide specialised services, including assistance with the development and/or implementation of purpose-built IT systems and with legal advice; or
- assist with the conduct of audits and development of BPG's.

Initially 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 2007-08. 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 2007-08 valued at \$10 000 or more

Name	Description	Contract price	Selection process ¹	Reason ²
AH Revelations Pty Ltd	External member PASG audit advisory group for performance audit: <i>Management of Recruitment in the Australian public Service</i>	24 100	<i>Non-covered Procurement</i> Direct	B
Allanson Consulting Pty Ltd	IT analysis for performance audit: <i>Securing Our Fishing Future</i>	14 537	Panel	C
Allanson Consulting Pty Ltd	Provision of audit services for follow-up performance audit: <i>Management of Personnel Security</i>	29 700	Panel	C
Allanson Consulting Pty Ltd	Consultancy services for follow-up performance audit: <i>Management of Customer Debt</i>	36 500	Panel	C
Applied Financial Diagnostics	Provision of advice for performance audit: <i>Establishment and Management of the Communications Fund</i>	20 000	Panel	C
Christopher Conybeare and Associates	External member PASG audit advisory group for performance audit: <i>The Australian Taxation Office's use of Data Matching and Analysis in the Tax Administration</i>	11 252	<i>Non-covered Procurement</i> Direct	B
Christopher Conybeare and Associates	External member PASG audit advisory group for performance audit: <i>Movement Alert List of DIAC</i>	21 450	<i>Non-covered Procurement</i> Direct	B
Christopher Conybeare and Associates	External member PASG audit advisory group for better practice guide: <i>Initiation of Business System Projects</i>	15 200	<i>Non-covered Procurement</i> Direct	B

Name	Description	Contract price	Selection process ¹	Reason ²
Christopher Conybeare and Associates	External member PASG audit advisory group for performance audit: <i>Managing Parliamentary Workflow</i>	40 000	<i>Non-covered Procurement Direct</i>	B
Christopher Conybeare and Associates	External member PASG audit advisory group for performance audit: <i>Business Partnership Agreement between DEWR and Centrelink</i>	18 375	<i>Non-covered Procurement Direct</i>	B
Coffey Projects (Australia) Pty Ltd	Consultancy for the refurbishment of 19 National Circuit project	75 000	<i>Non-covered Procurement Direct</i> ³	B
Collaborative Business	Provide advice on Issues paper for performance audit: <i>Preparation of the Tax Expenditure Statement</i>	21 586	<i>Non-covered Procurement Direct</i>	B
Comcom Pty Ltd	ANAO Marketing and Advertising Review 2008	21 120	<i>Non-covered Procurement Direct</i>	B
Consolve Pty Ltd	Resource Management System business case consultancy	14 520	<i>Non-covered Procurement Select</i>	B
Deloitte	Review of unfunded superannuation liabilities for Department of Defence Financial Statement Audit.	40 800	<i>Non-covered Procurement Select</i>	B
Freebody Cogent Pty Ltd	Professional Services Automation Project	43 875	Open tender	B
HBO EMTB Interiors (ACT) Pty Ltd	Design fees for the refurbishment of 19 National Circuit project	353 510	<i>Non-covered Procurement Select</i> ⁴	B
James Ferguson	External member PASG audit advisory group for performance audit: <i>Australian Sports Commission—Active After-School Communities</i>	23 784	<i>Non-covered Procurement Direct</i>	B
KPMG Peat Marwick ACT	Assistance with the development of better practice guide: <i>Internal Budgeting</i>	22 226	<i>Non-covered Procurement Select</i>	C
Mallesons Stephen Jaques	Legal advice for complying with the Federal Court subpoena to Pan Pharmaceuticals	40 000	Open tender	B
Mallesons Stephen Jaques	Legal advice for the tender for the refurbishment of 19 National Circuit project	15 000	Open tender	B
Mike Goldstein and Associates Pty Ltd	External member PASG audit advisory group for performance audit: Quality and Integrity of DVA's Electronic Income Support Records	15 000	<i>Non-covered Procurement Direct</i>	B
OBS Pty Ltd	MS Sharepoint Consultancy on Audit Central	24 420	<i>Non-covered Procurement Direct</i> ³	B

