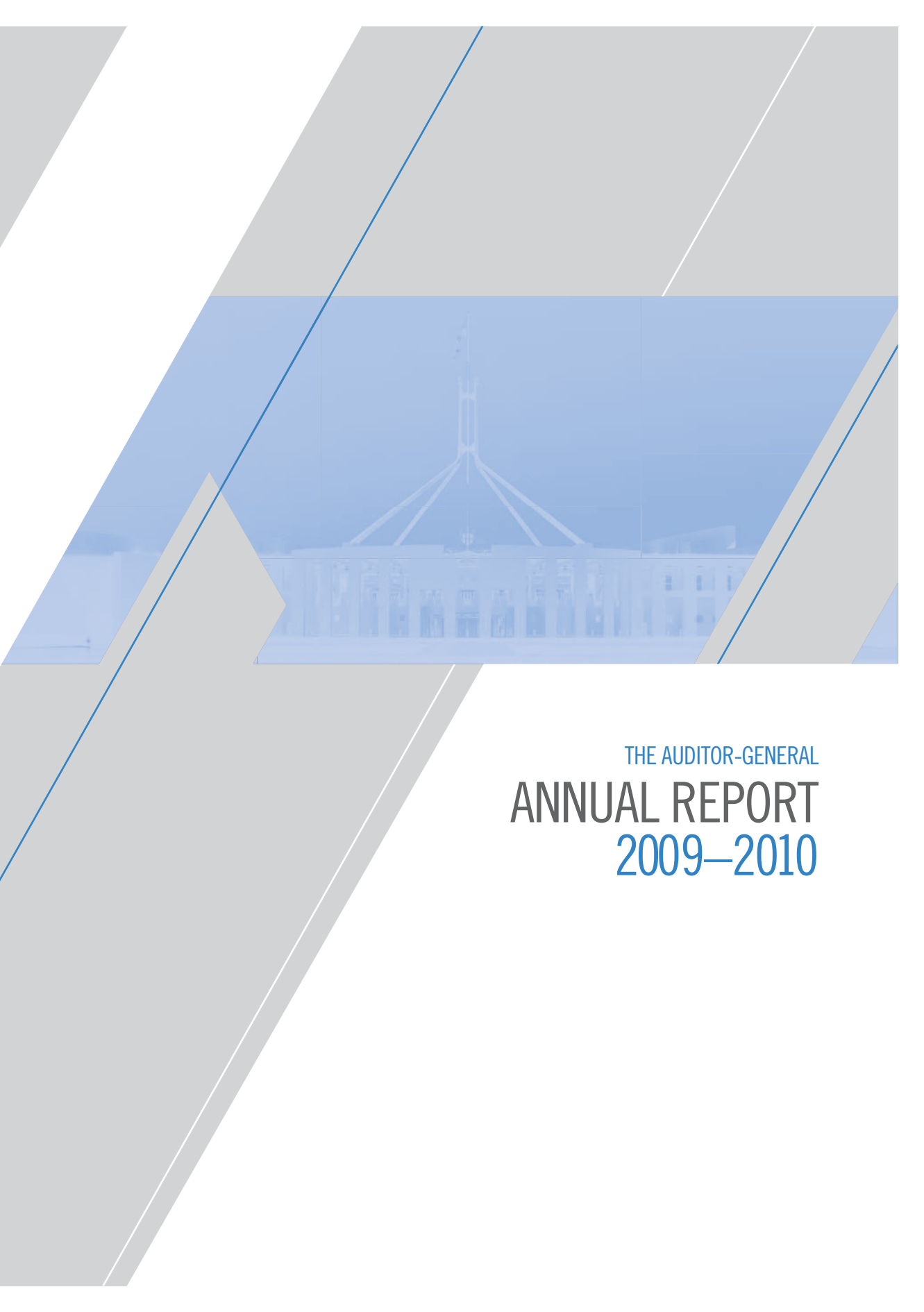




THE AUDITOR-GENERAL
ANNUAL REPORT
2009–2010



Australian National
Audit Office



THE AUDITOR-GENERAL
ANNUAL REPORT
2009–2010

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This report and other ANAO publications, as well as information on the ANAO, are available online at <http://www.anao.gov.au>.



Auditor-General for Australia



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

29 September 2010

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 2010.

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

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HIGHLIGHTS OF 2009–10

We delivered a comprehensive program of financial and performance audits and related products, including better practice guides, to inform the Parliament and the Australian Government about public sector administration and performance.

We continued to support the work of parliamentary committees, particularly the Joint Committee of Public Accounts and Audit, which we assisted with its inquiries.

Our performance audit reports were influential in shaping public administration. We made 145 recommendations to improve agency performance and accountability; 93 per cent were agreed in full and 6 per cent were agreed with some qualification.

We issued 251 audit opinions, one of which was qualified due to a lack of evidence in one area of the audit.

We introduced an updated practice management system across the ANAO, to assist and improve audit and project management.

We continued to provide direct assistance to the audit institutions of Papua New Guinea and Indonesia as part of our commitment to developing public sector auditing internationally. The Indonesian Government recognised this effort by granting the Auditor-General the Bintang Jasa Utama (First Class Medal of Honour) in February 2010.

AREAS OF FOCUS FOR 2010–11

We will continue to refine our range of timely and relevant products on topics that provide opportunities for improvement in administration across the Australian Government sector.

We will place more emphasis on our annual work plan to reflect changing priorities, audit methodology, and audit and project management.

We will build our relationship with a new parliament, particularly the members of the Joint Committee of Public Accounts and Audit, to explain the work of the ANAO and our contribution to improving public administration.

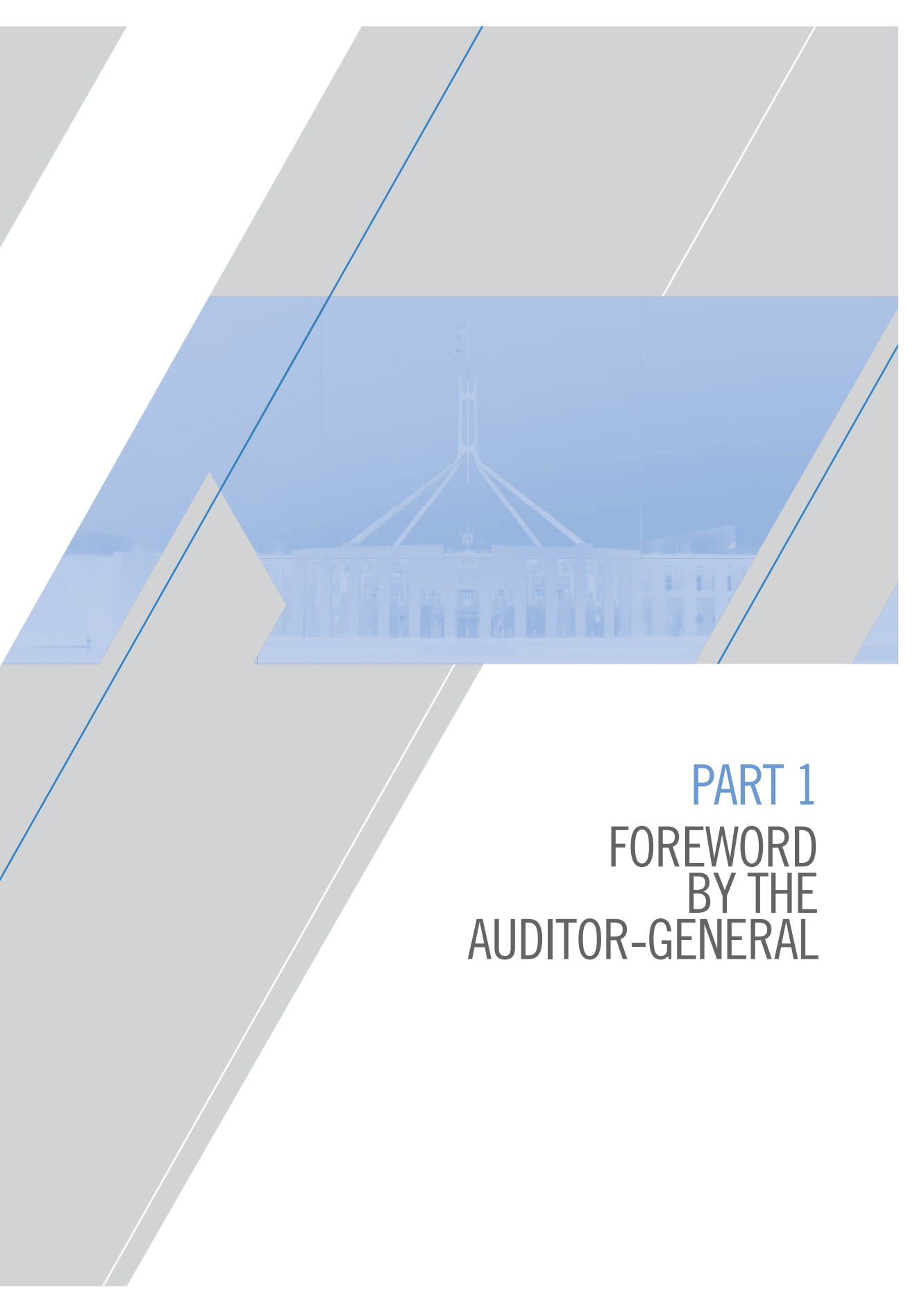
We will redevelop our website to comply with the new government web and client service guidelines, including opportunities for the use of sound media, and enhancing the features of our audit working papers system.

We will encourage innovative approaches in our business practices.

We will contribute to the auditing profession through our involvement in national and international auditing bodies.

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PART 1
FOREWORD
BY THE
AUDITOR-GENERAL

PROVIDING QUALITY AUDIT PRODUCTS TO THE PARLIAMENT AND THE PUBLIC

The past year was challenging for the Australian National Audit Office (ANAO) as we delivered a larger program of quality audit products to the Parliament. In 2009–10, as the external auditor



Ian McPhee

to the Australian Government sector, the ANAO tabled a range of performance audit reports that can be expected to lead to significant improvements in public administration, and provided audit opinions and recommendations in relation to our audits of the financial statements of some 251 government-controlled entities.

In recognition of our contribution to improving public sector administration, the Government and the Parliament, with strong support from the Joint Committee of Public Accounts and Audit (JCPAA), provided additional funds in 2009–10 to bolster our performance audit program, enhance our IT audit capability, and strengthen technical support to our financial statement audit program. This has placed the ANAO in a more sustainable financial position than in the previous few years.

The strengthened resource base and the introduction of new IT audit and management systems, combined with a very capable workforce, have placed the ANAO in a stronger position to continue delivering independent reports to parliament and recommendations and guidance on better practice to public sector agencies.

Our support to the Parliament

I am pleased with the Parliament's continuing confidence in the independence of the ANAO and the way it undertakes its statutory responsibilities. We also receive encouraging support from the general public. The ANAO works closely with the JCPAA, parliament's audit committee, to ensure that we are addressing the Parliament's priorities and concerns. While inevitably there are some different opinions expressed on issues raised in our reports from time to time, those differences have not detracted from the strength of the audit conclusions and recommendations which, on significant audits, have been subject to inquiries by committees of the Parliament.

During 2009–10, six audits were undertaken and tabled as result of formal requests of the Parliament, including the request from the Prime Minister to undertake a performance audit on automotive finance arrangements for car dealers; that audit was tabled on 4 August 2009.

Our close relationship with the JCPAA

In building on our relationship with the Parliament, the ANAO adopts a proactive approach in assisting and briefing parliamentary committees, engaging with senators and members, and providing submissions and briefings to the JCPAA and other committees of the Parliament as appropriate. The ANAO surveys members and senators to gauge whether we are meeting their expectations. The results of the last survey were generally positive, indicating that our work is highly valued; the next survey is scheduled for the first half of 2011.

The JCPAA plays an important role in providing a parliamentary focus to our audit findings and our recommendations, which are aimed at improving public administration. The committee does this by reviewing all our audit reports and conducting public hearings and inquiries into a selection of those reports.

In undertaking this role, the committee devoted significant time in 2009–10 to these matters, including:

- tabling JCPAA Report 415 on 17 November 2009, which covered its review of audit reports tabled by the ANAO between September 2009 and January 2009
- selecting 14 audit reports, tabled between 3 February and 18 December 2009, for review (the resulting JCPAA reports had not been released at 30 June 2010)
- tabling JCPAA Report 416 on 16 November 2009, which related to the inaugural Defence major projects report (MPR), *Defence Materiel Organisation—Major Projects Report 2007–08*—the committee was ‘encouraged by what has been achieved so far, and is in no doubt about the utility of future MPRs’
- conducting a number of public hearings, including on the Defence MPR (second annual hearing on 15 March 2010), the Auditor-General’s role in scrutinising government advertising (eight hearings from March 2009 to June 2010), and its inquiry into the *Auditor-General Act 1997* (four hearings between June 2009 and February 2010).

The JCPAA inquiry into the *Auditor-General Act 1997* provided the ANAO with a timely opportunity to reflect on the benefits of enhancing aspects of the Act to respond to developments in public administration over the past decade, and to position the Act so that it provides the Auditor-General with the mandate and powers to effectively serve the Parliament for the foreseeable future.

Our audit work

Over the years, governments have acted to improve public administration following the tabling of our audit reports and the publishing of our better practice guides. These audit products provide a positive stimulus to advancing public administration and enhancing accountability. Details of the performance audits tabled in 2009–10 and the results of our assurance role, including financial statement audits, can be found in Part 3 of this report.

In relation to financial statement auditing, the ANAO is facing an increased workload associated with the full revision of the Australian Auditing and Assurance Standards, which reflects changes to international auditing standards. These changes result in a noticeable increase in our mandatory audit procedures, which in turn means an increase in our audit work effort as well as requiring updates to our audit methodology and related training.

In 2009–10, the work of the ANAO was expanded with the transfer of the Office of Evaluation and Audit (Indigenous Programs) from the Department of Finance and Deregulation. The functions of the office have been successfully integrated into the ANAO’s Performance Audit Services Group and this arrangement is working well.

The highlights of the year’s audit work are detailed at the beginning of this report. The following are a few examples of how our audit work has influenced systemic improvements in public administration.

Administration of parliamentarians' entitlements

The administration of parliamentarians' entitlements is an area where the ANAO has made recommendations, accepted by government, to bring clarity to an area of public administration that was open to misinterpretation and had a framework that was difficult to understand and manage, both for parliamentarians and for the Department of Finance and Deregulation. The positive outcome of this audit included the Government's decisions concerning the reform of printing and other entitlements. The Government also agreed to a 'root and branch' review of the entitlements framework and additional funding for work by the Department of Finance and Deregulation to improve the administration of entitlements.

Administration, coordination and reporting of climate change programs

The ANAO conducted two audits on climate change. The first related to the coordination and reporting of Australia's climate change measures and focused on the reporting elements, specifically addressing the need for greater transparency and consistency of reporting of greenhouse gas emissions and abatement, across various programs. The second highlighted shortcomings in risk management, program implementation and design—recurring themes in many of our performance audits.

The audit made the point that, to be effective, future programs will need to implement the key components of grant administration, particularly in terms of program planning and design and achieving value for money. The administration of grants is another area where the ANAO has provided a catalyst for improvement in a problem area of government administration.

Assurance on government advertising campaigns

Providing assurance on government advertising campaigns is an area where I consider the ANAO brought rigour and discipline to an aspect of public administration that has been problematic in the past. The ANAO made a very significant difference in promoting better administration in relation to government advertising campaigns through our review work. We have met tight timelines and encouraged good practices—it has been a positive although sometimes challenging experience.

In March 2010, the Government announced that it had decided to institute new arrangements in respect of government advertising campaigns. Rather than requesting the ANAO to undertake these reviews in future, the Government established a panel of three former public servants to review campaigns against revised guidelines. I have been requested to undertake an annual performance audit of the new arrangements.

The Special Minister of State has expressed his appreciation to me for the contributions the ANAO has made in improving the administration of government advertising by public sector agencies.

Our contribution to promoting better practice

We strive to reinforce our audit findings and recommendations through the publication of our better practice guides, which are specifically designed to provide practical, workable guidance to promote better practice in specific areas of public administration. The guides issued in 2009–10 provided guidance on enabling better performance through innovation in the public sector, planning and approving projects, and grants administration. The guides, which draw on our audit experience, continue to be very well received and have a positive impact on public administration.

Our contribution to the auditing and accounting profession

The ANAO continues to support the auditing and accounting profession by providing speakers at conferences and seminars, commenting on draft standards, and serving on committees and professional bodies. Senior ANAO staff held positions on the boards of CPA Australia and the Institute of Chartered Accountants in Australia during the year, and other staff members are involved in the work of professional bodies through their committees. I am a member of the Australian Accounting Standards Board, as well as being President of the ACT Division of the Institute of Public Administration Australia.

Our international activities

International Peer Review of the Office of the Auditor General of Canada

During 2009–10, the ANAO led a peer review of the Office of the Auditor General of Canada (OAG), providing an independent opinion on whether the OAG's quality management system was suitably designed and operating effectively to provide reasonable assurance that the OAG complied with relevant legislative authorities and professional standards in conducting its audit program.

The peer review team also included representatives from the national audit institutions of Denmark, the Netherlands, Norway and Sweden. The resulting report, *International Peer Review of the Office of the Auditor General of Canada, May 2010*, was presented to the Auditor General of Canada in May 2010 and the Parliament of Canada in June 2010.

Being asked to lead the peer review of the OAG recognised the standing of the ANAO amongst its international peers. We also benefited from being involved, as it reinforced for us the importance of sharing ideas and experience among review team members.

Visits by international delegations

In 2009–10, the ANAO again hosted a range of international visiting groups from both near and far regions. We were pleased to meet colleagues from China, Iraq, Korea, Kuwait, Mongolia and the Philippines, as well as continuing our association with delegations from Indonesia's Ministry of Finance and Board of Audit. ANAO staff enjoy meeting international colleagues and sharing information and experiences in less formal settings. During the year ANAO staff also met with Pacific island finance ministers, and two representatives of the Samoan Audit Office took part in some of our learning and development courses.

International Organization of Supreme Audit Institutions Global Working Group

The International Organization of Supreme Audit Institutions Global Working Group provides a forum for a peer group of 18 auditors-general to meet for organised but informal discussions on current and emerging public sector issues, while exploring opportunities to share information and work closely together.

Current membership of the global working group consists of Australia, Canada, Denmark, France, Germany, India, Ireland, Italy, Japan, Mexico, Morocco, the Netherlands, Norway, New Zealand, South Africa, Sweden, the United Kingdom and the United States.

In 2009–10, Australia hosted a meeting of the group for the first time: the 11th global working group meeting was held in Sydney in March 2010. Discussion themes identified by members covered:

- the period following the worldwide financial economic crisis—issues and challenges faced by national audit offices
- defence major acquisitions—issues and lessons learned by audit offices
- fraud and corruption—challenges in detecting and preventing fraud and corruption
- auditing third-party service providers—issues facing audit offices when governments undertake service provision through public–private partnerships.

Guest speaker Steve Gumley, Chief Executive Officer of Australia's Defence Materiel Organisation, presented an engaging paper on major project acquisition and risk management, which invited much discussion from participants.

Global working group participants commented very favourably on the meeting, particularly mentioning the venue and the experience of a traditional welcome to country performed for them by the Eora Aboriginal people.

Honour bestowed by the Government of Indonesia

On 26 February 2010, I was honoured to be presented with the Bintang Jasa Utama (First Class Medal of Honour) by the Indonesian Ambassador, His Excellency Primo Alui Joelianto.

The award is to recognise the ANAO's assistance to the Government of Indonesia in promoting the transparency and accountability of public finance, especially in the audit of natural disaster management in Aceh and Nias, and our contribution on best practice and capacity building in auditing.

The ANAO has been contributing to capacity building with Badan Pemeriksa Keuangan (BPK), the Indonesian Board of Audit, over the past four years. The ANAO's activities have been focused on both performance and financial auditing, and have included a series of long-term secondments of staff from the BPK plus the delivery of Jakarta-based training and pilot audit workshops.

I was honoured to receive the award, recognising the level of importance the Government of Indonesia bestowed on the ANAO through the award. In accepting it, I acknowledged the important work of colleagues within both the ANAO and the BPK, who have made the relationship a success.

The ANAO's contribution to the BPK has been strongly supported by AusAID, the Australian Government's overseas aid program and the Department of Foreign Affairs and Trade.

Our resources

As previously mentioned, the ANAO received additional funding last year to bolster our performance audit program, enhance our IT audit capability and strengthen technical support to our financial statement audit program, placing the ANAO in a more sustainable financial position. Of course, we still need to absorb some increased salary and contract costs, and the range of efficiency dividends applied to the public sector. We have also had to manage our financial statement audit program carefully, particularly over the period of the forward estimates of expenditure, and have rebased our audit coverage using a focused, risk-based approach.

For the 2010–11 Budget, the ANAO sought additional funding to cover the cost of the new National Broadband Network Company Ltd (NBNCo) financial audit and the cost to comply with the new 'clarity' auditing standards. Funding has been provided for the audit of NBNCo,

but unfortunately we did not receive funding to assist in meeting the additional demands of the professional standards.

Overall, however, I consider that the ANAO is in a manageable position, noting the broader economic circumstances. With appropriate attention to managing our costs, we are confident of delivering on our corporate outcomes over the next 12 months. The efforts of all staff in assisting with our budget management initiatives have been greatly appreciated.

Inaugural Academic in Residence

The ANAO had the pleasure of inviting Kerry Jacobs, Professor of Accounting at the Australian National University, to spend two months of his professional sabbatical at the office. The ANAO benefited from Professor Jacobs's expertise in public sector accounting and his insights into governance, auditing and financial management reforms.

Our staff

The high regard with which the ANAO is held is due to the commitment and professionalism of our staff and our senior leadership group. Our work has gained wide parliamentary and community acceptance that reflects well on the solid work undertaken by the ANAO. It is often challenging but it is also very rewarding, as it contributes to better public administration, which in turn makes a very important contribution to good government in Australia.

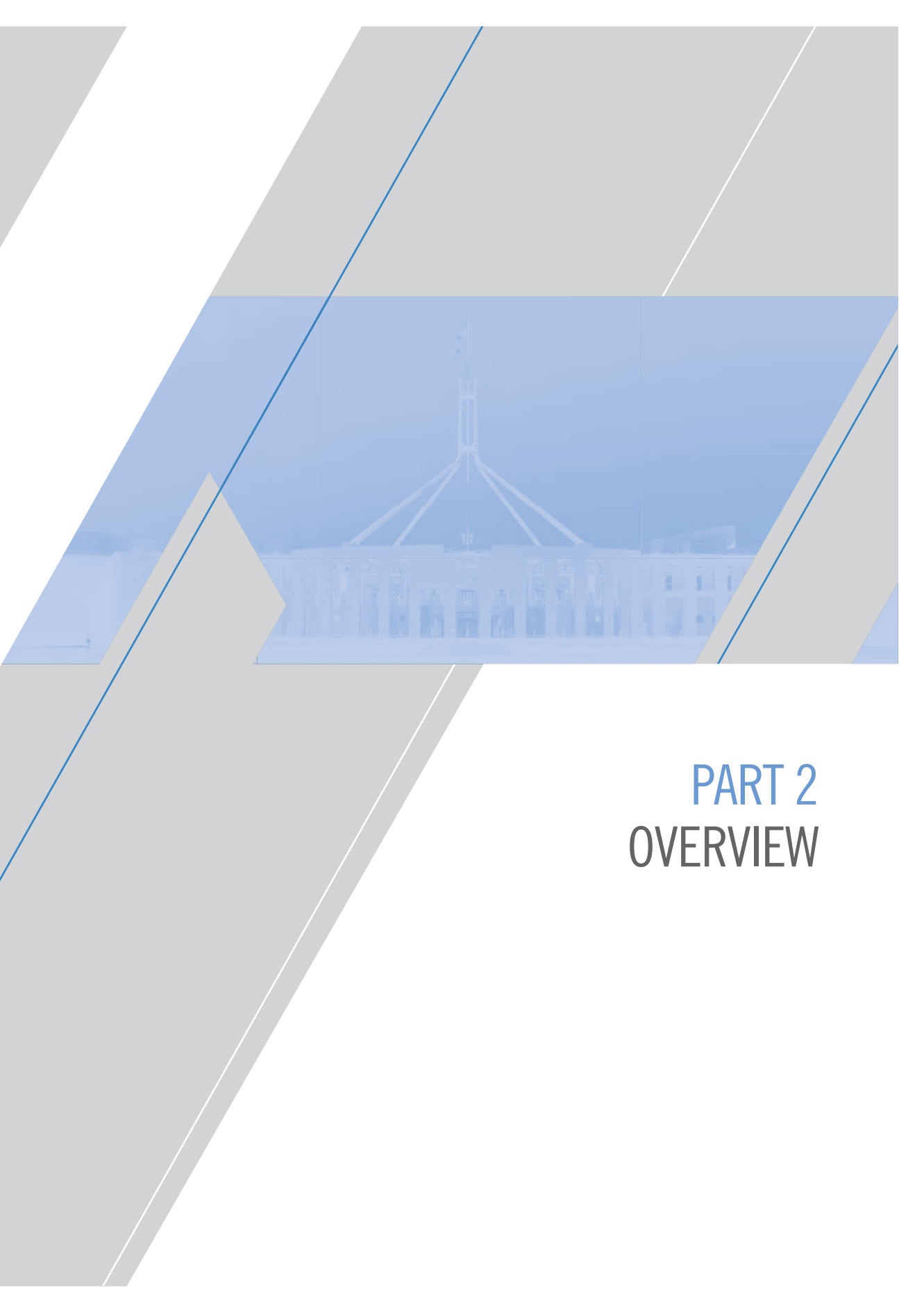
Our staff numbers increased this year due to the integration of the Office of Evaluation and Audit (Indigenous Programs), formerly the responsibility of the Department of Finance and Deregulation. The new staff have fitted in well and are contributing to our audit program.

Three of my staff are providing long-term in-country support to the BPK and the Papua New Guinea Audit Office. Paul Nicoll is on posting to Jakarta, and John Hawley and Marina Cvetanovski are stationed in Port Moresby.

Several staff received awards to recognise their achievements in going that 'extra distance' in delivering our audit products or achieving our corporate goals. Our strengths lie in our ability to anticipate the significant issues and respond rapidly when required. Our achievements during these challenging times have placed the ANAO on a sound footing for the coming year and beyond, notwithstanding the challenges of managing an increasing workload associated with delivering a larger audit work program in accordance with increasing professional requirements in a more complex public sector.

I wish to thank all ANAO staff for their professionalism, enthusiasm and flexibility during the year, and for the support given to me to allow me to discharge my statutory responsibilities.

Ian McPhee
Auditor-General



PART 2
OVERVIEW

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

The Auditor-General's mandate extends to all Australian Government agencies, authorities, companies and subsidiaries, with the exception of the conduct of performance audits of government business enterprises and of persons employed or engaged under the *Members of Parliament Act 1994*.



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

VISION

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

The ANAO's two planned outcomes are directly related to our role and vision:

- *Outcome 1: Assurance audit services*—To provide assurance on the fair presentation of financial statements of Australian Government entities by providing independent audit opinions and related reports for the information of parliament and the executive.
- *Outcome 2: Improvement in public administration*—To improve the efficiency and effectiveness of the administration of Australian Government programs and entities by undertaking a program of independent performance audits and assurance reviews for the information of parliament and the executive.

We deliver these outcomes by implementing strategies and achieving objectives in four key result areas:

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

ORGANISATION

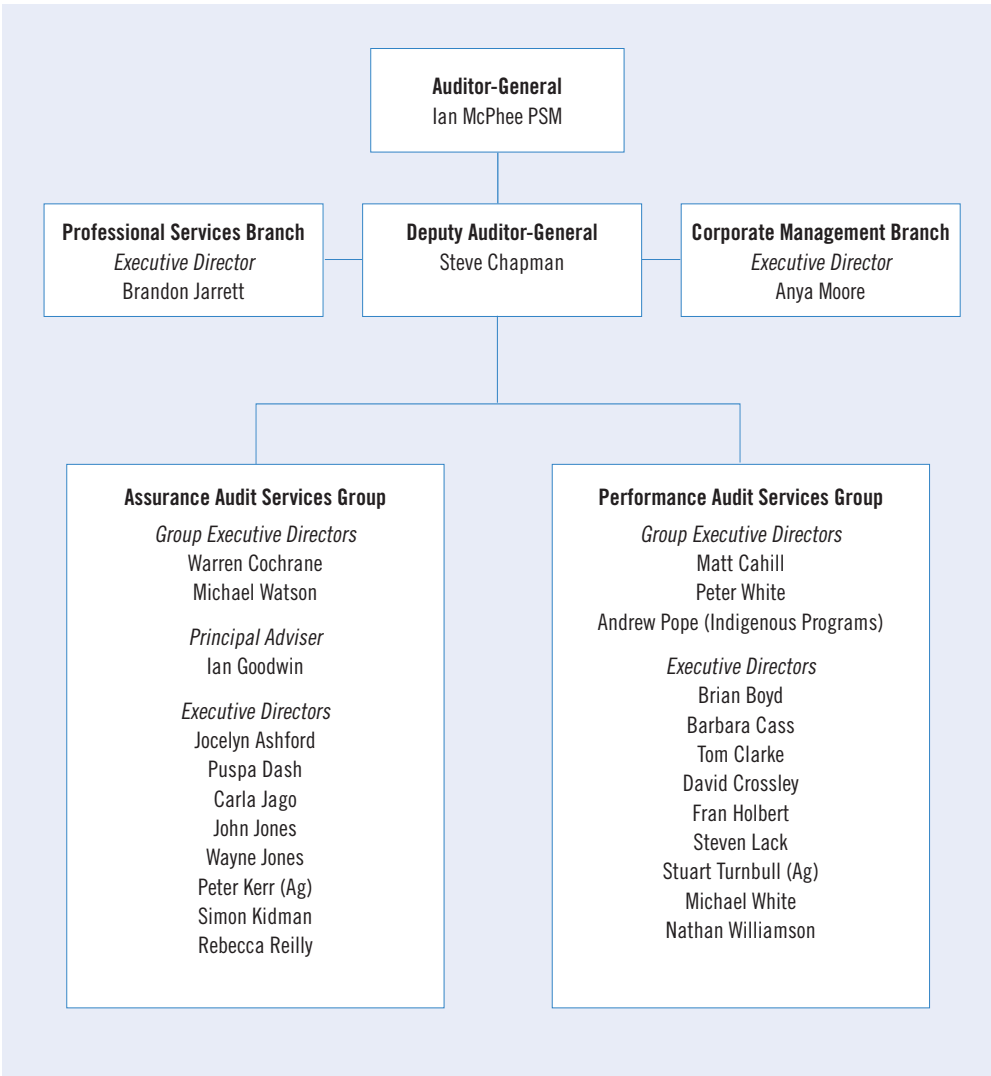
The ANAO is organised into two service groups and two support branches:

- The Assurance Audit Services Group provides independent assurance on the financial statements and financial administration of all Australian Government entities.
- The Performance Audit Services Group contributes to improved public sector administration and accountability by adding value through a program of performance audits of Australian Government entities, and related products.
- The Professional Services Branch provides professional services such as technical support, quality assurance, professional newsletters and technical seminars.
- The Corporate Management Branch provides the office with administrative support, including the coordination of corporate governance activities, human resources, finance, external relations, information technology support and building services.

The ANAO is located in Canberra, although we also have a small regional presence in Sydney.

The organisational and senior management structure of the ANAO at 30 June 2010 is shown in Figure 1.

Figure 1 Organisational and senior management structure at 30 June 2010



OUTCOMES AND PROGRAMS FRAMEWORK

This section describes our outcomes and programs framework, as set out in the 2009–10 Portfolio Budget Statements. Figure 2 shows our two outcomes, the two programs to achieve those outcomes, and the components of those programs.

The ‘Report on performance’ section of this report outlines each of our programs and details the performance of the ANAO in achieving its outcomes.

Figure 2 Outcomes and programs framework, 2009–10

OUTCOMES	
Outcome 1 To provide assurance on the fair presentation of financial statements of Australian Government entities by providing independent audit opinions and related reports for the information of parliament and the executive	Outcome 2 To improve the efficiency and effectiveness of the administration of Australian Government programs and entities by undertaking a program of independent performance audits and assurance reviews for the information of parliament and the executive
Program 1.1: Assurance Audit Services	Program 2.1: Performance Audit Services
<i>Administered item</i>	<i>Administered items</i>
Fees for financial statement audits (undertaken under the CAC Act)	Nil
<i>Departmental items</i>	<i>Departmental items</i>
Financial statement audit reports Other assurance reports Assistance to parliament National and international representation Special appropriations	Performance audit services Better practice guides Other audit and related services Assistance to parliament National and international representation Special appropriations

FINANCIAL SUMMARY

Our overall financial position for 2009–10 was an operating surplus of \$4.345 million (up from an operating loss of \$1.455 million in 2008–09), resulting from active management of expenses to restore strength to our balance sheet. As a result, the office continues to have sufficient assets to meet ongoing liabilities and commitments.

Our independent auditor found that our financial systems and control 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 is sound.

Our financial resources for 2009–10, on an outcome–program basis, are summarised in Table A1.2 and Table A1.3 in Appendix 1. The ANAO’s financial statements for 2009–10, and a commentary on our financial performance for the year, are also set out in Appendix 1.



PART 3 REPORT ON PERFORMANCE

PERFORMANCE OVERVIEW

The ANAO measures its performance against the work plans for the two outcomes set out in the annual Portfolio Budget Statements, described in the ‘Overview’ section. Each outcome has its own related program specifying the performance indicators and targets used to assess and monitor our performance.

Performance measures are specified in the ANAO’s 2009–10 Portfolio Budget Statements for the following two programs:

- Program 1.1—Assurance Audit Services
- Program 2.1—Performance Audit Services.

This section presents the scorecard from our Portfolio Budget Statements and Business Plan, which applies to all outcomes (see Table 1). Subsequent sections describe the performance of the two program groups.

Table 1 Indicators and targets common to outcomes 1 and 2

Performance indicators	2009–10 target	2009–10 result
Parliament acknowledges the value of the ANAO contribution	90% value role of ANAO	94% of parliamentarians surveyed expressed satisfaction with ANAO products and services. ^a
Public sector entities acknowledge the value added by ANAO products and services	90% value role of ANAO	Assurance Audit Services: 95% ^b Performance Audit Services: 90% ^c
JCPAA’s general satisfaction with the overall quality, timeliness and coverage of the ANAO’s products and services	High standard of satisfaction	JCPAA survey responses indicate a very high level of satisfaction with the ANAO’s work, with all members expressing overall satisfaction and 71% very satisfied. ^a

JCPAA = Joint Committee of Public Accounts and Audit

^a Parliamentary survey, January 2009 (the next survey is scheduled for the first half of 2011).

^b PAS Client Survey, April 2010.

^c PAS Client Survey, August 2010.

PROGRAM 1.1—ASSURANCE AUDIT SERVICES

The objective of Program 1.1, Assurance Audit Services, is to provide assurance on the fair presentation of financial statements of Australian Government entities by providing independent audit opinions and related reports for the information of parliament and the executive.

The program does this through the following program components:

- financial statement audit reports
- other assurance reports
- assistance to parliament (shared with Program 2.1)
- national and international representation (shared with Program 2.1)
- special appropriations (shared with Program 2.1).

This section addresses two program components: financial statement audit reports and other assurance reports. The program components 'assistance to parliament', 'national and international representation' and 'special appropriations' are addressed in 'Components common to programs 1.1 and 1.2'.

Table 2 describes the performance of Program 1.1 against the deliverables and the performance indicators in the 2009–10 Portfolio Budget Statements.

Table 2 Program 1.1: Performance against 2009–10 Portfolio Budget Statements deliverables and performance indicators

Outcome 1: Assurance Audit Services		
To provide assurance on the fair presentation of financial statements of Australian Government entities by providing independent audit opinions and related reports for the information of parliament and the executive.		
Deliverables	2009–10 target	2009–10 result
Number of financial statement audit opinions to be issued	250	251
Other regulatory assurance reports	59	65
Number of financial statement related report products to be produced	2	2
Key performance indicators	2009–10 result	
Audit opinions issued in respect of all Australian public sector entities		
<ul style="list-style-type: none">upon receipt of signed entity financial statements	60% of audit opinions were issued on the same day the signed financial statements were received by the ANAO. 88% of audit opinions were issued within two days of ANAO receiving the signed financial statements.	
<ul style="list-style-type: none">in accordance with ANAO auditing standards	All audit reports reviewed were undertaken in accordance with relevant auditing standards.	
JCPAA and other committee satisfaction with the overall quality and usefulness of the interim and year-end financial statement audit reports	The JCPAA reported a high level of satisfaction with the overall quality, timeliness and coverage of ANAO products and services.	
Cost		
\$42.192 million (\$42.985 million in 2008–09).		

JCPAA = Joint Committee of Public Accounts and Audit

Financial statement audit reports

The ANAO's audits of financial statements allow all Australian Government entities to fulfil their annual accountability obligations under the *Financial Management and Accountability Act 1997* (FMA Act) or the *Commonwealth Authorities and Companies Act 1997* (CAC Act).

Each year, Australian Government entities must publish their financial statements, accompanied by an audit opinion pursuant to legislative requirements, in their annual reports. In accordance with the legislative requirements, the ANAO audits the financial statements and expresses an opinion on whether they:

- have been prepared in accordance with the Government's reporting framework
- give a true and fair view (in accordance with Australian Accounting Standards) of the financial position of the entity, and the results of the entity's 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 the financial statements, the ANAO provides each audited entity with a report on the findings of the financial statement audit and an assessment of the entity's business or accounting processes, including the entity's internal control. A report on the audit is also provided to the minister responsible for the entity.

Each year, the ANAO tables in parliament two reports on its financial statement audit program:

- *Audits of the Financial Statements of Australian Government Entities*, tabled in December
- *Interim Phase of the Audit of Financial Statements of Major General Government Sector Agencies*, tabled in June.

Financial statement audit opinions

The audit opinion issued by the ANAO states whether the annual financial statements of an Australian Government entity provide a true and fair view of the matters required to be disclosed in accordance with the financial reporting framework, which allows the entity to fulfil its accountability obligations.

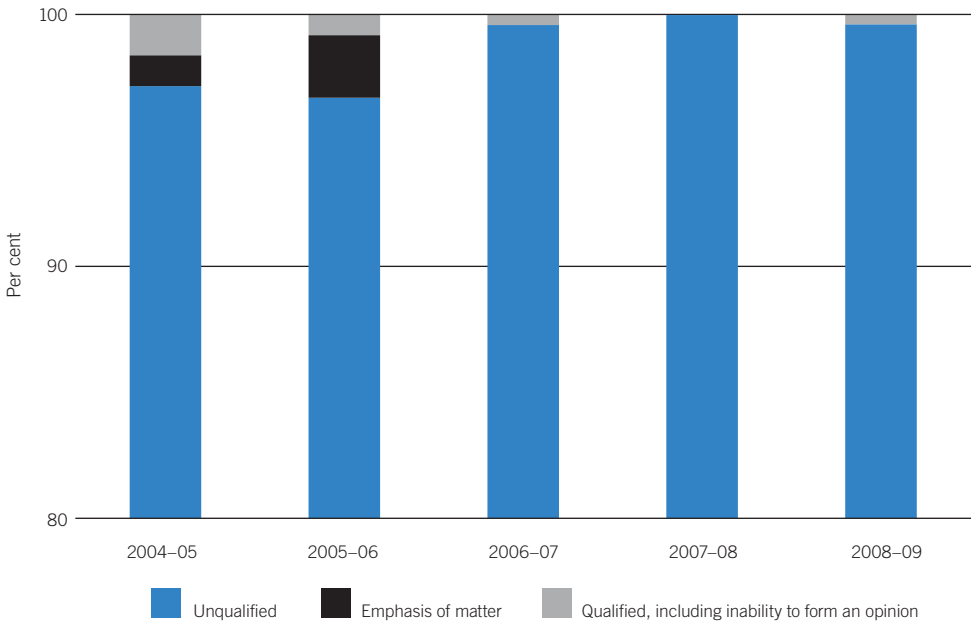
We use a risk-based methodology in our financial statement audits. The methodology emphasises the need for a detailed understanding of the client's organisation and associated business risks, and places great reliance on business processes and management. Our audit methodology is supported by customised technology and comprehensive training programs.



Assurance audit services business manager Niki Strachan and auditor John McCullough.

Where an entity's financial statements do not fairly represent its financial operations and position, the audit report is 'qualified'. The need to qualify an audit opinion can arise for a number of reasons. However, through a professional working relationship, we seek to support initiatives by the management of each entity to mitigate factors that may result in a qualified opinion. For the 2008–09 financial year, 251 audit opinions were issued: one was qualified in relation to a lack of evidence to support the valuation of an administered investment. Figure 3 shows audit opinions from 2004–05 to 2008–09.

Figure 3 Comparison of audit opinions



Note: 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.

Financial statement audit—period ended 30 June 2009

The report *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2009* was tabled in December 2009. This report summarised the final result of the audits of the 2008–09 financial statements of Australian Government entities, and the consolidated financial statements of the Australian Government. It also commented on key developments in the financial reporting and auditing framework that affect the Australian Government and its reporting entities and provided information about audit findings and key governance and control activities, such as the certificate of compliance.

Some 75 per cent of material entities and 54 per cent of non-material entities met their clearance deadlines. This was a decrease from 2007–08, when 85 per cent of material entities and 57 per cent of non-material entities met the deadlines. The decrease in material entities meeting the deadline in 2008–09 was due to a combination of technical and financial statements preparation issues. The decrease in non-material entities meeting the deadline in 2008–09 was, in part, a result of the ANAO deferring the completion of a number of audits to assist audit scheduling.



Financial statement auditors Jenna Black and Nikhill Iyengar.

Summary of findings

The December 2009 report provided details of the number of unmodified audit opinions (clear opinions) issued. There was one qualified audit opinion in 2008–09 (nil in 2007–08). This is consistent with the trend over recent years towards fewer qualified audit opinions. There were also four audit opinions containing additional statutory disclosures in 2008–09 (one in 2007–08).

The report also detailed the results of individual financial statement audits and any additional significant control issues identified by each audit. Continuing a trend evident over recent years, there was a reduction in both the number and the significance of issues arising from the final phase of the 2008–09 financial statement audits. Common issues that were identified in the final audit phase were in respect of controls in entities' IT environments, such as change management controls and the segregation of duties; asset management processes, including accounting for assets under construction, asset stocktakes and the integrity of asset registers; and business system processing controls.

Our December 2009 report also mentioned that most entities had made good progress in addressing and resolving, where possible, outstanding audit issues. In particular, we reported that there was significant improvement in some agencies that had made a concentrated effort to resolve issues.

Certificates of compliance

Since the 2006–07 financial year, the chief executive of each FMA Act agency has been required to provide an annual certificate of compliance. Directors of general government sector (GGS) CAC Act authorities and wholly owned companies are also required to provide a report on compliance with relevant aspects of CAC Act legislation.

Based on advice from the Department of Finance and Deregulation, agencies reported a total of 14,961 breaches in 2008–09. This represents a significant reduction compared with 2007–08, when approximately 32,600 breaches were reported.

Consistent with the results in 2006–07 and 2007–08:

- the majority of breaches identified by FMA Act agencies related to requirements of the FMA Regulations rather than the requirements of the FMA Act
- many of the breaches identified by FMA Act agencies consisted of multiple occurrences of a breach of the same legislative requirement, rather than one-off breaches of a large number of individual requirements.

The ANAO has observed that, since the certificate of compliance process was introduced, the process has resulted in an increased awareness of legislative requirements, and that most entities have well-established processes in place to identify legislative breaches and take corrective action where appropriate. The significant reduction in breaches in 2008–09 compared with 2007–08 is a positive trend reflecting greater awareness of relevant statutory requirements.