Name	Description	Contract price	Selection process ¹	Reason ²
ORIMA Research	Conduct ANAO Annual Staff Survey 2007–08	29 550	Panel	C
ORIMA Research	Conduct Public Sector Entity Survey for 2007–08	40 645	Panel	C
ORIMA Research	Conduct survey for performance audit: Administration of Green Procurement and Sustainable Office Management	10 100	Panel	B
ORIMA Research	Conduct the Audit Year Client Survey 2006–07	31 350	Panel	C
ORIMA Research	Undertake further detailed analysis of PASG responses to the ANAO Annual Staff Survey 2007–08	20 240	Panel	C
Peter Simpson Consulting	External member PASG audit advisory group for performance audit: <i>The Australian Taxation Office's Strategies to address Tax Haven Compliance Risks</i>	12 874	<i>Non-covered Procurement Direct</i>	B
Protiviti Pty Ltd	Provision of advice on the development and analysis of a survey for performance audit: <i>Management of Online Services by Australian Government Agencies</i>	13 710	Panel	C
Reading Room Australia Pty Ltd	Development of ANAO website	14 900	Open tender	B
Resolution Consulting Services	Strategic advice on ANAO budget	11 000	Panel	B
Russell Employee Benefits	Review of unfunded superannuation liabilities of DFRDB for Department of Defence financial Statement Audits	18 200	<i>Non-covered Procurement Select</i>	B
Russell Employee Benefits	Review of unfunded superannuation liabilities of DFRDB for Department of Defence financial Statement Audits	16 500	<i>Non-covered Procurement Direct</i>	B
Sigma Management Science Pty Ltd	External member PASG audit advisory group for performance audit: <i>Management of Online Services by Australian Government Agencies</i>	13 200	<i>Non-covered Procurement Direct</i>	B
Trinogy Systems Pty Ltd	EDRMS Project implementation	39 584	<i>Non-covered Procurement Direct³</i>	B
Meredith Edwards	External member PASG audit advisory group for performance audit: <i>The Health Workforce</i>	12 982	<i>Non-covered Procurement Direct</i>	B
Total		\$1 226 790		

Notes: Selection Process

- ¹ Explanation of selection process terms drawn from the Commonwealth Procurement Guidelines .
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. Tenders are invited from a short list of competent suppliers.
Direct Sourcing. A form of restricted tendering. For covered procurements, available only under certain defined circumstances, with a single potential supplier or suppliers being invited to bid because of their particular expertise and/or their special ability to supply the goods or services.
 Non-covered procurements are those valued at less than \$80 000.
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.
- 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
- ³ Additional contract work followed an initial open tender.
- ⁴ Part of a construction services project under \$15m, RFT sent to a number of competent suppliers.

A comparison of the total value of consultancy contracts valued at \$10 000 or more over the years 2005–06 to 2007–08 is set out below.

**Table A6–2: Consultancy contracts valued at \$10 000 or more
2005–06 to 2007–08**

Year	Amount (\$Million)
2005–06	1 442
2006–07	1 318
2007–08	1 126

Appendix 7

Contact directory

Central Office

19 National Circuit, Barton ACT 2600
GPO Box 707, Canberra ACT 2601
Tel. (02) 6203 7300; Fax (02) 6203 7777
Executive Fax. (02) 6273 5355
Email: ag1@anao.gov.au

ANAO website

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.