Financial statement timeframes

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 2008–09 year, the Department of Finance and Deregulation set the audit clearance deadline for material entities (which comprise 99 per cent of revenues, expenses, assets and liabilities of the Australian Government) as 15 August 2009. For non-material entities, the date was 31 August 2009.

Interim financial statement audit—period ended 30 June 2010

The report *Interim Phase of the Audit of Financial Statements of Major General Government Sector Agencies for the year ending 30 June 2009* was tabled in June 2010. This report presented the results of the interim phase of the 2009–10 financial statement audits of 26 agencies that represent some 95 per cent of total GGS revenues and expenses.

Our interim audits of agencies encompass a review of governance arrangements related to agencies' financial reporting responsibilities, and an examination of relevant internal controls, including information system technology controls. An examination of such issues is designed to assess the reliance that can be placed on internal control to produce complete and accurate information for financial reporting purposes.

Our June 2010 report indicated that the results of the interim phase of our 2009–10 financial statement audits reflected a continuation of the reduction over recent years in the number of significant and moderate risk audit findings. (The ANAO rates its audit findings according to a risk scale. Audit findings that pose a significant risk should be addressed as a matter of urgency; moderate risk issues should be addressed by an entity within 12 months.) This reflects the general stability and maturity of the control regimes in the majority of major GGS agencies and actions taken by those agencies to address prior-year audit findings.

Our June 2010 report did, however, mention that our audits continue to identify control weaknesses in a number of areas particularly relating to agencies' control environments, business continuity management and the management of assets. Our report also commented that, generally, agencies had been positive and timely in their response to ANAO audit findings.



IT auditors Roysul Khan, Thierry Guerin, Keith Allen and Franco Rosin.

Developments in the accounting profession

During 2009–10, the accounting profession saw moves to further improve financial reporting in Australia.

Reporting by companies was changed in June 2010 with the passage of amendments to the *Corporations Act 2001*. Commonwealth companies are excluded from some of the changes, such as reporting relief for companies limited by guarantee, but may be affected by others, such as the new rules for the payment of dividends.

Also in June 2010, the Australian Accounting Standards Board (AASB) completed an alternative financial reporting regime, targeted at smaller reporting entities. Known as the 'reduced disclosure regime' (RDR), this regime would exempt some entities from disclosing some of the information currently required by Australian Accounting Standards (AAS), while ensuring that financial statements continue to meet the needs of users. In the private sector, listed companies and similar entities will remain subject to the full AAS disclosure requirements, while other private sector entities are able to access the RDR. In the public sector, governments will be subject to full AAS disclosure requirements, while entities controlled by government could access the RDR, depending on the decisions of their governments and parliaments. This has the potential to reduce administrative costs for public sector entities, while preserving appropriate accountability.

The AASB will now move to consider whether the RDR is suitable for entities not currently required to prepare general purpose financial reports.

As part of its project to improve public sector reporting, the AASB considered major changes to reporting by not-for-profit government entities, other than those engaged in trading or financial services. Among the changes being considered are the inclusion of budgets in financial statements and additional information presented in accordance with the government finance statistics framework of the Australian Bureau of Statistics.

Australian Accounting Standards are largely based on standards issued by international accounting standards setters. Therefore, international developments have significant ramifications for Australia. During 2009–10, there were continued moves towards a single set of global accounting standards. The International Accounting Standards Board (IASB) and the United States Financial Accounting Standards Board continued to progress a common conceptual framework to guide the development of accounting standards in the future. The International Public Sector Accounting Standards Board has substantially completed its project to issue a suite of accounting standards for the public sector, based on those of the IASB.

Closer to home, in August 2009 the Australian and New Zealand governments issued a statement of intent to achieve a single economic market across Australia and New Zealand, including an objective to converge financial reporting requirements in both countries. Building on their existing relationship, the AASB and the New Zealand Financial Reporting Standards Board are working to meet this objective. In October 2009, the two boards released their policy for modifying IASB accounting standards to reflect differences between the for-profit and not-for-profit sectors that warrant separate accounting treatments or guidance for the not-for-profit sector.

In auditing, the Australian Auditing and Assurance Standards Board has released a replacement set of standards for auditing financial statements for implementation for reporting periods beginning on or after 1 January 2010. They include a quality standard for the audit firm, which took effect on 1 January 2010. The replacement standards represent a significant revision which makes for clearer and more rigorous standards. The changes follow closely changes made to auditing standards made by the International Auditing and Assurance Standards Board.

Fees

Section 14 of the *Auditor-General Act 1997* 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.

Commonwealth authorities and companies and their subsidiaries that are subject to the CAC Act are required to pay fees for the audit of their financial statements. FMA Act agencies are advised of the notional cost (fee) for the audit of their financial statements, and that amount is disclosed in their financial statements. Notional cost recovery means that the ANAO accounts for the costs of performing the service without actually billing the auditee. In relation to audits by arrangement, under section 20(2) of the Auditor-General Act an entity may request additional audit services that may provide for the payment of fees to the Auditor-General. Other than fees received for audits by arrangement, fees are received by the Auditor-General on behalf of the Commonwealth.

The fees are based on a scale determined by the Auditor-General under section 14 of the Auditor-General Act. In determining audit fees, we 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 level. The costing model takes into account all relevant costs, including the attribution of overhead costs.

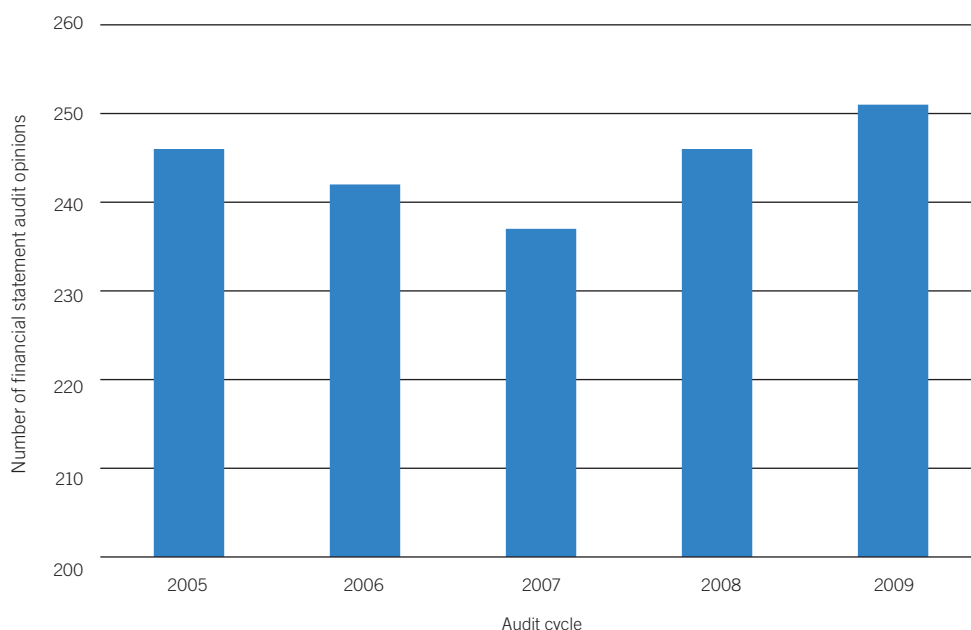
Performance measures

The following sections describe in more detail the ANAO's performance in providing financial statement audits for 2008–09. The main performance measures for financial statement audit reports are the number of opinions issued, timeliness, cost and quality.

Number

The number of audit opinions issued depends on government and entity decisions on entity structures. We have issued opinions on all relevant entities. The number of audit opinions issued for the 2008–09 financial statement audit cycle, in comparison to previous periods, is illustrated in Figure 4.

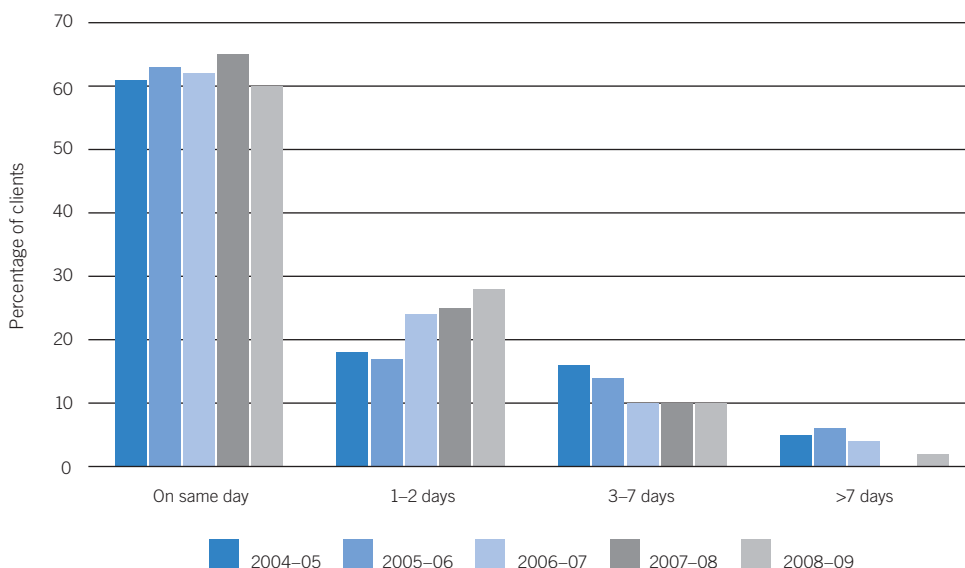
Figure 4 Financial statement audit opinions issued



Timeliness

Issuing audit opinions as soon as possible after the financial statements are signed assists entities to meet their management and annual reporting commitments. For the 2008–09 audit cycle, we issued 88 per cent of opinions on the day the financial statements were signed or within two days of the signing, a slight decrease from 90 per cent for the previous audit cycle.

Figure 5 shows the timeliness with which we have issued audit opinions over the past five years.

Figure 5 Timeliness of issuing audit opinions

Cost

Table 3 summarises the costs of conducting financial statement audits in the past two reporting periods.

Table 3 Costs of financial statement audit reports, 2008-09 to 2009-10

	2008-09	2009-10
Audits conducted	246	251
Direct labour hours	197,390	159,966
Resources (including overheads)	\$40.48m	\$39.73m

Quality assurance

We undertook a program of quality assurance reviews of a selection of completed 2008-09 financial statement audits and other assurance products in 2009-10, in line with our Quality Assurance Review Program. The program's objective is to assess compliance with auditing standards and other legal and regulatory requirements, relevant professional requirements, and associated quality control policies and procedures. The program is managed by the Professional Services Branch under the authority of the Deputy Auditor-General.

The 2009-10 program, which reviewed seven financial statement audits and two audits by arrangement, identified no major systematic or repetitive deficiencies. However, the reviews highlighted a number of matters that required attention, including the level of documentation of work performed, particularly in relation to audit testing and audit file closure. The results of the reviews were considered by the senior executive and disseminated to all financial statement audit staff. The results were also taken into account in the development of the financial audit learning and development program.

Client satisfaction

An independent survey was completed in April 2010 to gain feedback from entities on the conduct of the audit of their 2008–09 financial statements. From the 183 entities that were included in the survey, 153 responses were received (84 per cent).

The survey results were positive overall and indicated high satisfaction with our performance in auditing the 2008–09 financial statements. In particular:

- 94 per cent of respondents agree that ANAO staff have the necessary understanding and skills to carry out audit work
- 95 per cent of respondents acknowledge the value added by ANAO products and services.

The results of the survey will be used to inform decisions on the improvement of future audits. We are also continuing to explore avenues to increase entities' awareness of the available products, publications and services on financial statements and related assurance matters, as a way to assist them to improve their performance.

Other assurance reports

Other assurance reports provide assurance to entities and other third parties on selected matters outside the scope of the annual financial statements audit.

Ministers or entities can ask the ANAO to review 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. Those services also included grant acquittal certificates, performance information verification and other special purpose engagements.

Table 4 summarises the costs of conducting assurance audits in the past two reporting periods.

Table 4 Costs of other assurance reports, 2008–09 to 2009–10

	2008–09	2009–10
Audits conducted	52	65
Direct labour hours	16,364	13,261
Resources (including overheads)	\$1.65m	\$1.62m

PROGRAM 2.1—PERFORMANCE AUDIT SERVICES

The objective of Program 2.1 is to improve the efficiency and effectiveness of the administration of Australian Government programs and entities by undertaking a program of independent performance audits and assurance reviews for the information of parliament and the executive. Program 2.1 does this through the following program components:

- performance audit services
- better practice guides
- other audit and related services
- assistance to parliament (shared with Program 1.1)
- national and international representation (shared with Program 1.1)
- special appropriations (shared with Program 1.1).

This section addresses three program components: performance audit services, better practice guides, and other audit and related services. The program components ‘assistance to parliament’, ‘national and international representation’ and ‘special appropriations’ are addressed in ‘Components common to programs 1.1 and 1.2’.

Table 5 describes the performance of Program 2.1 against the deliverables and the performance indicators in the 2009–10 Portfolio Budget Statements.

Table 5 Program 2.1: Performance against 2009–10 Portfolio Budget Statements program deliverables and performance indicators

Outcome 2: Improvement in public administration		
To improve the efficiency and effectiveness of the administration of Australian Government programs and entities by undertaking a program of independent performance audits and assurance reviews for the information of parliament and the executive.		
Deliverables	2009–10 target	2009–10 result
Number of performance audits to be produced	47	47 ^a
Government advertising campaign review reports	45	31 ^b
Number of better practice guides produced	4	3
Review of DMO Major Projects Report	1	1
Other audit and related reports	2	2
Key performance indicators	2009–10 result	
Delivery of a work program which is balanced in coverage and nature and which recognises the audit priorities of the Parliament		
<ul style="list-style-type: none">The value of the ANAO contribution is recognised by the Parliament	94% of parliamentarians surveyed expressed satisfaction with ANAO products and services. ^c	
<ul style="list-style-type: none">The value added by ANAO products and services is recognised by public sector entities	90% of public sector entities acknowledged the value added by Performance Audit Services Group products and services. ^d	
<ul style="list-style-type: none">The JCPAA's general satisfaction with the overall quality, timeliness and coverage of ANAO products and services	The JCPAA reported a high level of satisfaction with the overall quality, timeliness and coverage of ANAO products and services. ^c	
Cost		
\$26.107 million (\$23.594 million in 2008–09).		

JCPAA = Joint Committee of Public Accounts and Audit

a Includes two reports to parliament on government advertising activities.

b This function ceased on 31 March 2010.

c Parliamentary survey, January 2009.

d PAS Client Survey, August 2010.

Performance audit services

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 parliament.

The *Auditor-General Act 1997* authorises the Auditor-General to conduct, at any time, a performance audit of an entity, 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 Minister for Finance and Deregulation or the Joint Committee of Public Accounts and Audit (JCPAA) requests the audit.

A performance audit is an independent, objective and systematic examination of the operations of a body to form 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
- improvements might be made to management practices (including procedures for promoting and monitoring performance).

In seeking to improve public administration, performance audits also identify better practices, which may then be incorporated into better practice guides produced by the ANAO for dissemination throughout the Australian Government sector. Better practice guides are discussed later in this section.

Table 6 summarises the program's performance in terms of the number, timeliness and cost of performance audit reports.

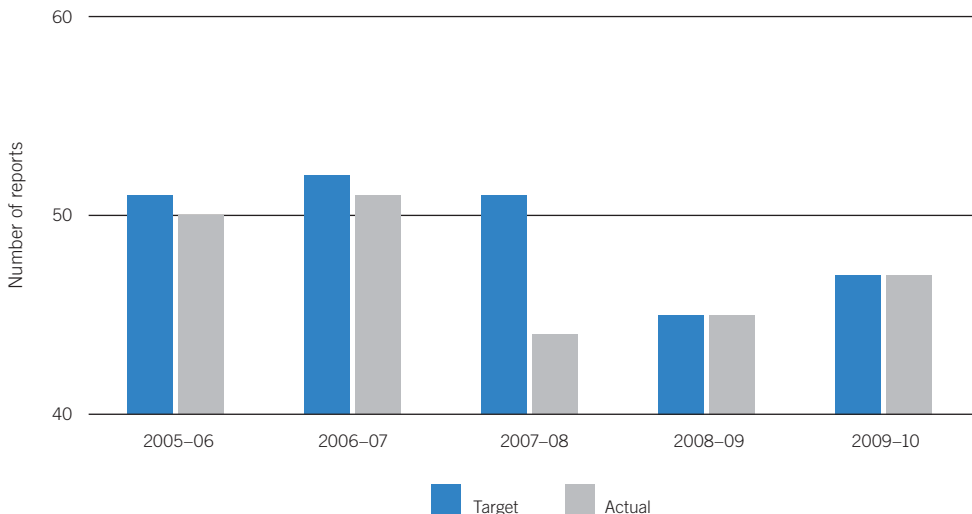
Table 6 Program 2.1: Performance, quantitative measures, 2008–09 and 2009–10

	Number of performance audit reports		Time taken to complete reports (months)		Average cost per report (\$m)	
	Target	Result	Average	Range	Average	Range
2009–10	47	47	12.2	1.3–24.3	0.42	0.2–0.1
2008–09	45	45	13.2	5.5–24.1	0.39	0.1–0.7

Note: The average timeframe for performance audits has decreased, but a number of external factors outside the ANAO's control can affect the time taken to complete an audit. Therefore, the ANAO has several ongoing initiatives focused on improving project management of its performance audits.

Figure 6 shows the numbers of performance audit reports completed over the past five financial years.

Figure 6 Number of performance audit reports, 2005–06 to 2009–10



Indigenous programs

In December 2009, the functions of the former Office of Evaluation and Audit (Indigenous Programs) were transferred from the Department of Finance and Deregulation to the ANAO. As a consequence, the ANAO's performance audit program in 2010–11 will be enhanced to include a greater number of audits focusing on Indigenous-specific programs.

This is in addition to audits of other programs that have an identified Indigenous-specific outcome or component.

Performance audit topics

Our performance audit work program is developed annually in consultation with the JCPAA and audited entities. A major outcome from our performance audit work is improvement in the management and administration of major Australian Government programs. Performance audit reports also provide assurance to the Parliament about the way an area of public administration is being conducted.

An analysis of audit coverage in 2009–10 provides insight into those areas where the ANAO continues to find weaknesses in particular controls, systems or approaches that can have widespread effects on public administration. These areas include governance issues (such as risk management); efficient and effective use of human and financial resources (including engaging third-party providers and administering grants); project management; information systems; and performance measuring, reporting and monitoring systems.

Areas of focus for performance audits in 2009–10 included:

- risk management and assessment
- the Council of Australian Governments reform agenda
- compliance activities
- management and administration of grants.

All performance audits are summarised by portfolio in Appendix 4.

Risk management and assessment

The ANAO commonly considers agencies' governance and risk management arrangements in the context of its audit coverage. For example, Audit Report No.5 2009–10, *Protection of Residential Aged Care Accommodation Bonds*, assessed the Department of Health and Ageing's administration of prudential arrangements for the protection of residential aged care accommodation bonds. To strengthen regulatory oversight, the audit recommended strengthening governance arrangements for effective regulation, including risk management and performance measurement.

Audit Report No.11 2009–10, *Garrison Support Services*, assessed the effectiveness of Defence's procurement and contract management for the provision of garrison support services (GSS).



Indigenous Programs auditors Liz Wedgwood and Michael DeMamiel.

The report concluded that the effectiveness of GSS contracting was constrained by weaknesses in risk management, performance management and contract amendment administration for current GSS contracts, and one of the five recommendations in the report included the adoption of a risk-based approach to managing GSS contracts.

Council of Australian Governments reform agenda

The aims of the Council of Australian Governments reform agenda include boosting productivity, workforce participation and geographic mobility, while supporting the wider objectives of better services for the community, social inclusion, closing the gap on Indigenous disadvantage, and environmental sustainability. As a result, the reform agenda will include changes to program and service delivery models and financing arrangements. To cover this key area, the ANAO conducted audits in the areas of federal financial relations and the new National Partnership Agreements and considered the implications of the reform agenda across various audits conducted in portfolios.

Audit Report No.33 2008–09, *Building the Education Revolution—Primary Schools for the 21st Century*, examined the effectiveness of the establishment of the Primary Schools for the 21st Century element of the Building the Education Revolution program by the Department of Education, Employment and Workplace Relations (DEEWR). The ANAO did not make any recommendations to DEEWR about the implementation of the program. However, the findings from this audit underline the greater need for departments to balance control and devolution in implementing a National Partnership Agreement under the new federal financial relations framework, compared to previous requirements.

Compliance activities

Performance audits that review agencies' compliance activities provide assurance that agencies have appropriate stewardship of government revenue and outlays. A number of performance audits in 2009–10 identified areas for agencies to further improve their compliance activities. These included Audit Report No.34 2009–10, *The Management and Use of Double Taxation Agreement Information Collected through Automatic Exchange*, which reviewed and assessed the use and management of automatic exchanges of information under double taxation agreements by the Australian Taxation Office. The ANAO reviewed three key areas: governance arrangements, risk of inappropriate disclosure, and the effectiveness of the use of automatic exchange of information data in the context of compliance activities conducted by the Tax Office. Recommendations were directed at centralising information to better support compliance activities and leveraging experience to improve the design of compliance exercises.

Audit Report No.36 2009–10, *Emergency Management and Community Recovery Assistance in Centrelink*, also identified areas for improvement in compliance activities. The scope of the audit covered Centrelink's emergency management framework and community recovery assistance operations in general, with a specific focus on the 2009 North Queensland floods and Victorian bushfires. In delivering financial assistance and a range of other support and recovery activities to people affected by the floods and bushfires, Centrelink demonstrated that it has the capability to adapt its service delivery arrangements to effectively respond to disasters and to Australian Government directions. The response to the floods and bushfires highlighted some areas that could be improved, including Centrelink's post-payment integrity activities, to provide adequate assurance on the validity of claims paid for disaster recovery assistance.



Performance auditor Nicola Rowe on field work.

Management and administration of grants

A number of performance audits in 2009–10 looked at the administration and management of grants across a number of departments and agencies. They included Audit Report No.26 2009–10, *Administration of Climate Change Programs*, which assessed the administrative effectiveness of five climate change programs. Particular emphasis was given to the implementation of good administrative practice and the extent to which the program objectives were being met. The audit reviewed programs in three departments—the Department of the Environment, Water, Heritage and the Arts (DEWHA), the Department of Climate Change and Energy Efficiency (DCCEE) and the Department of Resources, Energy and Tourism. The audit made one recommendation directed towards strengthening core competencies in grants administration. In particular, it recommended that DEWHA and DCCEE give priority to establishing a grants policy unit to facilitate consistent practice across the department in identifying and managing risk, assessing and selecting projects that represent value for money, and monitoring and reporting project performance.

Audit Report No.30 2009–10, *Management of the Strategic Regional Program/Off-Network Program*, is another example of a performance audit finding areas for improvement in administering and managing grants. The objective of the audit was to assess whether the Strategic Regional Program/Off-Network Program had been effectively administered. Recommendations were directed at:

- promoting transparent and accountable decision making in a way that is consistent with the principles underpinning the new grants policy framework
- as key elements of any future grant programs, encouraging the adoption of
 - open application approaches and competitive allocation of funding in accordance with published criteria

- more robust departmental practices for assessing the merits of candidate projects for funding
- arrangements that seek to link grant payments to project needs, and better manage the risk of any advance payments
- developing program funding arrangements that assist in promoting the delivery of program outcomes by providing options to effectively manage cost pressures on projects previously approved for funding.

Audits undertaken by formal request of parliament, ministers or parliamentarians

Six audits were tabled during 2009–10 as a result of formal requests from parliament:

- Audit Report No.1 2009–10, *Representations to the Department of the Treasury in Relation to Motor Dealer Financing Assistance*, was undertaken in response to two letters from the Prime Minister, dated 19 June 2009 and 22 June 2009, requesting a performance audit of a range of matters relating to representations to the Treasury regarding automotive finance arrangements for car dealers.
- Audit Report No.6 2009–10, *Confidentiality in Government Contracts—Senate Order for Departmental and Agency Contracts (Calendar Year 2008 Compliance)*, resulted from a request for the Auditor-General to provide the Senate, by no later than 30 September each year, a report on the contract lists prepared by entities pursuant to the order.
- Audit Report No.20 2009–10, *The National Broadband Network Request for Proposal Process*. On 21 April 2009, Senator the Hon. Nick Minchin wrote to the Auditor-General requesting that consideration be given to conducting an audit of the National Broadband Network request for proposal process. The ANAO undertook a preliminary review of the request for proposal evaluation process; this identified the audit scope and resulted in the audit report.
- Audit Report No.28 2009–10, *The Australian Electoral Commission's Preparation for and Conduct of the 2007 Federal General Election*. During the preparation of the ANAO's planned audit work program for 2006–07, the Joint Standing Committee on Electoral Matters suggested that the ANAO consider a possible performance audit of the efficiency and effectiveness of the Australian Electoral Commission's management of elections. The committee's suggestion was considered in the planning and preparation for this performance audit, which focused primarily on the commission's administration of the *Commonwealth Electoral Act 1918* in the lead-up to, and the conduct of, the 2007 general election.
- Audit Report No.33 2009–10, *Building the Education Revolution—Primary Schools for the 21st Century*. On 12 June 2009, the Hon. Christopher Pyne MP wrote to the Auditor-General seeking scrutiny of the Building the Education Revolution program. On 25 June 2009, the Senate passed motion 493 requesting the Auditor-General 'to undertake an urgent investigation of waste and mismanagement of the Building the Education Revolution program'.
- Audit Report No.40 2009–10, *Application of the Core APS Values and Code of Conduct to Australian Government Service Providers*. The topic originated during the finalisation of the 2008–09 ANAO annual work program when, during discussions with the JCPAA in March 2008, then Senator Andrew Murray suggested the topic.

Reviews of government advertising campaigns

On 2 July 2008, the Government announced the Guidelines on Campaign Advertising by Australian Government Departments and Agencies as part of a framework to govern the content and presentation of Australian Government campaign advertising. Under the 2008 guidelines, a minister could launch a campaign only after receiving a certification by an agency's chief executive officer that the campaign complied with the guidelines and an independent review of the campaign by the Auditor-General had been undertaken.

Between June 2008 and the end of March 2010, the ANAO reviewed 43 campaigns and issued a total of 89 independent review reports. The reports are available on the ANAO's website.

On 31 March 2010, the government announced a policy decision that amended the governance framework for government advertising and information campaigns undertaken by departments and agencies. The decision removed the role of the Auditor-General in providing an independent review report on a proposed campaign's compliance with the guidelines to the minister responsible for the agency undertaking the campaign. The guidelines were also amended and reissued in March 2010 under the title *Guidelines on Information and Advertising Campaigns by Australian Government Departments and Agencies*.

Better practice guides

Better practice guides contribute to improved public administration by providing a mechanism for recognising better practices in organisations and promulgating them to all Australian Government entities. This can involve examining practices in the public or private sectors, in Australia or overseas. Our emphasis is on identifying, assessing and articulating good practice from our knowledge and understanding of the public sector, particularly by providing guidance in areas where improvements are warranted.

During 2009–10, we took part in a number of Australian public sector forums, seminars and conferences to increase awareness of better practice guides and other audit reports. We continued to encourage entities to use better practice guides to review their own practices.

Depending on the subject, better practice guides can be developed from information collected during an audit or prepared to meet an identified need for guidance in a particular area of public administration. The three better practice guides published in 2009–10 are described in Table 7.

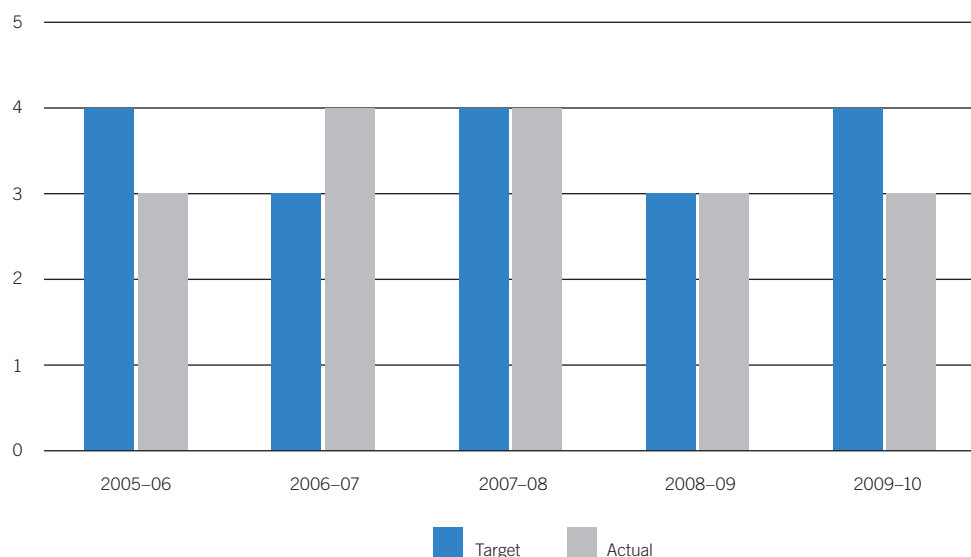
Our better practice guides continued to be well received by public sector entities, other audit offices and professional organisations.

Table 7 Better practice guides published in 2009–10

Title	Description
<p><i>Innovation in the public sector</i> (1 December 2009)</p>	<p>Innovation in a public sector context has been defined as the ‘creation and implementation of new processes, products, services and methods of delivery which result in significant improvements in the efficiency, effectiveness or quality of outcomes’. In short, innovation is the application of new ideas to produce better outcomes.</p> <p>This better practice guide aims to assist understanding of the preconditions and processes that underpin public sector innovation and to offer practical help to public sector practitioners. It focuses on the culture and practices that can be adopted to encourage and facilitate innovation in the public sector.</p>
<p><i>Planning and approving projects—an executive perspective</i> (11 June 2010)</p>	<p>This better practice guide provides an executive perspective on the planning and approval stage of projects for Australian Government entities. It focuses on the most common types of projects—those aimed at program delivery—and on internal business operations. The guide:</p> <ul style="list-style-type: none"> • discusses the role of executives in project planning and approval and typical elements of the project lifecycle • describes better practices in the overall arrangements of an entity for the planning and approval of projects, including aspects of strategic planning, people and culture, and governance • describes better practices for senior executives in the planning and approval of individual projects, including clarifying the project concept, preparing a business case and approving projects • provides an overview of implementation issues for projects.
<p><i>Implementing better practice grants administration</i> (21 June 2010)</p>	<p>Since 1994, the ANAO has published a better practice guide on the administration of grants to encourage better administrative outcomes. The latest version of the guide was prepared to reflect the enhanced legislative and policy framework for grants administration that came into full effect on 1 July 2009. The new framework includes a number of mandatory requirements, as well as outlining, in the <i>Commonwealth Grant Guidelines</i> (CGGs), various better practice principles.</p> <p>This revised better practice guide has been designed to complement the CGGs by providing a companion reference point that will assist decision makers and administering agencies to implement the new policy requirements and related guidance, which have a particular focus on decision-making processes for the awarding of grants.</p>

Figure 7 shows the numbers of better practice guides published over the past five financial years.

Figure 7 Publication of better practice guides, 2005–06 to 2009–10



Other audit and related services

In 2009–10, we published two audit-related products: the *Audit Work Program July 2009* and an assurance report, Report No.13 2009–10, *2008–09 Major Projects Report—Defence Materiel Organisation*.

Audit Work Program 2009–10

We publish a comprehensive audit work program in July each year. The work program provides a portfolio-level view of our audit strategies, audits in progress as at 1 July, and a rolling program of potential audit topics. While not all audits listed will be commenced, the publication assists parliament and entities by providing a clear indication of our areas of interest.

Audit activity planning takes into account risks, financial materiality, program significance, audit impact, program visibility, the extent of recent audit and evaluation coverage, and broad themes derived from the audit planning process. The work program is developed in consultation with the JCPAA and entities. This ensures that our audit products and outputs meet the needs of the Parliament and public sector entities.

The *Audit Work Program July 2009* was developed during the second half of 2008–09. It was provided to all parliamentarians, the JCPAA and entity heads.

Defence Materiel Organisation Major Projects Report 2008–09

This second annual review of the status of selected Defence equipment acquisition projects continued to build on the work undertaken by the Defence Materiel Organisation (DMO) and the ANAO to improve the transparency and public accountability of major Defence acquisitions.



Performance auditors Clinton Heenan, Michael Masters and Clare Spring.

The 2008–09 major projects report included more data analysis than the previous report, and provided a basis for longitudinal analysis of project performance for future years. Additional information in project data summary sheets was provided to meet stakeholder requirements, including enhancements proposed by the JCPAA.

The review report covered the cost, schedule and capability progress achieved by 15 DMO projects, which had an approved budget totalling \$37.8 billion as at 30 June 2009. Project data provided by the DMO in its major projects report was reviewed by the ANAO, and an independent conclusion on the data was provided to parliament in 2009–10. The non-inclusion of the prime contract price for three projects and expenditure at base date prices for 11 projects represented a departure from the DMO's guidelines for completing the projects' data sheets, and constituted the basis for ANAO's qualified conclusion. The DMO did not include this information as, in its view, the resource effort and cost to calculate the base date contract amounts was excessive. In addition, project information on major risks and issues was deemed to be outside the scope of the review.

In reviewing projects' performance, the ANAO's analysis indicated that maintaining major acquisition projects on schedule remains the major challenge for the DMO and industry contractors, affecting when the capability is made available to the Australian Defence Force as the end user. Across the 15 projects reviewed, on average, there was a schedule slippage of just over two years against original target dates for achieving final operational capability.

The review was conducted in accordance with the Australian Standard on Assurance Engagements, ASAE 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information*. By its nature, the review provided less assurance than an audit.

Performance measures

Feedback from parliament

The contribution of performance audit services to the work of parliament is measured, in part, by a review of comments made in parliamentary committee reports and at committee hearings. Parliamentary committee reviews of audit reports give an impetus to entities in implementing audit recommendations, and to the overall improvement of public administration resulting from performance auditing. In 2009–10, parliamentary committees continued to support audit conclusions and recommendations.

We also use a formal survey to understand how well we are meeting the expectations of parliamentary stakeholders. The 2009 parliamentary survey was the fourth such survey (we conduct the survey every two years).

The research found that a very high proportion of members of parliament and parliamentary committee secretaries had positive perceptions of the ANAO and valued its work highly. The ANAO was seen as playing a crucial role in ensuring accountability and transparency across the public sector. We received positive feedback for our products, our engagement with parliamentarians and the focus of our program.

We also received various suggestions on ways to improve our interactions with parliament. We are acting on those comments, which focused on four key areas applicable to performance auditing:

- *Focus of our products*—The ANAO endeavours to maintain a balance in its performance reporting. We seek a balance between products that address the key risks and challenges facing the Australian Government public sector and individual entities and products that are responsive to a changing environment and stakeholder requests and cover matters of public interest.
- *Accessibility of our reports*—In 2009–10, we reviewed our website and identified areas for improvement.
- *Format of our reports*—We are working to refine our readability and to enable readers to select sections of reports appropriate to their needs.
- *Engagement with members of parliament*—In 2009–10, we engaged extensively with various committees and parliamentarians. This included briefing individual parliamentarians and committees on specific audit topics such as Audit Report No.33 2009–10, *Building the Education Revolution—Primary Schools for the 21st Century*, and Audit Report No.22 2009–10, *Geoscience Australia*.

Review by the Joint Committee of Public Accounts and Audit

The JCPAA is required by the *Public Accounts and Audit Committee Act 1951* to examine all reports of the Auditor-General, and report the results of its deliberations to both houses of Parliament. Its primary purpose in reviewing audit reports is to assess whether audited agencies have responded appropriately to the Auditor-General's findings.

The JCPAA's Report 415, *Review of Auditor-General's Reports tabled between September 2008 and January 2009*, commented on five performance audit reports:

- The review of Audit Report No.4 2008–09, *The Business Partnership Agreement between the Department of Education, Employment and Workplace Relations (DEEWR) and Centrelink*, found that interagency dispute resolution had been improved, but recommended that

agencies fully implement an ANAO recommendation to ensure that the Business Partnership Agreement is kept up to date.

- The review of Audit Report No.7 2008–09, *Centrelink's Tip-off System*, found that Centrelink was acting quickly to implement all ANAO recommendations. However, it was found that Centrelink was still retaining data consisting of unsubstantiated claims against a number of customers and recommended that Centrelink ensure that such information is deleted from the tip-off recording system as soon as it is identified.
- The JCPAA reviewed Audit Report No.11 2008–09, *Disability Employment Services*, and was satisfied with the implementation of the ANAO's recommendations by the Department of Families, Housing, Community Services and Indigenous Affairs and the Department of Education, Employment and Workplace Relations. However, the JCPAA found that the agencies were still not reporting effectively on progress towards achieving their objective of enhancing the quality of life of people with disability, and recommended accordingly.
- The JCPAA reviewed Audit Report No.12 2008–09, *Active After-school Communities Program*, and was concerned with the ANAO finding that some adults working on the program had not completed the appropriate 'working with children' checks, but found in its hearing that those checks had since been completed and were mandatory, and that waivers were no longer available. It recommended that the Australian Sports Commission determine ways to measure the development of motor skills, and that it seek to have funding for the measurement of motor skills development included in its next funding bid.
- The review of Audit Report No.17 2008–09, *Administration of Job Network Outcome Payments*, found that the department was addressing the issues noted in the audit report. However, the JCPAA recommended that the Department of Education, Employment and Workplace Relations provide disaggregated financial data on estimated and actual expenditure on outcome payments.

In 2009, the JCPAA tabled its review of the first Defence major projects report, *Defence Materiel Organisation—Major Projects Report 2007–08* (MPR 2007–08). MPR 2007–08 is made up of a series of Defence Material Organisation (DMO) project data summary sheets, an overview by the DMO and a review undertaken by the Auditor-General. The JCPAA found that setting up the systems that underpin the annual publication of the MPR in a context where major projects are complex and diverse had resulted in challenges for both the ANAO and the DMO. The JCPAA outlined some of the ways the MPR could be improved, including by documenting lessons learned and projecting maturity scores more comprehensively; by DMO reporting further on capability performance data; and by obtaining formal committee approval of project selection. While recognising that improvements can be made to the MPR, the committee was pleased with MPR 2007–08 and congratulated the parties involved on achieving that outcome.

The JCPAA also held hearings into a number of ANAO performance audits during the year. The reports of this work had not been released by 30 June 2010.

Responses from audited entities

Implementation of recommendations made in audit reports is not mandatory, and entities consider each recommendation on its merits. Improvements in administration and accountability and better service delivery are more likely if the recommendations in performance audit reports are agreed to by the audited entity at the time of the audit, and we make genuine efforts to achieve that result. However, disagreement sometimes occurs. When this happens, entity comments are included in full in the final report.

In 2009–10, we made 145 recommendations in our audit reports to improve entity performance and accountability. Our recommendations are sometimes presented in parts for clarity, so it is possible for entities to agree with parts of one recommendation and disagree with other parts. Of the 145 recommendations, 135 (93 per cent) were fully agreed in all parts. Nine recommendations (6 per cent) were agreed with some qualification, and one recommendation was not agreed.

Client survey

After each performance audit report is tabled, the ANAO seeks feedback on the audit process independently from the senior executive responsible for the audited program by means of a survey and an interview with the responsible manager. The survey is completed by a firm of consultants that is engaged by the ANAO, but is independent of the performance audit teams.

The response rate from auditees surveyed for the 2009–10 reporting period was consistent with 2008–09 at 70 per cent. The consultancy firm reported a slight increase in auditees' acknowledgment of the value added by ANAO products and services at 86 per cent (compared to 83 per cent for 2008–09). The percentage of auditees who considered that the auditors had demonstrated they had the professional knowledge and audit skills required to conduct the audit improved markedly during 2009–10 to 90 per cent (compared to 81 per cent for 2008–09).

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

Quality assurance

In accordance with the ANAO's quality assurance (QA) arrangements, a program of QA reviews of selected performance audits was undertaken in 2009–10. The objective of our QA program is to assess compliance with relevant auditing standards and professional requirements and associated quality control policies and procedures. The QA program is managed by the Professional Services Branch under the authority of the Deputy Auditor-General.

The 2009–10 program comprised a review of four performance audits and two assurance reviews. The reviews found that each of the audits and the assurance reviews were undertaken in accordance with relevant auditing standards and associated policies, although in some instances documentation of compliance with policies relating to independence in respect of assurance reviews and supervisory reviews required improvement. The reviews also identified a small number of matters for improvement, including with respect to the presentation of audit criteria in audit reports and better documentation aspects of audit working papers.



Professional Services Branch executive director Brandon Jarrett with Clea Lewis.

A peer review arrangement for performance audits involving the ANAO and the New Zealand Audit Office has been in place since 2000. Two performance audits from each office are reviewed every two years. This arrangement aims to strengthen performance audit practices in both offices through an exchange of constructive feedback and better practice. During 2009–10, the New Zealand Audit Office reviewed two ANAO audits and provided a report to the ANAO.

The reviews found that the audits were conducted in accordance with the relevant auditing standards and contained findings and conclusions supported by the evidence.

The results of the QA reviews are considered by the senior executive and disseminated to all performance audit staff. The results are used to update the ANAO's policies and guidance material, where appropriate, and are taken into account when preparing the performance audit learning and development program.

COMPONENTS COMMON TO PROGRAMS 1.1 AND 2.1

'Assistance to parliament', 'national and international representation' and 'special appropriations' are components of both Program 1.1 and Program 2.1.

This section addresses the ANAO's performance in relation to:

- *Assistance to parliament*—This component aims to provide ministers, shadow ministers, other parliamentarians and parliamentary committees, and their staff, with an understanding of audit reports tabled in parliament and the contribution that the implementation of audit recommendations can make to improvements in public administration.
- *National and international representation*—This component aims to enhance audit capabilities, standards and processes nationally and internationally.

The effectiveness of these components is assessed largely from formal and informal parliamentary and audit client feedback, and from client demand for our services.

The 'Special appropriations' program component relates to the office of the Auditor-General and is reported in the ANAO financial statements.

Assistance to parliament

The Parliament is the ANAO's key client. In 2009–10, we continued to actively support the work of the Parliament by providing briefings and information to ministers, shadow ministers, other parliamentarians and parliamentary committees, and their staff on audit reports tabled in the Parliament.

The Joint Committee of Public Accounts and Audit (JCPAA) is parliament's audit committee. Among its other responsibilities, the committee is the formal link between the Parliament and the Auditor-General. In 2009–10, officers of the ANAO attended 22 private briefings and public hearings as part of the JCPAA's review of audit reports.

In addition to our work with the JCPAA, the ANAO assisted other committees during 2009–10, appearing before:

- the Senate Standing Committee on Finance and Public Administration annual Budget estimates hearings, in October 2009 and February and May 2010, and Inquiry on Independent Arbitration of Public Interest Immunity Claims, in December 2009

- the House of Representatives Standing Committee on Family, Community, Housing and Youth Affairs, in June 2009
- the Senate Standing Committee on Environment, Communications and the Arts, in February 2010
- the Parliamentary Joint Committee on Intelligence and Security, in March 2010.

National and international representation

The ANAO contributes to the development of Australian and international auditing standards and professional practices by participating in relevant national and international forums and assisting countries in our region, in particular Indonesia and Papua New Guinea (PNG).

National representation

At the national level, the ANAO is a member of the Australasian Council of Auditors-General, which comprises the Auditor-General for Australia and the Auditors-General for each Australian state and territory, Fiji, New Zealand and PNG. The council's objective is to promote public sector auditing in the Australasian region through exchanges of experiences and ideas, training initiatives, and cooperation.