Executive

Auditor-General

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Deputy Auditor-General

Steve Chapman
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	Correction of material errors in previous annual report	N/A

6 ABBREVIATIONS



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AASB	Australian Accounting Standards Board
AAS	Assurance Audit Services
AASG	Assurance Audit Services Group
ABGR	Australian Building Greenhouse Rating
ABR	Australian Business Register
ACAG	Australasian Council of Auditors-General
ACMA	Australian Communications and Media Authority
ADF	Australian Defence Force
AEIFRS	Australian Equivalents to International Financial Reporting Standards
AFP	Australian Federal Police
AGD	Attorney General's Department
ANAO	Australian National Audit Office
APS	Australian Public Service
ARTC	Australian Rail Track Corporation
ASAE	Australian Standard on Assurance Engagements
ASIC	Australian Securities and Investment Commission
ASOSAI	Asian Organisation of Supreme Audit Institutions
ATSI	Aboriginal or Torres Strait Islander
ATO	Australian Taxation Office
AusAID	Australian Agency for International Development
AUASB	Australian Auditing and Assurance Standards Board
AWA	Australian Workplace Agreement
BCP	Business Continuity Plan
BMC	Building Management Committee
BPG	Better Practice Guide
BPK	Indonesian Audit Office
BSP	Business Support Process
CEF	Container Examination Facilities
CFCG	Commonwealth Fraud Control Guidelines
CFS	Consolidated Financial Statements
CGT	Capital Gains Tax
CMB	Corporate Management Branch
CPA	Certified Practising Accountant
CPGs	Commonwealth Procurement Guidelines
CPMF	Centrelink Project Management Framework
CSA	Child Support Agency
Centrelink CSA	Customer Service Adviser
Customs	Australian Customs Service
DAFF	Department of Agriculture, Fisheries and Forestry
DCITA	Department of Communications, Information Technology and the Arts
DEST	Department of Education Science and Training
DEEWR	Department of Education Employment and Workplace Relations

DFAT	Department of Foreign Affairs and Trade
DoHA	Department of Health and Aging
DIAC	Department of Immigration and Citizenship
DIISR	Department of Innovation Industry Science and Research
DITRDLG	Department of Infrastructure, Transport, Regional development and Local Government
DMO	Defence Material Organisation
DoHA	Department of Health and Ageing
DOTARS	Department of Transport and Regional Services
DVA	Department of Veterans' Affairs
EEGO	Energy efficiency in Government operations
EBOM	Executive Board of Management
EDRMS	Electronic Document and Records Management System
EMA	Emergency Management Australia
EPBC Act	The Environment Protection and Biodiversity Conservation Act 1999.
ESD	Ecologically Sustainable Development
ETA	Electronic Travel Authority
FFG	Guided Missile Frigate
GBE	Government Business Enterprise
FASB	Financial Accounting Standards Board
FMA Act	Financial Management and Accountability Act 1997
FMIS	Financial Management Information System
GAAP	Generally Accepted Accounting Principles
GBE	Government Business Enterprise
GGs	General Government Sector
GLS	Green Lease Schedule
GST	Goods and Services Tax
HRMIS	Human Resource Management Information System
HSMA	Health and safety management arrangements
IASB	International Accounting Standards Board
IAASB	International Auditing and Assurance Standards Board
ICAA	Institute of Chartered Accountants in Australia
ICT	Information and Communication Technology
IFAC	International Federation of Accountants
INTOSAI	International Organisation of Supreme Audit Institutions
ISACA	Information Systems Audit and Control Association
ISC	Information Strategic Committee
ISS	Information Support Services
IT	Information Technology

JCPAA	Joint Committee of Public Accounts and Audit
JNM	Job Network Members
KRA	Key Result Areas
MOG	Machinery of Government
MOU	Memorandum of Understanding
MYEFO	Mid Year Economic and Fiscal Outlook
NCP	National Capital Authority
NCSP	National Cervical Screening Program
NESB	Non English speaking background
NHT	National Heritage Trust
OH&S	Occupational Health and Safety
PAS	Performance Audit Services
PAASG	Performance Audit Services Group
PASAI	Pacific Association of Supreme Audit Institutions
POI	Proof of identity
PSB	Professional Services Branch
PBS	Portfolio Budget Statement
PSM	Protective Security Manual
PSPI	Parent School Partnership Initiative
PWD	Persons with disabilities
RFT	Request for Tender
RTCM	Round the Clock Medicare
SMSF	Self Managed Superannuation Funds
SES	Senior Executive Service
TES	Tax Expenditure Statements
TBL	Triple Bottom Line
The Act	The Auditor-General Act 1997
WCF	Workplace Consultative Forum

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