We contribute to the council's work by attending business meetings, preparing papers, participating in information exchanges, and undertaking a two-yearly benchmarking survey, annual client surveys, peer reviews and training.

During 2009–10, we responded to over 350 enquiries through our central email address, providing information on a wide variety of subjects related to the auditing profession.



International Relations section head Christine King and executive assistant Colleen Brown.

International representation

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

International Organization of Supreme Audit Institutions

The ANAO participated in several working groups of the International Organization of Supreme Audit Institutions (INTOSAI) during 2009–10, as described in Table 8.

Table 8 Participation in International Organization of Supreme Audit Institutions working groups, 2009–10

Group	Purpose	ANAO participation
Sub-committee on Performance Audit	Disseminating the International Organization of Supreme Audit Institutions Implementation Guidelines for Performance Auditing, developing standards and guidelines for performance audit based on the guidelines, and monitoring and assessing the implications for performance audit of developments and reforms within the public sector and other fields (such as academia).	The ANAO was involved with drafting <i>Establishing a Sustainable Performance Audit Function: High Level Guidelines</i> . The ANAO reviewed and provided comments on the performance auditing standards that were developed by the committee.
Working Group on Environmental Auditing	Improving the use of audit mandate and audit instruments in the field of environmental protection policies, both by members of the working group and by non-member supreme audit institutions (SAIs). The working group pays special attention to joint auditing by SAIs of cross-border environmental issues and policies, and the audit of international environmental accords.	The working group met in June 2010 but, due to other work priorities, the ANAO was unable to attend.
Working Group on IT Audit	Supporting SAIs in developing their knowledge and skills in the use and audit of IT by providing information and facilities for exchanges of experiences, and encouraging bilateral and regional cooperation.	An ANAO representative attended the 19th meeting of the working group, held in Beijing, China, in April 2010. The ANAO also offered to develop, and later developed, a draft process/decision tree and initiation and reporting templates, which were discussed at the meeting.
Working Group on the Audit of Privatisation, Economic Regulation and Public–Private Partnerships	Responding to the increasing role of the private sector in providing what had previously been seen as ‘public’ services, such as electricity and transport. That involvement takes many forms, including privatisations, contracting out and public–private partnerships.	The ANAO exchanged information and participated in telephone discussions during 2009–10, but did not attend the 16th annual meeting of the working group.
Working Group on Value and Benefits of SAIs	The Chinese National Audit Office chaired this working group, which undertook the task of researching the topic with the assistance of other member SAIs.	The ANAO reviewed and commented on papers.

Asian Organization of Supreme Audit Institutions

The ANAO provided articles and participated in opportunities to share information with its Asian Organization of Supreme Audit Institutions (ASOSAI) counterparts during 2009–10. In September 2009, an ANAO representative presented a paper to the ASOSAI Seminar of Social Security Audit, hosted by the Chinese National Audit Office in Beijing. The focus of the seminar was on auditing disaster-related aid and government-subsidised housing. The ANAO representative presented a paper on the ANAO's approach to auditing disaster-related aid, chaired one day of the seminar, was the rapporteur for another day and gave one of the closing speeches of the seminar.

Pacific Organisation of Supreme Audit Institutions

The ANAO is a member of the Pacific Organisation of Supreme Audit Institutions (PASAI), and attended the 12th PASAI Congress, which was held in Palau, on 20–24 July 2009. The ANAO offered to provide the newly established PASAI Secretariat with a range of training materials to assist it in building the capacity of PASAI members.

An ANAO representative also participated in the Cooperative Environmental Performance Audit, along with representatives of New Zealand's Office of the Auditor-General and the INTOSAI Development Initiative. The audit required commitment from PASAI members and was finalised in March 2010.

Auditors-General Global Working Group

The Auditors-General Global Working Group is an international forum of 18 Auditors-General who meet to hold organised but informal discussions on current and emerging issues of concern to their governments and offices, and to explore opportunities to share information and work closely together.



Auditors-General Global Working Group.

Current members of the group are Australia, Canada, Denmark, France, Germany, India, Ireland, Italy, Japan, Mexico, Morocco, the Netherlands, Norway, New Zealand, South Africa, Sweden, the United Kingdom, and the United States.

In 2009–10, Australia hosted a meeting of the group for the first time: the 11th global working group meeting was held in Sydney from 23–25 March 2010. Discussion themes included:

- issues and challenges for national audit offices following the global economic crisis
- defence major acquisitions—the issues, and lessons learned by audit offices
- fraud and corruption—the challenges in detecting and preventing fraud and corruption
- auditing third-party service providers—the issues facing audit offices when governments undertake service provision through public–private partnerships.

Guest speaker Steve Gumley, Chief Executive Officer, Defence Materiel Organisation, presented a paper on major project acquisition and risk management.

Indonesian Board of Audit

Under the Government Partnership Fund administered by AusAID, the ANAO was provided with funding for a five-year project to assist the Indonesian Board of Audit (the Badan Pemeriksa Keuangan, or BPK). In 2009–10, ANAO staff conducted a number of performance and financial audit training courses in Jakarta. Two BPK staff were also seconded to the ANAO to develop their skills in financial auditing.

This project will strengthen the BPK's capacity to conduct performance and financial audits, and fits within the Australian Government's broad initiative to assist capacity building in Indonesia. The BPK has a key role in addressing fraud and corruption.

In August 2009, the Auditor-General attended the BPK Advisory Board tsunami-related audit meeting. This was the final meeting of the advisory board.

In 2009–10, the ANAO deployed a senior officer to work in BPK. The ANAO sees this additional activity as another positive step in our good working relationship with BPK.



Presentation of Honorary Award of Bintang Jasa Utama (First Class Medal of Honour) to the Auditor-General. Left to right: Anya Moore, Steve Chapman, Ian McPhee, His Excellency Primo Alui Joeliananto and Wayne Jones.

On 26 February 2010, the Australian Auditor-General was awarded the First Class Medal of Honour by the Indonesian Ambassador, His Excellency Primo Alui Joelianto.

The award recognised the contribution of the Auditor-General and the ANAO to the Government of Indonesia in promoting the transparency and accountability of public finance, especially in the audit of natural disaster management in Aceh and Nias, and their contribution to best practice and capacity building in auditing.

The ANAO's contribution to the BPK has been strongly supported by AusAID and the Department of Foreign Affairs and Trade under Australian Government assistance programs.

Papua New Guinea Auditor-General's Office

Under the AusAID-funded Strongim Gavman Program, two senior ANAO officers are posted to the PNG Audit Office. The program is a whole-of-government engagement involving Australian Government entities that provide capacity development assistance and advice to counterpart PNG Government entities. The program's overarching goal is to assist the PNG Government to strengthen public sector performance in selected sectors and entities.

The Australian National Audit Office – Papua New Guinea Audit Office Twinning Scheme aims to develop the knowledge and skills of graduates and to build the capacity of the PNG Audit Office. Under this AusAID-funded scheme, two staff of the PNG Audit Office have been seconded to the ANAO to develop their skills in financial auditing. The New South Wales Audit Office also contributed to the program by accepting two secondees funded by the PNG Audit Office.

During 2009–10, two PNG Audit Office audit managers spent two months with the Queensland Audit Office, working and learning with audit teams in Brisbane.

In 2009–10, the ANAO's Chief Information Officer made a return visit to the PNG Audit Office to provide advice and guidance on improving the performance of the office's wireless network, including advice on developing IT policies.

International visitors

The ANAO contributes to the development of other audit offices by hosting international visitors and groups throughout the year. During 2009–10, we hosted 15 short-term visits for a total of 107 delegates from a number of countries, including China, Finland, Indonesia, Iraq, Japan, Korea, Kuwait, Mongolia, PNG, the Philippines, the United Kingdom and several Pacific island nations, including the Federated States of Micronesia, Kiribati, Samoa, Solomon Islands, Tonga and Tuvalu. Other visitors were from the Organisation for Economic Co-operation and Development Commission and the International Monetary Fund. Delegates provided very positive feedback on their visits.

By mutual agreement, the exchange programs between the ANAO and the Office of the Auditor-General of Canada and the Office of the Comptroller and Auditor General of Ireland were scaled back in 2009–10 because of budget pressures. One staff member from our IT audit area was seconded to Canada for eight weeks (in 2008–09, an officer was seconded to Canada for three weeks and to Ireland for two weeks).

International peer review of the Office of the Auditor General of Canada

In 2009–10, the ANAO led an international peer review of the Office of the Auditor General of Canada (OAG). The peer review team also included representatives from the supreme audit institutions of Denmark, the Netherlands, Norway and Sweden. The objective of the peer review was to provide an independent opinion on whether the OAG's Quality Management System (QMS) was suitably designed and operating effectively to provide reasonable assurance that the work of the OAG complied with relevant legislative authorities and professional standards. The scope of the peer review included all audit and assurance practice lines (performance audit, special examination and annual audit), as well as key services that directly support the practice lines.

The peer review team found that, for the period under review, the QMS was suitably designed to provide reasonable assurance that the work of the OAG complied with relevant legislative authorities and professional standards. Also, the QMS was operating effectively for the performance audit and special examination practices. For the annual audit practice, the QMS was generally operating effectively, but there were implementation issues in relation to the completeness of risk assessment procedures and the sufficiency of audit documentation.

The peer review report, *International Peer Review of the Office of the Auditor General of Canada, May 2010*, included two recommendations to improve the completeness of risk assessment procedures and the sufficiency of audit documentation. The OAG agreed to the recommendations. The report also included suggestions for the OAG to consider as it continues to improve its audit practices, and described several good practices adopted by the OAG. Those practices include the OAG's approach to managing its relationship with the Parliament of Canada, its effort to disseminate a clear and consistent message in its performance audit reports and its support for collaborative audits.

Other information services

In addition to our primary role of providing independent assurance and advice to the Parliament, we also support and advise audit clients on matters that complement our primary role and fall within our area of expertise.

As part of this work, we arrange seminars to advise on topical and emerging issues, with a focus on improved financial reporting. The seminars, which continue to generate a great deal of interest, were well received by attendees.

During the year, a number of our staff accepted invitations to speak to Australian Government entities and other bodies on topical matters and issues arising from audit reports and better practice guides. More information on those presentations is in Appendix 5.

We periodically publish two newsletters to inform entities of audit-related items of general interest and to provide technical accounting and auditing information:

- *AUDITFocus* captures lessons from our audit work that are likely to be of general interest and application to entities. The three editions published in 2009–10 included articles on a range of issues, including 'Online Availability of Documents tabled in the Parliament', 'Data Analysis in ANAO Audits', 'Contract Management', and 'Grants Administration'.
- *Opinions* gives audit clients information on developments in financial reporting and disclosure, together with details of performance audit activity and our better practice guides. Three editions were published in 2009–10.

Both newsletters are available from our website.

Performance measures

In 2008–09, the distribution of costs of the ‘assistance to parliament’ and ‘national and international representation’ program components was 68 per cent to Program 1.1 and 32 per cent to Program 2.1.

The following sections describe the ANAO’s performance in terms of other measures, including the satisfaction expressed by clients and stakeholders.

Perceptions of services to parliament

We conducted a parliamentary survey in 2009 to obtain feedback on the extent to which the ANAO’s products and services meet the needs of parliamentarians. The survey found that senators, members of parliament and parliamentary committee secretaries had overall positive perceptions of the ANAO and highly valued our work. Our next parliamentary survey is scheduled for the first half of 2011.

The JCPAA Committee secretary wrote to the Auditor-General in July 2010 with the following words of appreciation:

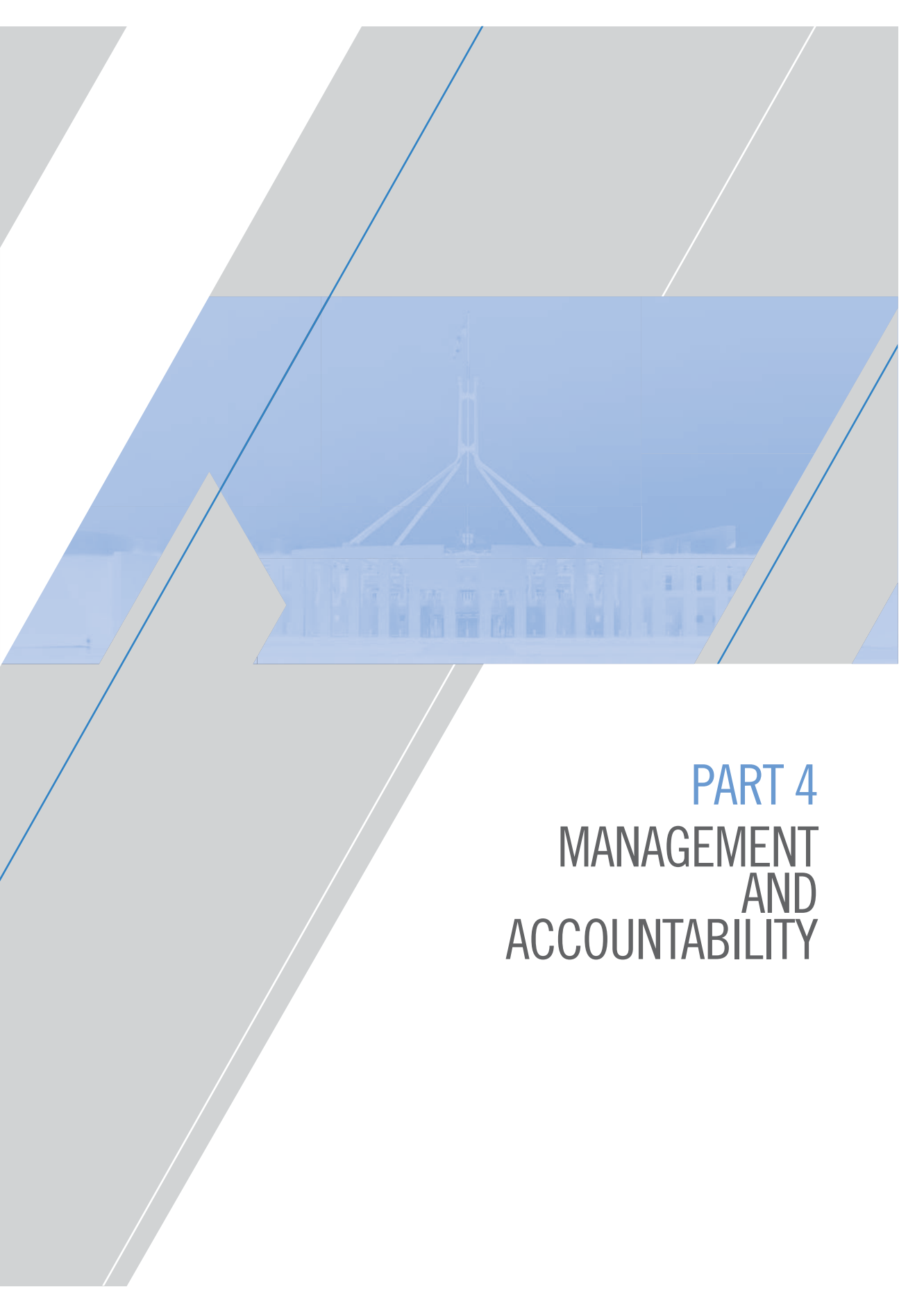
I am writing on behalf of the JCPAA secretariat to thank you and your colleagues for your ongoing support for the Committee’s work during what has at times been a particularly demanding Parliament. The ANAO’s professional advice and the accessibility of your staff has been appreciated, and has greatly assisted the secretariat in our work on behalf of the Committee.

Effectiveness of representative activities

The ANAO had extensive interaction with other supreme audit institutions during 2009–10. As an indication of the value placed on ANAO involvement, we participated in the review of draft documentation produced by the INTOSAI Working Group on Value and Benefits of Supreme Audit Institutions, a peer review with the Office of the Auditor-General of Canada, and numerous requests to respond to surveys on a range of governance and audit-related issues.

Seminar participation and satisfaction

The five financial reporting seminars that we conducted in 2009–10 attracted a total attendance of more than 450 representatives of government entities. Over 97 per cent of attendees who provided feedback indicated that the seminars met their objectives and that the course content was useful.



PART 4

MANAGEMENT AND ACCOUNTABILITY

CORPORATE GOVERNANCE

We support the delivery of our outputs through a structured corporate governance framework that facilitates the effective management of our business initiatives and other corporate activities. Key elements of our corporate governance arrangements are outlined in this section.

Executive Board of Management

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

The board meets each month. At 30 June 2010, the board comprised:

- Ian McPhee (Chair), Auditor-General
- 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
- Andrew Pope, Group Executive Director, Indigenous Programs
- Ian Goodwin, Principal Adviser
- Anya Moore, Executive Director, Corporate Management Branch
- Anthony Howatson, Chief Finance Officer.

The board has established three subcommittees, details of which are set out below.



The Executive Board of Management. Front, left to right: Anya Moore, Steve Chapman, Ian McPhee, Andrew Pope. Back, left to right: Anthony Howatson, Warren Cochrane, Peter White, Michael Watson and Anne-Maree Kape (secretariat). Absent: Matt Cahill and Ian Goodwin.

Audit Committee

Our Audit Committee fulfils the requirements of section 46 of the FMA Act, 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
- assist the Auditor-General to comply with all legislative and other organisational objectives.

The Audit Committee met four times in 2009–10. At 30 June 2010, its membership comprised:

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

Observers included Geoff Wilson, independent auditor; Peter Bell, internal auditor from Ernst & Young; Anya Moore, Executive Director, Corporate Management Branch; and Anthony Howatson, Chief Finance Officer.

Information Strategy Committee

The Information Strategy Committee assists the Executive Board of Management with strategic advice, policy and business proposals on matters relating to information management and information and communications technology. The committee met 11 times in 2009–10.

At 30 June 2010, its membership comprised:

- Steve Chapman (Chair), Deputy Auditor-General
- Matt Cahill, Group Executive Director, Performance Audit Services
- Wayne Jones, Executive Director, Assurance Audit Services
- Anya Moore, Executive Director, Corporate Management Branch
- Gary Pettigrove, Chief Information Officer.

The Information Strategy Committee is required to submit an annual report to the Executive Board of Management. The 2009 report dated December 2009 presented advances in our IT platform and support to clients, staff, systems and operations, and outlined planning for 2010.

People and Remuneration Committee

The People and Remuneration Committee is an advisory body to the Executive Board of Management and is responsible for making decisions in relation to remuneration policy and human resource management policies and practice, including the ANAO Strategic Workforce Plan and the staff survey. The committee met once in 2009–10, but was active in providing advice to the management enterprise bargaining team from July to November 2009.

At 30 June 2010, its membership 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
- Anya Moore (Secretariat), Executive Director, Corporate Management Branch.

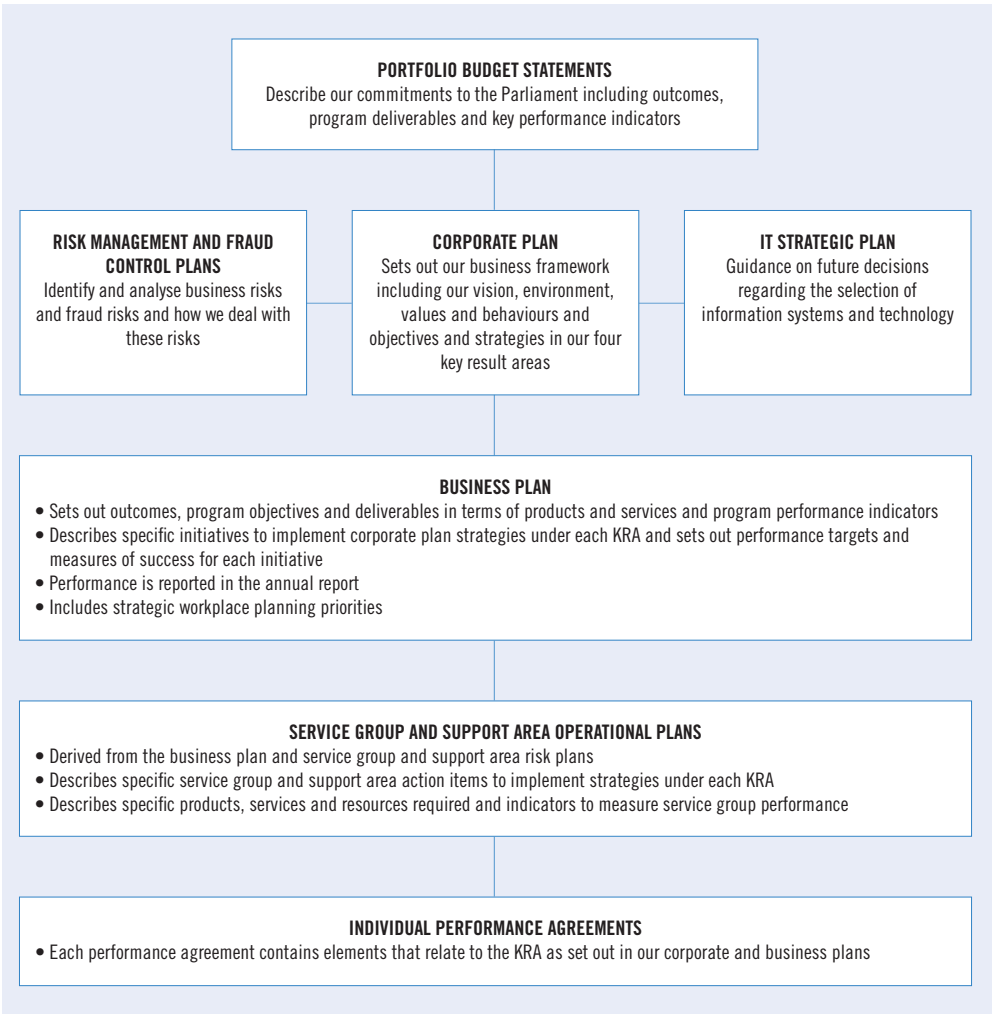
Specific purpose committees

In addition to the subcommittees mentioned above, specific-purpose committees are established from time to time; for example, the Changepoint Project Board, which deals with our practice management system, reports to the Information Strategy Committee and the Executive Board of Management.

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 a three-year rolling plan that is reviewed annually. The plan is the defining document for all planning and other strategic and operational activities for the three years from 2009 to 2012. It outlines our vision, role and shared values, and sets out our objectives and strategies in four key result areas:

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

Business Plan

The Business Plan is our annual planning document, and is derived from the Corporate Plan. The plan outlines our Portfolio Budget Statement commitments, supplementary business objectives and specific initiatives in support of Corporate Plan strategies for the coming year.

All action items from the 2009–10 Business Plan projects were either completed or are ongoing activities. In particular, we met our targets for products and services, implemented our practice management system, and completed our work with AusAID.

Risk management framework

The ANAO risk management framework comprises an overarching ANAO Risk Management Policy and Risk Management Plan and individual risk management plans for each service group and support branch. The Risk Management Plan, reviewed by the Audit Committee, underpins our corporate governance framework. The plan complies with the new international standard ISO 31000:2009. All our risk plans are updated at least annually.

The annual review is designed to take into account any changes in our operating environment, including revised business requirements and changes in our control environment. In essence, our approach to risk management identifies risks associated with our business objectives. The risks are considered at both strategic and operational levels; in particular, we consider how the risks relate to our strategic and business planning processes by addressing the following questions:

- Are 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 is among our most valued corporate attributes, and all significant business risks identified in the Risk Management Plan are linked to an overarching reputational risk. The Executive Board of Management provides for the review of any serious risk incidents each month, and any risk assessed as 'high' or above is monitored as a standard agenda item. Our policy requires that all our business risks be reviewed at least annually. There were no serious risk incidents in 2009–10, and all risks were assessed as being acceptable with appropriate controls in place.

We take part in the annual Comcover Risk Management Benchmarking Survey to independently assess our risk management arrangements. We achieved a top 10 result in the 2010 survey, which means the ANAO is recognised 'as a leader in the field of risk management within the Australian Government'. Our score was 8.1 across a comprehensive assessment of 10 key elements, compared with a total survey average of 6.3 for the 130 participating entities and a peer group average of 7.1 for the 18 entities in our peer group. As a result, our annual Comcover premium was reduced by 6.7 per cent.

Fraud control framework

The ANAO maintains a comprehensive Fraud Risk Assessment and a Fraud Control Plan in accordance with the requirements of the *Commonwealth Fraud Control Guidelines*. The Fraud Control Plan is an important strategic plan linked to our risk management framework and draws all our fraud prevention and detection initiatives together into one consolidated document.

Our major concern is the risk to our reputation should fraudulent activity occur. Therefore, we periodically review the fraud control framework to take into account changes in our operating environment. We also review the Fraud Risk Assessment and the Fraud Control Plan at least every two years. The 2010–12 Fraud Control Plan and the Fraud Risk Assessment reviews were completed in June 2010. The Executive Board of Management agenda provides for the review of any serious fraud risk incidents each month, and any fraud risk assessed as 'high' or above is monitored as a standard agenda item. The Fraud Risk Assessment and Fraud Control Plan were reviewed by the Audit Committee and approved by the Executive Board of Management.

There were no known incidents of fraud in 2009–10. All fraud risks were assessed and appropriate controls are in place.

The Auditor-General's fraud control certification follows.



Auditor-General for Australia



Annual Report 2009-10 – Fraud Control Certification

I, Ian McPhee, Auditor-General for Australia, certify to the Minister for Finance and Deregulation that I am satisfied that the Australian National Audit Office has:

- conducted fraud risk assessments and prepared fraud control plans that comply with the Commonwealth Fraud Control Guidelines;
- put in place appropriate fraud prevention, detection, investigation and reporting procedures and processes; and
- collected and reported annual fraud data in compliance with the Commonwealth Fraud Control Guidelines.

Ian McPhee

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Information services staff Cable Dohnt, Greg Spencer, Gary Pettigrove and Danielle Prieto.

Information systems and technology strategic plan

The 2009–12 Information and Communications Technology (ICT) Strategic Plan is a three-year plan designed to guide future decisions about the selection and management of information services and technology. It is linked to our Corporate Plan and Business Plan, and facilitates business operations to enable us to achieve our objectives in the four key result areas set out in our Corporate Plan.

Our external auditor conducted a performance audit to assess the effectiveness of ICT management in the ANAO. The outcome of the audit is discussed below under ‘External audit’.

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 that status.

The ANAO *Guide to Conduct*, which is given to all staff and is part of our induction training, 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 Australian Public Service (APS) Values and the APS Code of Conduct set out in the *Public Service Act 1999*. It also refers to *APS Values and Code of Conduct in Practice: A Guide to Official Conduct for APS Employees and Agency Heads*, a package produced by the Australian Public Service Commission.

The *Guide to Conduct* reflects our core values and behaviours, which are based 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 key result areas. Two SES conferences were conducted during 2009–10, the first in November 2009 and the second in March 2010.

The key theme of the November conference was the development of the 2010–12 Corporate Plan. In particular, the 12 objectives and 13 strategies in our four key result areas were identified to reflect changing business circumstances. This was the first SES conference to include representation from our newly integrated Indigenous Programs area.

The work from the November conference informed the development of the 2010–11 Business Plan, which was the main theme of the March conference. The March conference also addressed enhanced governance activities in relation to the internal reporting of our strategic and operational commitments and performance measures and identified 25 initiatives to give effect to the Corporate Plan strategies (which are to be achieved over three years) together with appropriate performance targets and measures of success for each initiative.

External and internal scrutiny

External audit

Section 41 of the *Auditor-General Act 1997* establishes the position and provides for the appointment of an independent auditor who undertakes the audit of our financial statements and carries out selected performance audits.

Our independent auditor is Geoff Wilson, National Managing Partner, KPMG Audit and Risk Advisory Services.

We received an unqualified audit opinion on our financial statements for the year ended 30 June 2010.

The independent auditor completed a performance audit, the *IT Performance Review*, in May 2010. The objective of the audit was to assess the effectiveness of ICT management across the ANAO's key applications and systems. The auditor found that our ICT management was effective and that we are well positioned compared with 13 other government agencies previously reviewed by the auditor. No formal recommendations were raised as part of this review; however, three improvement opportunities were identified. Two were in relation to enhancing the ICT Strategic Plan and the third addressed emergency back-up and recovery documentation. The three improvement opportunities were accepted by the ANAO and have since been implemented.

Internal audit

The Audit Committee reports to the Auditor-General on our internal audit function, providing assurance about the integrity of our systems and processes and identifying opportunities for improvement.

The internal audit program continued to have a strong emphasis on compliance and consequently a focus on corporate functions. In 2009–10, the ANAO completed audits of:

- the fraud control framework
- the certificate of compliance process
- risk management plan implementation, including business continuity and disaster recovery planning
- annual compliance reviews assessing base financial processes
 - purchasing
 - receipting
 - cheque procedures
 - asset management
 - bank account management
 - management of travel/credit cards
 - records management.

At 30 June, planning was underway for audits of:

- workforce planning systems and tools
- the time off in lieu process
- stakeholder management

- professional training
- managing payroll.

The completed audits found that, overall, the audited activities were operating satisfactorily, and made a number of recommendations designed to improve performance in those areas. All recommendations were addressed, are being addressed, or have been modified to the satisfaction of the internal auditor.

Benchmarking

The Australasian Council of Auditors-General Macro Benchmarking Project has been conducted annually since 1994. The overall aim is to provide, to the extent practicable, comparable information to audit offices across Australasia on quantitative and qualitative benchmarks of audit office operations and on specific characteristics of each jurisdiction.

ORIMA Research was commissioned to conduct the 2008–09 survey and to prepare the *Macro Benchmarking Report*. The ANAO participated in the survey, and the final report was released in December 2009. Benchmarking measures covered areas such as resourcing and operations, assurance audit activity, performance audit activity, and human resources.

No conclusions were drawn from this benchmarking project; however, a comprehensive set of data was produced, which is useful in identifying comparative performance in a wide range of subjects and activities relevant to our business.

Independent Review of Government Advertising

The ANAO made a very significant difference in promoting better administration in relation to government advertising campaigns through our review work under the 2008 *Guidelines on Campaign Advertising by Australian Government Departments and Agencies*. A review of the guidelines was commissioned by the Department of the Prime Minister and Cabinet and the Department of Finance and Deregulation. Dr Allan Hawke was appointed on 27 January 2010 to conduct the review.

In March 2010, the Government announced that it had decided to institute new arrangements in respect of government advertising campaigns. Rather than requesting the ANAO to undertake these reviews in future, the Government established a panel of three former public servants to review campaigns against revised guidelines. The Auditor-General has been requested to undertake an annual performance audit of the new arrangements.

Parliamentary committees

The Auditor-General contributed to public hearings that the JCPAA held on the role of the Auditor-General in scrutinising government advertising campaigns. The inquiry lapsed when Parliament was prorogued on 19 July 2010 for the federal election.

At the beginning of 2010, the JCPAA commenced an inquiry into the *Auditor-General Act 1997*. The inquiry lapsed when Parliament was prorogued on 19 July 2010 for the federal election.

The ANAO appeared before the Senate Finance and Public Administration Legislation Committee Budget Estimates hearings on 25 May 2010.

Advisory Group on Reform of Australian Government Administration

In November 2009, the ANAO made a submission to the Advisory Group on Reform of Australian Government Administration, which in March 2010 published its report, *Ahead of the Game—Blueprint for the Reform of Australian Government Administration*. The report puts forward a comprehensive suite of measures designed to prepare the APS for the challenges and opportunities of a rapidly changing Australia. The ANAO's submission was based on observations from its audit work and better practice guides and focused on the APS Values and Code of Conduct; the increasingly complex policy environment; improvements to service delivery; contract management and negotiation skills; workforce planning; and a framework for monitoring the efficiency and effectiveness of the APS.

Decisions by courts and tribunals

No decisions by courts or tribunals affected the ANAO during 2009–10.

Commonwealth Ombudsman

The Commonwealth Ombudsman made no reports to the ANAO under sections 15, 16 or 19 of the *Ombudsman Act 1976* during 2009–10.

MANAGEMENT OF HUMAN RESOURCES

The ANAO has a comprehensive human resources management framework that is designed to recruit, develop and retain high-quality people.

Staff survey

Each year, we carry out a staff survey which gathers information about areas of staff interest and concern, with the aim of improving our human resources management. The survey also informs an assessment of our performance against Business Plan targets, which are set out in Table 9.

Table 9 Measures of staff satisfaction and performance

Key performance indicators	2009–10 target	2009–10 result
Staff satisfaction is at an acceptable level.	>70% (measured by staff surveys)	65% ^a
Staff turnover is at an agreed level.	<25% turnover	16.7% ^b
Public sector organisations acknowledge understanding and skills of ANAO staff through client satisfaction surveys.	90% of agencies agree that ANAO staff have the necessary skills to carry out the audit work.	Assurance Audit Services: 94% ^c Performance Audit Services: 90% ^d
Professional development programs result in an improvement in the level of performance of staff.	Staff and supervisors acknowledge an improvement in the level of on-the-job performance (measured by staff surveys).	Of the staff surveyed: <ul style="list-style-type: none"> • 73% indicated that the professional development they received helped them to improve their performance • 38% indicated that the improvement was high to very high • 46% indicated a moderate improvement
Staff acknowledge ANAO values and behaviours are exhibited in the workplace.	85% (measured by staff surveys)	An average of 77% of staff surveyed agreed that the ANAO values and behaviours are exhibited in the workplace. ^e We are analysing this result with a view to developing improvement initiatives.

a ANAO staff survey, July 2010.

b An ANAO-wide target which measures the number of staff leaving as a percentage of total ANAO staff.

c Assurance Audit Services Group client survey, April 2010.

d Performance Audit Services Group client survey, August 2009.

e ANAO staff survey, July 2010.

Workforce planning

Planning approach

Our Strategic Workforce Plan 2009–11 focuses on the links between developing a workforce that is capable, agile and sustainable, and achieving our business objectives.

The plan includes both immediate and longer term workforce planning strategies. The plan also provides for the identification and implementation of high-priority tasks, including identifying key risks and associated mitigation strategies so that we can successfully execute our audit mandate now and into the future. The People and Remuneration Committee monitors and evaluates the implementation of the strategic priorities in the Strategic Workforce Plan.

An important element of the Strategic Workforce Plan is developing our workforce capability. In 2009–10, we invested in learning and development initiatives to build on internal capability. There was a greater emphasis on technical training and investment in developing the leadership skills of aspiring managers and senior managers.

In 2009–10, the Assurance Audit Services Group began to design and develop a specific workforce plan to better reflect its human resource management risks. The plan builds on the agency-wide Strategic Workforce Plan.

Staff turnover

Staff turnover in the ANAO for 2009–10 was around 16.7 per cent (ongoing staff only), and the average length of tenure for staff was five years. Table 10 highlights the differences in length of tenure across the various classifications for ANAO staff.

Table 10 Length of tenure across various classifications at 30 June 2010

Classification	Average length of tenure (years)
Australian Public Service 1–3	3.4
Australian Public Service 4–6	3.7
Executive Level 1–2	6.6
SES	12.3

Staff recruitment and retention

Competition for qualified and experienced staff is one of the identified key risks to human resource management in the ANAO. In 2009–10, we planned to focus on this risk, and adopted a range of strategies to recruit and retain skilled employees.

Employment opportunities with the ANAO continued to attract strong fields of high-quality applicants in 2009–10. We were also more successful in retaining our valued existing staff in 2009–10 than in previous years.

Our success in retaining staff was assisted by a downturn in the financial sector labour market associated with the global financial crisis. Employment market trend information suggests that this downturn will not continue, and that the labour market for accounting and audit staff will expand in 2010–11. In 2009–10, we set plans in place to respond effectively to an expected increase in staff turnover.

We also implemented a range of activities to encourage staff to make and build their careers at the ANAO. In particular, we:

- strengthened our learning and development program, continued our successful leadership and secondment and exchange programs, and promoted our mentoring program
- improved our focus on the people management aspects of individual roles—for example, by providing performance feedback training.

Staff induction

During 2009–10, we maintained our existing approach to induction, including the provision of extensive information for new starters to complement the advice provided during the recruitment process.

Work on a comprehensive review of the ANAO's induction practices and procedures is nearing completion. The review aims to develop a structured and efficient process, including an e-induction tool and interactive modules, to guide prospective recruits and new employees

through the initial phases of their employment. Under the new approach, managers and work areas will interact to facilitate a smooth and successful transition for new recruits into the ANAO.

Workforce management

Enterprise agreement

In June 2009, following a consultation process, staff rejected a proposed enterprise agreement to replace the ANAO Workplace Agreement 2006–09. Negotiations recommenced in mid-2009, with a second proposed agreement being offered to staff in late 2009. The ANAO Enterprise Agreement 2009–11 was accepted by staff and took effect on 13 January 2010.

Workplace Consultative Forum

The Workplace Consultative Forum plays an important role in facilitating consultation on a range of operational and strategic issues affecting staff in the workplace. The forum comprises six staff-elected representatives and three management-appointed representatives. In 2009–10, the forum met formally twice, and informally on several occasions, to discuss and consider a range of employment issues, including the new Canberra office accommodation refurbishment arrangements.

Performance assessment and performance pay

Our Performance Assessment Scheme provided for three levels of performance pay in 2009–10. In 2009–10, staff rated as ‘fully effective’ during the 12-month performance cycle were eligible to receive a 1 per cent salary increase; staff rated as ‘more than fully effective’ were eligible for the 1 per cent salary increase and a 3 per cent performance bonus; and staff rated as ‘outstanding’ were eligible for the 1 per cent salary increase and a 7 per cent performance bonus.

With the commencement of the ANAO Enterprise Agreement 2009–11, the assessment scheme was changed to exclude the 1 per cent salary increase. However, this had no impact on the payments made during 2009–10.

A summary of ratings for the reporting cycle is set out in Table 11. Graduates, non-ongoing staff and ongoing staff with less than six months employment during the performance cycle are not eligible for a performance bonus.

Table 11 Summary of performance ratings for the period ending 31 October 2009

Rating	Outstanding	More than fully effective	Fully effective	Unsatisfactory	Total
ANAO Bands 3 and 4 (EL 1 and 2)	7	65	61	0	133
ANAO Bands 1 and 2 (APS 1–6)	1	53	95	0	149
Total	8 (3%)	118 (42%)	156 (55%)	0	282

APS = Australian Public Service, EL = Executive Level

In 2009–10, a total of \$0.546 million in performance bonuses was paid to eligible staff (\$0.523 million in 2008–09). Aggregated information on performance pay is set out in Appendix 2, Table A2.8.

Senior executive remuneration

Salaries for Senior Executive Service (SES) staff 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 contributions to our business outcomes are key factors in setting SES salaries. SES remuneration is set out under Note 10 of our financial statements, presented in Appendix 1.

Professional development

Learning and development

With strategic guidance provided by our Learning and Development Committee, the ANAO continued to commit considerable resources to training staff and enhancing our key in-house capabilities.

In 2009–10, we continued to provide a blended solution of technical and general skill courses. A broad range of general training was conducted in-house to enhance coverage across the various classification levels and to provide a cost-effective means of developing our people and our client management capability.

Our delivery of technical training continued to improve as staff in the Performance Audit Services Group undertook train-the-trainer activities. A small group of experienced senior managers from the Assurance Audit Services Group provided a series of technical workshops to financial statement audit staff. This was complemented by regular technical updates provided by our Professional Services Branch.

In 2009–10, the ANAO developed a new system to administer and report on learning and development activities. The benefits of the system will include an online facility for course nominations and enhanced reporting capability. The system is expected to be operational early in 2010–11.

Individual development plans

Individual development plans are a key component of the ANAO's performance management framework. Staff are encouraged to identify their individual training and development needs with their manager, using guidance material in the form of:

- the annual learning and development calendar and course outlines
- progression listings, which identify specific tasks and behaviours sought at each classification level across the office (drawing on the ANAO's capability framework)
- learning options, which detail the recommended learning courses and programs by staff classification and work area.

Secondment and exchange program

The secondment and exchange program provides an opportunity for our staff to work in other organisations to enhance their skills and knowledge. Exchange placements provide participants with a range of valuable experiences and are viewed as an important development opportunity.

This arrangement is also a reward for sustained high performance and forms part of our retention strategy.

The diverse knowledge and experience of incoming program participants, as well as their potential to supplement the workforce during peak periods, also bring many benefits to the ANAO.

In 2009–10, one staff member from our IT Audit area was seconded to Canada for eight weeks, and one Canadian Audit Office staff member spent time working in the ANAO. The parties hope to increase the number of program participants in 2010–11.

Details of the secondments and exchanges to and from the ANAO are outlined in Table 12.

Table 12 Secondment and exchange program participants in 2009–10

Exchange type	Organisation	Participant
ANAO staff visiting other organisations	Airservices Australia	Ken Weir
	Audit New Zealand	Peta Martyn
	Australian Customs and Border Protection Service	Kara Ball
	Comsuper	Mary Han
	Joint Committee of Public Accounts and Audit	Stewart Ashe
	Office of the Auditor-General of Canada	Leigh Pierce
Staff from other organisations visiting the ANAO	Centrelink	Wayne Woodford
	Department of Immigration and Citizenship	Kay Robinson
	Department of the Treasury	Ryan Wilson
	Indonesian Board of Audit (BPK)	Roni Sitorus
		Rika Susanthi
		Gede Adnyana
		Beni Subena
	National Archives of Australia	Danielle Wickman
	Office of the Auditor-General of Canada	Melissa Amelung-Creighton
	Papua New Guinea Auditor General's Office	To'oro Aveve
		Jamie Kora
		Paulson Undi
		Collin Pake
		Tony Harakuwe
		Tep Miti

Professional qualifications and studies assistance

During 2009–10, the ANAO supported 82 staff members who undertook study programs: 60 who participated in Institute of Chartered Accountants in Australia (ICAA) or CPA Australia programs, and 22 who undertook postgraduate university study. Table 13 lists staff members who successfully completed ANAO-supported studies during the year.

Table 13 Summary of studies completed by staff members in 2009–10

Qualification	Staff member
Australian and New Zealand School of Government—Executive Masters of Public Administration	Stephen Cull
Certified Public Accountant (CPA) Australia	Martin Fox Matt Geysen Andrew Hapiak Ken Weir
Graduate Certificate in Applied Finance (online learning)	William Fitzgerald
Institute of Chartered Accountants in Australia (ICAA)	Cathy Khuu
Institute of Company Directors Diploma	Russell Eade

Graduate and undergraduate programs

Nineteen graduates commenced employment in the ANAO on 1 February 2010. Following a one-week orientation program, the graduates were placed in roles in:

- the Assurance Audit Services Group—Patricia Duong, Padideh Malcolm, Daniel Mobilia, Archana Moses, Reann Norman, Eric Phoummatthep, Fiona Sheppard, Shehan Silva, Dunstan Vella, Christopher Watt
- the Performance Audit Services Group—Chloe Andrew, Melanie Hall, Michael Kozakos, Isabelle Macgregor, Tessa Osborne, Robert Pincini, Danielle Sheehan, Clare Spring, Cienna Turpie.

During their 12-month program, the graduates undertake:

- either financial or performance audits, in small teams (usually comprising two to five staff)
- an intensive learning and development program, including technical, people management and general training and skill development
- a short-term rotation within the ANAO, which is intended to enhance their overall development and provide an appreciation of the ANAO's broader operations.



The Auditor-General, Ian McPhee, with the 2010 graduates.

At the end of the year, all graduates may apply and be assessed on merit for promotion in the ANAO.

During 2009–10, we continued to foster a productive relationship with the Australian National University, the University of Canberra and the ICAA to recruit students for the ANAO undergraduate program. This program involves the ANAO employing students studying for tertiary qualifications on a part-time basis. It is an excellent vehicle for transitioning undergraduates into the ANAO graduate program; three undergraduates were advanced into the 2011 graduate intake.

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, including in such areas as client service, people management, business management, and audit management and innovation.

The award system comprises the Auditor-General's Annual Awards for Outstanding Achievement, the National Australia Day Council's Australia Day Achievement Medallions, and the Auditor-General's Certificate of Appreciation.

Table 14 lists the recipients of achievement awards and medallions in 2009–10.

Table 14 Recipients of awards in 2009–10

Award	Recipient	Reason
Auditor-General's Annual Awards for Outstanding Achievement	Rebecca Reilly	For her significant contribution to recruitment in the Assurance Audit Services Group over several years while continuing to focus on high-quality audits and client service
	David Evans, Robert Douros, Jake Gumley	For their high-quality client service to the ANAO as part of a team in maintaining building services and security
	Andrew Morris, Russell Coleman, Ben Sladic	For their innovative contribution as part of a team in developing the Performance Audit Manual knowledge portal to support the ANAO's performance audit capability
Australia Day Achievement Medallions	Roger Cobcroft	For his valuable contribution to the ANAO in the areas of accounting and auditing technical support, and in client relationship management
	Steven Lack	For his valued contribution to the professional standing of the ANAO, through his audit leadership, people management and corporate activities
	Gary Pettigrove	For his strong contribution to the ANAO in the key area of information technology and business support
	Lakshmi Radhakrishnan	For her valued contribution to ANAO IT auditing activities and her significant involvement in the IT auditing profession
	Ron Wah	For his valued contribution to the professional standing of the ANAO, through his audit leadership, people management and corporate activities



National Australia Day Council medallion recipients with the Auditor-General. Left to right: Lakshmi Radhakrishnan, Steven Lack, Ian McPhee, Gary Pettigrove and Roger Cobcroft. Absent: Ron Wah.

Representation

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

- The Auditor-General, Ian McPhee, is a member of the Australian Accounting Standards Board and is also president of the ACT Division of the Institute of Public Administration Australia (IPAA).
- 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.
- Brian Boyd is a member of the International Organization of Supreme Audit Institutions (INTOSAI) Working Group on the Audit of Privatisation, Economic Regulation and Public–Private Partnerships.
- Wayne Jones is a member of the INTOSAI Working Group on IT Audit.
- Nathan Williamson is a member of the INTOSAI Sub-Committee on Performance Audit.
- Jodi George is a member of the Institute of Chartered Accountants ACT Council.
- 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.

Inaugural Academic in Residence

The ANAO had the pleasure of inviting Kerry Jacobs, Professor of Accounting at the Australian National University, to spend two months of his professional sabbatical at the office. During his residency at the ANAO, Professor Jacobs participated in a range of activities across the office and provided insights and advice on many topics. He also contributed to our professional

development program for performance auditors and graduates. The ANAO benefited from Professor Jacobs's expertise in public sector accounting and his insights into governance, auditing and financial management reforms.

Productivity gains

Strategies to improve productivity by increasing the effectiveness and efficiency of our operations are an integral part of the ANAO's Enterprise Agreement 2009–11. They include:

- an increase in the hours of work from 36.75 hours per week to 37.5 hours per week
- the implementation of a practice management system to provide enhanced reporting of project and resource scheduling and financial management
- improvements in project management methods and tools across the service groups, to better align resources to outputs and outcomes
- reviews of processes and approaches, across service groups and support areas, to reduce timeframes for the completion of audits.

Service group productivity gains in 2009–10 included:

- a reduction in the number of audit hours taken to complete the financial statement audit work program as a result of the Assurance Audit Services Group commencing a comprehensive change program to realign staff and resources to audit programs
- the ability of staff from different branches to make short-term contributions to high-priority work as a result of more flexible resourcing arrangements introduced by the Performance Audit Services Group.

Occupational health and safety

Commitment to the safety and welfare of staff

The Auditor-General has committed to uphold the ANAO's health and safety management arrangements (HSMAs) and accompanying occupational health and safety (OH&S) policies. The Auditor-General and all ANAO managers are accountable for OH&S outcomes and the actions taken to implement OH&S policies and guidelines.

The ANAO recognises that it has a duty of care to provide for the health, safety and welfare of its staff, contractors and certain other third parties who work at the ANAO. This includes taking appropriate action in relation to any reported concern.

We integrate safe working practices into all areas of operations. Managers consult and cooperate with their staff and others to maintain a safe and healthy workplace and strive to attain OH&S best practice.

Health and safety management arrangements

The HSMAs, which have been in place since August 2008, provide a comprehensive framework for our commitment and actions in relation to the safety and welfare of our staff. The HSMAs:

- provide mechanisms for consultation between staff and managers on OH&S matters
- establish the roles and responsibilities of our designated work groups, health and safety representatives, diversity and harassment officers and fire wardens

- provide policy guidance on compensation coverage for staff and visitors
- contain dispute settlement procedures (to date, there have been no disputes).

The National Occupational Health and Safety Committee is responsible for monitoring and reviewing the HSMAs and advising the ANAO on OH&S matters. The committee is chaired by the Executive Director, Corporate Management Branch, and its members are the ANAO's health and safety representatives. The committee met four times in 2009–10.

Health and safety representatives are nominated and elected by ANAO staff in accordance with the HSMAs and OH&S guidelines. All health and safety representatives are required to attend appropriate, accredited training.

Initiatives for 2009–10

The refurbishment of our Canberra office was completed in 2009–10. The work area now provides ergonomic and comfortable work spaces for staff, including break-out areas.

We completed 74 ergonomic assessments of our workstations as part of the refurbishment. We also provide ergonomic work station assessments for all new staff.

OH&S was promoted widely throughout the office. A dedicated site on our intranet includes the minutes of meetings of the National Occupational Health and Safety Committee. All new staff attended induction courses which included information on OH&S.

During 2009–10 we provided staff with access to H1N1 flu vaccinations, as well as winter flu vaccinations. We also offered health assessments for all our staff.

In November 2009, *beyondblue* ran a workshop for our senior executives on managing depression in the workplace.

Incidents

Nine incidents were reported in 2009–10 under the *Occupational Health and Safety Act 1991* (an improvement on the 10 incidents reported in 2008–09).

Of the nine incidents, three occurred while staff were travelling and the remainder occurred on ANAO premises. One incident resulted in a compensation claim which is ongoing.

In 2009–10, the ANAO did not:

- experience any accidents or dangerous occurrences that required the giving of notice under section 68 of the Occupational Health and Safety Act
- receive any notices under sections 29, 46 or 47 of the Act.

Employee Assistance Program

The Employee Assistance Program provides access to confidential professional counselling services to assist staff and their families with any personal or work-related problems. In 2009–10, members of staff and their families used the service for both work-related and personal circumstances.

The service also offers guidance and advice to managers on issues relating to staff management.

The program is promoted as part of our induction for new staff, and our monthly staff newsletter includes a regular feature on the program.

Commonwealth Disability Strategy

The ANAO is committed to improving the accessibility of our audit products and services, consistent with the Commonwealth Disability Strategy. To improve our performance, we are investing in our information and communications capability.

For example, our website complies with accessibility requirements and, if requested, information is provided in other formats. We are developing improvements to our website with the objective of gaining the highest rating for accessibility of information and capacity to use a range of social network tools to improve the availability and timeliness of our publications.

Workplace diversity

We are committed to promoting and supporting social inclusion, equity and diversity in the ANAO. We achieve this by actively building a working environment that supports and encourages staff with a range of skills and life experiences and different cultural and social backgrounds.

Our Workplace Diversity Program is a three-year commitment with six key initiatives to provide a productive and safe workplace.

In 2009–10 the ANAO focused on two of the six initiatives in the program:

- Increase the ANAO's ability to attract, retain and develop aspiring female leaders by creating a supportive, flexible and fair work environment where female employees are encouraged and developed.
- Achieve a bullying- and harassment-free workplace.

The ANAO Women's Forum works to support aspiring women leaders in the ANAO and to build a sense of community. The Women's Forum had a very active year in 2009–10, hosting:

- presentations by Kate Lundy, Senator for the Australian Capital Territory; Leanne Close, Assistant Commissioner of the Australian Federal Police; Katy Gallagher, Member of the Legislative Assembly of the Australian Capital Territory; and Tu Pham, Auditor-General for the Australian Capital Territory
- a number of social events
- a Pink Ribbon Breakfast (raising funds for breast cancer research) for all staff.

The ANAO sponsored a number of women to attend the United Nations Development Fund for Women International Women's Day lunch held in Canberra in March 2010.

A network of diversity contact officers champions diversity across the ANAO, with a focus on building a positive workplace culture, and provides informal and confidential support to staff members who are seeking assistance and guidance on harassment and bullying issues. The diversity contact officers met regularly, and attended refresher training, in 2009–10.

The ANAO encourages staff to promote and participate in activities for charities, including collecting Christmas gifts for the Salvation Army, sponsoring teams for Red Cross blood donations, raising funds for the Canberra Blind Society and hosting the Pink Ribbon Breakfast. Workplace giving facilities are available through our payroll system, and are regularly promoted through our staff newsletter.

ENVIRONMENTAL PROTECTION AND BIODIVERSITY CONSERVATION

Section 516A of the *Environment Protection and Biodiversity Conservation Act 1999* requires that Australian Government entities include a section detailing their environmental performance and contribution to ecologically sustainable development (ESD) in their annual report.

Our contribution to ecologically sustainable development

While the ANAO does not have any specific responsibility for administering ESD provisions, our audit reports make an indirect contribution by improving accountability and providing independent assessments of Australian Government programs to parliament.

We do not administer any programs or legislation that explicitly mention ESD. However, some of our performance audits of agencies and programs have a direct influence on the environment. In 2009–10, we produced a number of reports with an emphasis on the environment, in particular:

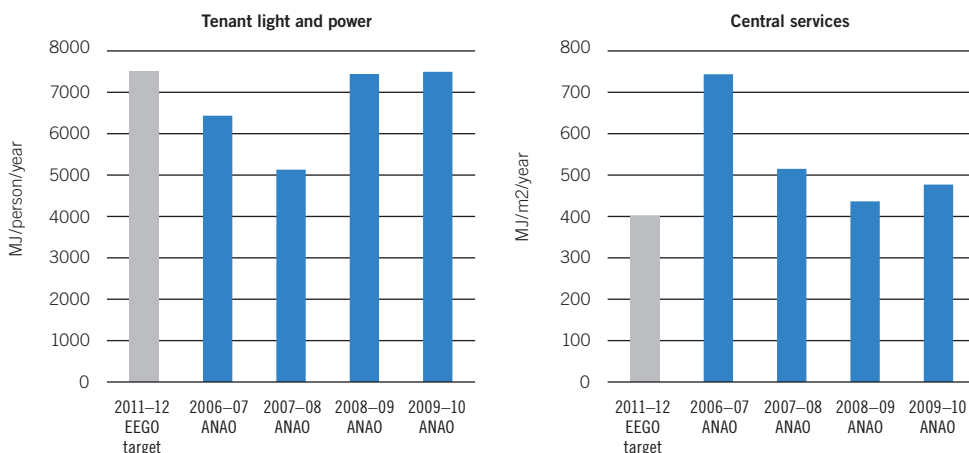
- Audit Report No.18 2009–10, *LPG Vehicle Scheme*
- Audit Report No.21 2009–10, *Administration of the Water Smart Australia Program*
- Audit Report No.26 2009–10, *Administration of Climate Change Programs*
- Audit Report No.27 2009–10, *Coordination and Reporting of Australia's Climate Change Measures.*

Effect of our activities on the environment

Our activities affect the environment by consuming resources such as energy, water, paper, office supplies and equipment. Most of our staff are located in Canberra (97 per cent); a small proportion are in Sydney (3 per cent). The following information covers our Canberra office site, as the Sydney lease does not give Sydney staff the opportunity to materially affect their environmental circumstances. However, the Sydney site shares office-wide initiatives such as energy-efficient computers and the data centre, and the office has its own hybrid vehicle.

Figure 10 compares our light and power use and central services (water and waste disposal) against the Energy Efficiency in Government Operations (EEGO) target figures.

Figure 10 Tenant light and power and central services



Energy

The Australian Government's EGO policy sets energy intensity targets of 7,500 megajoules per person per year for tenant light and power, and 400 megajoules per square metre per year for central services.

The ANAO leases its office premises and continues to work with the lessors to improve its environmental performance. We maintained our 4-star rating in 2009–10. We are not required to achieve a 4.5-star rating because we entered into our current lease before the introduction of the government policy on energy efficiency.

Water

Based on our occupied building floor area, our building water use intensity was 0.44 kilolitres per square metre in 2009–10, which equates to a 4-star NABERS water rating, compared with 0.42 kilolitres per square metre in 2008–09.

Waste

The primary waste service provider now measures the weight of waste collected. The following results compare a measured figure for 2009–10 to an estimated figure for 2008–09:

- 18,664 kilograms of paper (25,500 kilograms in 2008–09) and 40 cubic metres of co-mingled waste (54 cubic metres in 2008–09) was sent for recycling
- 288 cubic metres of general waste (459 cubic metres in 2008–09) was sent to landfill.

General waste was reduced in comparison to the previous year, when there had been an increase due to the office refurbishment.

Through a local organic recycler, we recycled 2 tonnes of organic waste in 2009–10.

Monitoring and further improvement

High-return initiatives to minimise the impact of our activities on the environment have been implemented over the past few years and we are now achieving the benefits. We continue to seek improvement when the opportunity arises; for example, by procuring energy-efficient computers and other electrical equipment, reducing our waste to landfill, and closely monitoring our building power and gas usage.

We also continue to improve our environmental management system in order to strengthen targets and enhance our performance in line with better practice. In accordance with our Green Lease Schedule, the Building Management Committee meets regularly to oversee the implementation of environmental property initiatives. The committee is currently negotiating the development of an energy management plan, as required under the Green Lease Schedule.

OTHER MANAGEMENT ISSUES

We undertake a range of other management activities and services 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.

Major competitive tendering and contracting activities

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

Annual reports contain information about actual expenditure on contracts for consultancies. Information on the value of contracts and consultancies is available on the AusTender website (www.tenders.gov.au).

Further, more detailed, information on consultancy services is set out in Appendix 6.

Major competitive tendering and contracting activities in 2009–10 included the following.

- *Consultancy services*—During 2009–10, 83 new consultancy contracts were entered into involving total actual expenditure of \$1.920 million (including GST). In addition, 31 ongoing consultancy contracts were active during 2009–10, involving a total actual expenditure of \$0.666 million (including GST).
- *IT services*—After testing the market in 2008, we contracted Unisys for five years from July 2009 to deliver IT services to the ANAO. This is an effective arrangement that continues to evolve to meet our changing needs.
- *Legal services*—Our legal panel arrangements expired in April 2009, and we conducted a tender process to establish a new panel. The panel members are the Australian Government Solicitor, Mallesons Stephen Jaques, Minter Ellison, Deacons, and Blake Dawson.
- *Publishing services*—Our contract for publishing services with CanPrint Communications Pty Ltd ends in December 2010. There is an option to extend the contract for a further two years.
- *Major financial statement audits*—During 2009–10, we contracted firms to conduct a number of financial statement audits. The major audits put out to tender in this period were for the Australian Rail Track Corporation (awarded to KPMG) and the Export Finance and Insurance Corporation (awarded to Ernst & Young).
- *Performance Audit Services consultants panel*—The Performance Audit Services consultants panel was refreshed in July 2009 for a period of three years. The panel of 30 consultants provides performance audit, assurance review and related services to the ANAO.

In addition to these arrangements, in April 2010 we joined the Design, Production and Distribution Tender, a collaborative procurement program led by Centrelink covering print management; creative design; printing and production; and warehousing distribution.

Freedom of information

The Auditor-General is exempt from the provisions of the *Freedom of Information Act 1982*. However, requests for information on administrative matters are considered having regard to the spirit of the Act. All audit reports and better practice guides are available to the public from our website or in printed form.

Service charter

The ANAO does 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 audit reports and publications such as better practice guides.

Grant programs

The ANAO does not administer any grant programs.

Assets management

The ANAO assets management policy is set out in the Auditor-General's 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 the end of the useful life of the asset. Our asset management practices are designed to protect the interests of the Australian Government.

In 2009–10, our internal auditor examined our asset management arrangements and made two recommendations for improvement. Both recommendations were accepted and implemented.

Purchasing policies and procedures

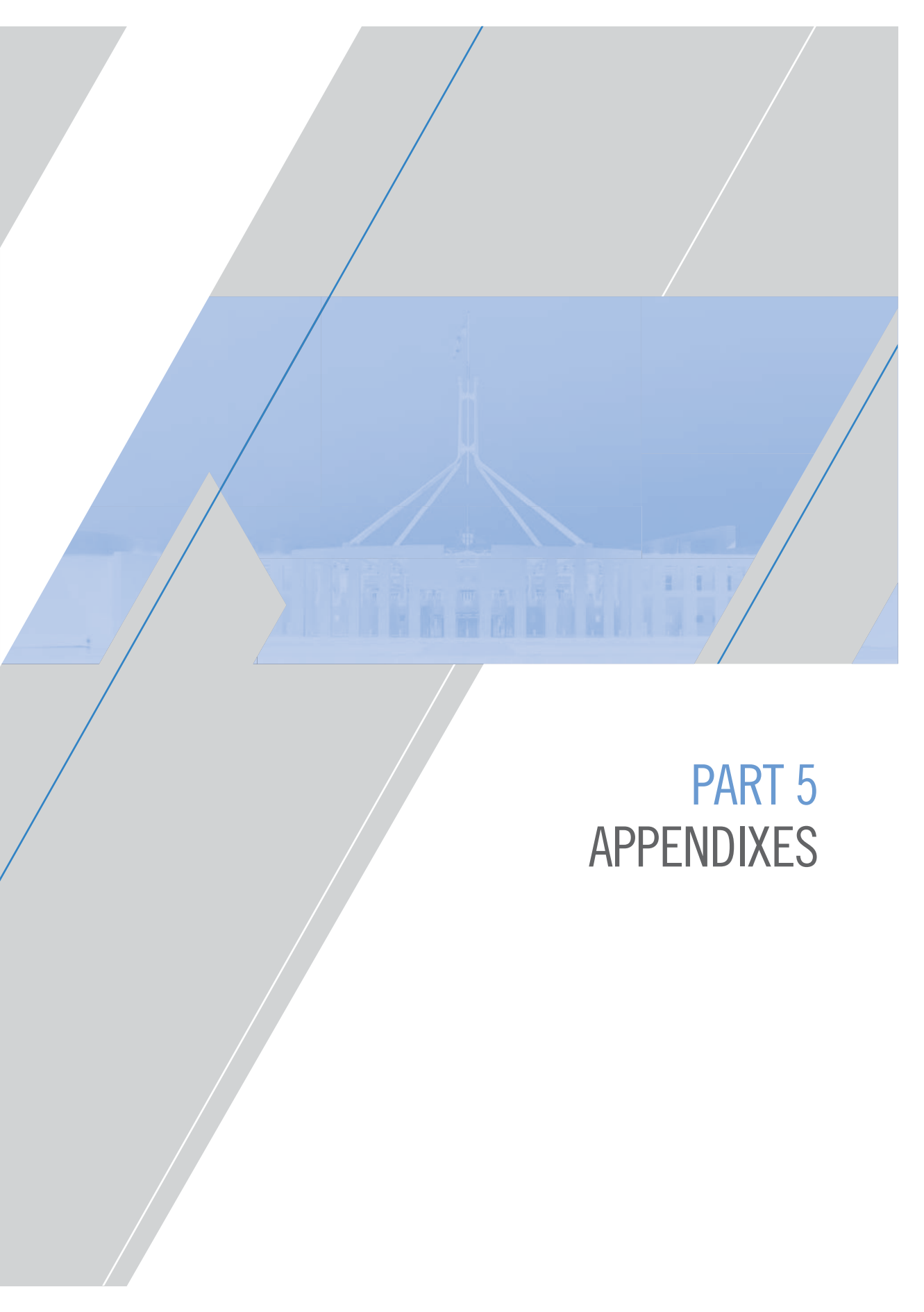
Our procurement guidelines are set out in the Auditor-General's Instructions and supporting procedural rules, which are derived directly from the *Commonwealth Procurement Guidelines*. All purchasing is bound by the procedural rules under the underlying principle of value for money and is routinely the 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. We reviewed and made improvements to the plan in December 2009. The arrangements in the Business Continuity Plan were assessed in the 2010 Comcover Risk Management Benchmarking Survey and were awarded an above-average score of 8.5 against an average of 5.5 for the 130 participating agencies.

Advertising and market research

The ANAO has not undertaken media advertising campaigns and therefore did not make any payments to advertising agencies. Payments over \$11,200 (including GST) to market research organisations and media advertising organisations, incurred in the course of audit and assurance reviews, are set out in Appendix 7. The ANAO did not make any payments to direct mail organisations or polling organisations.



PART 5

APPENDIXES

APPENDIX 1—FINANCIAL RESULTS

Financial results commentary

Introduction

The ANAO's operations are largely funded through parliamentary appropriations. Revenue is also received from the provision of audit-related services, rental income, grant funding 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 audits of financial statements of Commonwealth authorities and companies. The revenue received is accounted as administered funds and paid directly into Consolidated Revenue.

Overview of financial performance

The operating surplus of \$4.345 million for the year ending 30 June 2010 compared to the \$1.455 million deficit in 2008–09 is the net result of a 12 per cent increase in revenues and a 3 per cent increase in expenses. The increased level of revenue is a result of New Policy Proposals funding and the transfer of the staff and budget of the Office of Evaluation and Audit (Indigenous Programs) from the Department of Finance and Deregulation to the ANAO.

Table A1.1 summarises our financial position.

Table A1.1 Summary of financial performance

	2009–10 \$'000	2008–09 \$'000	Variance \$'000	Variance %
Statement of comprehensive income				
Total own source revenue	3,528	3,080	448	15%
Gains	117	–	117	–
Total revenue from Government	71,022	63,737	7,285	11%
Total expenses	70,322	68,272	2,050	3%
Net surplus/(deficit)	4,345	(1,455)	–	–
Balance sheet				
Total assets	25,834	20,118	5,716	28%
Total liabilities	15,113	13,957	1,156	8%
Net assets	10,721	6,161	4,560	74%
Equity	10,721	6,161	4,560	74%

Agency resource statement

The agency resource statement provides additional information about the various funding sources that the ANAO may draw upon during the year. Table A1.2 details the resources available to the ANAO during 2009–10.

Table A1.2 Agency resource statement, 2009–10

	Actual available appropriations for 2009–10 \$'000	Payments made 2009–10 \$'000	Balance remaining \$'000
Ordinary Annual Services			
Departmental appropriation			
Prior year departmental appropriation	10,778	543	10,235
Departmental appropriation	67,612	65,108	2,504
s. 31 relevant agency receipts	2,874	2,874	–
s. 32 transfer	2,839	2,439	400
Previous years outputs	100	100	–
Total ordinary annual services	84,203	71,064	13,139
Special appropriations			
Auditor-General remuneration and expense— <i>Auditor-General Act 1997</i> , Schedule 1, sections 3 and 7	450	477	(27)
Total special appropriations	450	477	(27)
Total resourcing and payments	84,653	71,541	13,112

Resources for outcomes

The ANAO's total resourcing summary by outcome is set out in Table A1.3.

Table A1.3 Resources for outcomes, 2009–10

Outcome 1: To provide assurance on the fair presentation of financial statements of Australian Government entities by providing independent audit opinions and related reports for the information of parliament and the executive	Budget 2009–10 '000	Actual expenses 2009–10 '000	Variation '000
Program 1.1: Assurance Audit Services			
Departmental expenses			
Ordinary annual services (Appropriation Bill No. 1)	42,201	39,134	(3,067)
Revenue from independent sources (section 31)	1,413	2,820	1,407
Special appropriation	225	238	13
Total for program 1.1	43,839	42,192	(1,647)
Total expenses for Outcome 1	43,839	42,192	(1,647)
Outcome 2: To improve the efficiency and effectiveness of the administration of Australian Government programs and entities by undertaking a program of independent performance audits and assurance reviews for the information of parliament and the executive	Budget 2009–10	Actual expenses 2009–10	Variation
Program 2.1: Performance Audit Services			
Departmental expenses			
Ordinary annual services (Appropriation Bill No. 1)	28,627	27,066	(1,561)
Revenue from independent sources (section 31)	281	825	544
Special appropriation	225	239	14
Total for program 2.1	29,133	28,130	(1,003)
Total expenses for Outcome 2	29,133	28,130	(1,003)
Total Outcomes 1 and 2	72,972	70,322	(2,650)
		2008–09	2009–10
Average staffing level (number)		311	346

2009–10 FINANCIAL STATEMENTS

Independent auditor's report

Statement by Auditor-General and Chief Financial Officer

Income statement

Balance sheet

Statement of changes in equity

Statement of cash flows

Schedule of commitments

Schedule of asset additions

Schedule of administered items

Notes to and forming part of the financial statements



INDEPENDENT AUDITOR'S REPORT

For the Australian National Audit Office

Mr President

Mr Speaker

Scope

I have audited the accompanying financial statements of Australian National Audit Office for the year ended 30 June 2010, which comprise: a Statement by the Auditor General and Chief Financial Officer; Statement of Comprehensive Income; Balance Sheet; Statement of Changes in Equity; Cash Flow Statement; Schedule of Commitments; Schedule of Asset Additions; Schedule of Administered Items and Notes to and forming part of the Financial Statements, including a Summary of Significant Accounting Policies.

The Responsibility of Auditor General for the Financial Statements

The Auditor General is responsible for the preparation and fair presentation of the financial statements in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, including the Australian Accounting Standards (which include the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation 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. I have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. 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 fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Australian National Audit Office's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Auditor General, as well as evaluating the overall presentation of the financial statements.

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



Independence

In conducting the audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

Auditor's 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*, including the Australian Accounting Standards; and
- (b) give a true and fair view of the matters required by the Finance Minister's Orders including the Australian National Audit Office financial position as at 30 June 2010 and its financial performance and cash flows for the year then ended.

Geoff Wilson
Independent Auditor

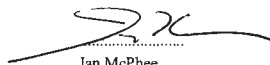
Appointed under clause 1 of Schedule 2 of the *Auditor-General Act 1997*

Canberra,
17 August 2010

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 2010 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

17 August 2010



Anthony Howatson
Chief Finance Officer

17 August 2010

STATEMENT OF COMPREHENSIVE INCOME
for the period ended 30 June 2010

	Notes	2010 \$'000	2009 \$'000
EXPENSES			
Employee benefits	3A	38,398	35,139
Suppliers	3B	30,393	31,572
Depreciation and amortisation	3C	1,404	1,302
Write-down and impairment of assets	3D	124	88
Net losses from asset sales	3E	3	2
Finance costs	3F	-	169
Total expenses		70,322	68,272
LESS			
OWN-SOURCE INCOME			
Own-source revenue			
Sale of goods and rendering of services	4A	3,528	2,988
Rental income	4B	-	92
Total own-source revenue		3,528	3,080
Gains			
Other	4C	117	-
Total gains		117	-
Total own-source income		3,645	3,080
Net cost of services		66,677	65,192
Revenue from Government	4D	71,022	63,737
Surplus (deficit) attributable to the Australian Government		4,345	(1,455)
OTHER COMPREHENSIVE INCOME			
Changes in asset revaluation reserve		6	7
Total other comprehensive income		6	7
Total comprehensive income attributable to the Australian Government		4,351	(1,448)

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

BALANCE SHEET for Australian National Audit Office
as at 30 June 2010

	Notes	2010 \$'000	2009 \$'000
ASSETS			
Financial Assets			
Cash and cash equivalents	5A	698	812
Trade and other receivables	5B	14,850	11,907
Other	5C	123	151
Total financial assets		15,671	12,870
Non-Financial Assets			
Land and buildings	6A	6,506	4,947
Property, plant and equipment	6B	844	880
Intangibles	6D	1,892	691
Other	6F	920	730
Total non-financial assets		10,162	7,248
Total Assets		25,833	20,118
LIABILITIES			
Payables			
Suppliers	7A	2,593	2,299
Operating lease	7B	1,637	1,835
Other	7C	1,543	1,244
Total Payables		5,773	5,378
Provisions			
Employee provisions	8A	9,300	8,539
Other	8B	40	40
Total Provisions		9,340	8,579
Total Liabilities		15,113	13,957
Net Assets		10,720	6,161
EQUITY			
Parent Entity Interest			
Contributed equity		5,137	4,929
Reserves		149	143
Retained surpluses		5,434	1,089
Total parent entity interest		10,720	6,161
Total Equity		10,720	6,161

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

STATEMENT OF CHANGES IN EQUITY for Australian National Audit Office
for the period ended 30 June 2010

	Retained Earnings		Asset Revaluation Reserve		Contributed Equity/Capital		Total Equity	
	2010	2009	2010	2009	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance	1,089	2,108	143	572	4,929	4,929	6,161	7,609
Balance carried forward from previous period	1,089	2,108	143	572	4,929	4,929	6,161	7,609
Adjusted opening balance								
Comprehensive income								
Other comprehensive income - Changes in asset revaluation reserves	-	-	6	7	-	-	6	7
Release of reserve on asset disposal	-	436	-	(436)	-	-	-	-
Surplus (Deficit) for the period	4,345	(1,455)	-	-	-	-	4,345	(1,455)
Total comprehensive income	4,345	(1,019)	6	(429)	-	-	4,351	(1,448)
of which:								
Attributable to the Australian Government	4,345	(1,019)	6	(429)	-	-	4,351	(1,448)
Transactions with owners								
Contributions by owners								
Appropriation (equity injection)	-	-	-	-	208	-	208	-
Sub-total transactions with owners	-	-	-	-	208	-	208	-
Closing balance as at 30 June	5,434	1,089	149	143	5,137	4,929	10,720	6,161
Closing balance attributable to the Australian Government	5,434	1,089	149	143	5,137	4,929	10,720	6,161

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

CASH FLOW STATEMENT for Australian National Audit Office
for the period ended 30 June 2010

	Notes	2010 \$'000	2009 \$'000
OPERATING ACTIVITIES			
Cash received			
Goods and services		3,342	2,980
Appropriations		68,660	68,523
Net GST received		-	25
Total cash received		72,002	71,528
Cash used			
Employees		37,611	34,474
Suppliers		30,500	31,958
Net GST paid		81	-
Total cash used		68,192	66,432
Net cash from operating activities	10	3,810	5,096
INVESTING ACTIVITIES			
Cash received			
Proceeds from sale of infrastructure, plant and equipment		-	-
Total cash received		-	-
Cash Used			
Purchase of buildings - leasehold improvements		2,344	4,244
Purchase of infrastructure, plant and equipment		213	552
Purchase of intangibles		1,575	370
Total cash used		4,132	5,166
Net cash used by investing activities		(4,132)	(5,166)
FINANCING ACTIVITIES			
Cash received			
Contributed equity		208	-
Total cash received		208	-
Cash used		-	-
Net cash from / (used by) financing activities		208	-
Net (decrease) in cash held		(114)	(70)
Cash and cash equivalents at the beginning of the reporting period		812	882
Cash and cash equivalents at the end of the reporting period	5A	698	812

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

SCHEDULE OF COMMITMENTS for Australian National Audit Office
as at 30 June 2010

	2010 \$'000	2009 \$'000
BY TYPE		
Commitments receivable		
GST recoverable on commitments	5,175	6,740
Total commitments receivable	5,175	6,740
Commitments payable		
Capital commitments		
Property, plant and equipment ³	273	3,615
Total capital commitments	273	3,615
Other commitments		
Operating leases ¹	33,051	36,686
Other ²	23,606	33,838
Total other commitments	56,657	70,524
Net commitments by type	56,930	74,139
BY MATURITY		
Commitments payable		
Capital commitments		
One year or less	153	3,615
From one to five years	120	-
Over five years	-	-
Total capital commitments	273	3,615
Operating lease commitments		
One year or less	3,967	3,903
From one to five years	15,522	15,203
Over five years	13,562	17,580
Total operating lease commitments	33,051	36,686
Other commitments		
One year or less	14,994	19,681
From one to five years	8,612	14,157
Over five years	-	-
Total other commitments	23,606	33,838
Net commitments by maturity	56,930	74,139

NB: Commitments are GST inclusive where relevant

1. Operating leases included for 2009-10 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. The ACT lease commenced 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 for a further 10 years and any increases in rent will be at a rate commensurate with the CPI. As part of the lease agreement, the ANAO received an incentive payment of \$1 million from the landlord.</p> <p>The NSW lease was signed on 3 October 2007 for a term of three years with a rent escalation clause of 4.5% each year. This lease has been extended, as an interim measure, until 28 February 2011.</p>
Leases of computer equipment	<p>The ANAO has a current lease for general computer equipment. The old lease expired on 19 December 2008. The new lease, for three years, commenced on 20 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 \$10,761,162 (2008-09: \$15,672,000) Provision of IT Services \$3,768,112 (2008-09: \$5,535,265) and other corporate contracts totalling \$9,077,338 (2008-09: \$12,630,917).
3. Property, plant and equipment commitments are primarily software purchases (2008-09: leasehold improvements and software purchases)

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

SCHEDULE OF ASSET ADDITIONS for Australian National Audit Office
for the period ended 30 June 2010

The following non-financial non-current assets were added in 2009-10:

	Leasehold improvements \$'000	Other property, plant & equipment \$'000	Intangibles \$'000	Total \$'000
By purchase - appropriation equity	-	208	-	208
By purchase - appropriation ordinary annual services	2,344	5	1,575	3,924
By contribution	-	117	-	117
Total additions	2,344	330	1,575	4,249

The following non-financial non-current assets were added in 2008-09:

	Leasehold improvements \$'000	Other property, plant & equipment \$'000	Intangibles \$'000	Total \$'000
By purchase - appropriation equity	-	-	-	-
By purchase - appropriation ordinary annual services	4,244	552	370	5,166
Total additions	4,244	552	370	5,166

SCHEDULE OF ADMINISTERED ITEMS			
	Notes	2010 \$'000	2009 \$'000
Income administered on behalf of Government			
<i>for the year ended 30 June 2010</i>			
Revenue			
Non-Taxation Revenue			
Rendering of services (audit fees)	14	7,956	8,141
Total revenue administered on behalf of Government		7,956	8,141
Assets administered on behalf of Government			
<i>as at 30 June 2010</i>			
Financial Assets			
Cash and cash equivalents	15	-	-
Receivables (audit fees)	15	1,549	2,448
Work in progress	15	1,602	1,503
Total assets administered on behalf of Government		3,151	3,951
Liabilities administered on behalf of Government			
<i>as at 30 June 2010</i>			
Payables			
GST payable	16	175	248
Total liabilities administered on behalf of Government		175	248
<i>This schedule should be read in conjunction with the accompanying notes.</i>			

SCHEDULE OF ADMINISTERED ITEMS (cont'd)			
	Notes	2010 \$'000	2009 \$'000
Administered Cash Flows			
<i>for the year ended 30 June 2010</i>			
OPERATING ACTIVITIES			
Cash received			
Rendering of services (audit fees)		8,756	6,933
Net GST received		-	29
Total cash received		8,756	6,962
Cash used			
Net GST paid		73	-
Total cash used		73	-
Net cash flows from operating activities	17	8,683	6,962
Net increase in cash held		8,683	6,962
Cash to the Official Public Account for:			
- Transfer from other entities		8,683	6,962
Cash and cash equivalents at the end of the reporting period		8,683	6,962
Administered Commitments			
<i>as at 30 June 2009</i>			
Net Administered Commitments		-	-
Statement of Activities Administered on Behalf of Government			
<p>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 2009-10, which was tabled in the Parliament.</p> <p>The ANAO has no administered contingencies.</p>			
<i>This schedule should be read in conjunction with the accompanying notes.</i>			

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

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Australian National Audit Office**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS****for the period ended 30 June 2010****Note 1 - Summary of Significant Accounting Policies****1.1 Objectives of the ANAO**

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: Assurance Audit Service - To provide assurance on the fair presentation of financial statements of Australian Government entities by providing independent audit opinions and related reports for the information of Parliament and the Executive.

Outcome 2: Improvement in Public Administration - To improve the efficiency and effectiveness of the administration of Australian Government programs and entities by undertaking a program of independent performance audits and assurance reviews for the information of Parliament and the Executive.

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 Australian Government 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 Statements

The financial statements are required by section 49 of the *Financial Management and Accountability Act 1997* and are general purpose financial statements.

The Financial Statements have been prepared in accordance with:

- Finance Minister's Orders (or FMO) for reporting periods ending on or after 1 July 2009; and
- Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements have been prepared on an accrual basis and in accordance with the historical cost convention, except for certain assets and liabilities 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 statements are 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 FMO, assets and liabilities are recognised in the balance sheet when and only when it is probable that future economic benefits will flow to the entity 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 unrecognised are reported in the schedule of commitments.

Unless alternative treatment is specifically required by an accounting standard, income and expenses are recognised in the statement of comprehensive income 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 1.21.

1.3 Significant Accounting Judgements and Estimates

In the process of applying the accounting policies listed in this note, the ANAO has made the following judgements that have the most significant impact on the amounts recorded in the financial statements.

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Leave provisions involve actuarial assumptions based on the likely tenure of existing staff, patterns of leave claims and payouts, future salary movements and future discount rates.

No accounting assumptions and/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 New Australian Accounting Standards**Adoption of New Australian Accounting Standard Requirements**

No accounting standard has been adopted earlier than the application date as stated in the standard. Of the new standards, amendments to standards and interpretations issued by the Australian Accounting Standards Board that are applicable to the current period, the following have had a material impact on the Australian National Audit Office:

AASB 7 Financial Instruments: Disclosures - June 2009 (Compilation), AASB 101 Presentation of Financial Statements - June 2009 (Compilation), AASB 107 Statement of Cash Flows - June 2009 (Compilation), AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors - July 2008 (Compilation), AASB 110 Events after the Reporting Period - June 2009 (Compilation).

AASB 116 Property, Plant and Equipment - June 2009 (Compilation), AASB 117 Leases - June 2009 (Compilation), AASB 118 Revenue - August 2008 (Compilation), AASB 119 Employee Benefits - June 2009 (Compilation), AASB 120 Accounting for Government Grants and Disclosure of Government Assistance - July 2008 (Compilation), AASB 121 The Effects of Changes in Foreign Exchange Rates - October 2009 (Compilation), AASB 123 Borrowing Costs - June 2009 (Compilation), AASB 132 Financial Instruments: Presentation - June 2009 (Compilation), AASB 136 Impairment of Assets - June 2009 (Compilation).

AASB 137 Provisions, Contingent Liabilities and Contingent Assets - June 2009 (Compilation), AASB 138 Intangible Assets - June 2009 (Compilation), AASB 139 Financial Instruments: Recognition and Measurement - October 2009 (Compilation), AASB 1031 Materiality - December 2007 (Compilation), AASB 1048 Interpretation of Standards - June 2010 (Principal).

Interp. 4 Determining whether an Arrangement contains a Lease - June 2009 (Compilation), Interp. 115 Operating leases - Incentives - June 2009 (Compilation), Interp. 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease - June 2009 (Compilation), Interp. 129 Service Concession Arrangements: Disclosures - June 2009 (Compilation), 1019 The Superannuation Contributions Surcharge - December 2007 (Compilation), Interp. 1030 Depreciation of Long-Lived Physical Assets: Condition-Based Depreciation and Related Methods - September 2007 (Compilation), Interp. 1031 Accounting for the Goods and Services Tax (GST) - December 2007 (Compilation).

Future Australian Accounting Standard Requirements

Of the new standards, amendments to standards and interpretations issued by the Australian Accounting Standards Board that are applicable to future periods, the following will have a material financial impact on Australian National Audit Office:

AASB 7 Financial Instruments: Disclosures - February 2010 (Compilation), AASB 9 Financial Instruments - December 2009 (Principal), AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors - December 2009 (Compilation), AASB 110 Events after the Reporting Period - December 2009 (Compilation), AASB 118 Revenue - May 2009 (Compilation), AASB 119 Employee Benefits - December 2009 (Compilation), AASB 124 Related Party Disclosures - December 2009 (Principal), AASB 132 Financial Instruments: Presentation - October 2009 (Compilation), AASB 137 Provisions, Contingent Liabilities and Contingent Assets - December 2009 (Compilation), AASB 139 Financial Instruments: Recognition and Measurement - December 2009 (Compilation), AASB 1053 Application of Tiers of Australian Accounting Standards - June 2010 (Principal).

AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] - 07 Dec 2009, AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements - 30 Jun 2010, AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139] - 23 Jun 2010, AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13] - 23 Jun 2010.

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Interp. 4 Determining whether an Arrangement contains a Lease - December 2009 (Compilation), Interp. 1039 Substantive Enactment of Major Tax Bills in Australia - December 2009 (Compilation).

Other new standards, revised standards, interpretations, amending standards were issued prior to the signing of the statement by the chief executive and chief financial officer and are applicable to the future reporting period are not expected to have a future financial impact on the entity.

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 ANAO 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.

Other Types of Revenue

Revenue from the sale of goods is recognised when:

- the risks and rewards of ownership have been transferred to the buyer;
- the agency retains no managerial involvement or effective control over the goods;
- the revenue and transaction costs incurred can be reliably measured; and
- it is probable that the economic benefits associated with the transaction will flow to the entity.

Revenue from rendering of services is recognised by reference to the stage of completion of contracts at the reporting date. The revenue is recognised when:

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

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.

Receivables for goods and services, which have 30 day terms, are recognised at the nominal amounts due less any impairment allowance account. Collectability of debts is reviewed at end of reporting period. Allowances are made when collectability of the debt is no longer probable.

1.6 Gains**Sale of Assets**

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

1.7 Transactions with the Government as Owner**Equity Injections**

Amounts appropriated which are designated as 'equity injections' for a year (less any formal reductions) are recognised directly in contributed equity in that year.

Restructuring of Administrative Arrangements

Net assets received from or relinquished to another Australian Government agency or authority under a restructuring of administrative arrangements are adjusted at their book value directly against contributed equity.

1.8 Employee Benefits

Liabilities for 'short-term employee benefits' (as defined in AASB 119 *Employee Benefits*) and termination benefits due within twelve months of end of reporting period 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.

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Other long-term employee benefits are measured as net total of the present value of the defined benefit obligation at the end of the reporting period minus the fair value at the end of the reporting period of plan assets (if any) out of which the obligations are to be settled directly.

Leave

The liability for employee benefits includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of the ANAO is estimated to be less than the annual entitlement for sick leave.

The leave liabilities are calculated on the basis of employees' remuneration at the estimated salary rates that will be applied at the time the leave is taken, 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 determined by reference to the work of an actuary as at 30 June 2010. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

Superannuation

Staff 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 scheme at rates determined by an actuary to be sufficient to meet the current 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 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 2010.

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

1.10 Borrowing Costs

All borrowing costs are expensed as incurred.

1.11 Cash

Cash and cash equivalents includes cash on hand, demand deposits in bank accounts with an original maturity of 3 months or less that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Cash is recognised at its nominal amount.

Australian National Audit Office**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS****for the period ended 30 June 2010****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'. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate.

If there is objective evidence that an impairment loss has been incurred for loans & receivable held at amortised costs, the amount of the loss is measured at the difference between the assets carrying amount and the present value of estimated future cash flows discounted at the assets original effective interest rate. The carrying amount is reduced by way of an allowance account. The loss is recognised in the statements of comprehensive income.

1.13 Financial Liabilities

Supplier and other payables are recognised at amortised cost. Liabilities are recognised to the extent that the goods or services have been received (and 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 asset or liability 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.

As at 30 June 2010, the ANAO has no contingent liabilities or contingent assets.

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. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

1.16 Property, Plant and Equipment*Asset Recognition Threshold*

Purchases of property, 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 'make good' 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 'make good' recognised.

Revaluations

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

Asset Class	Fair value measures at:
Buildings (leasehold improvements)	Depreciated replacement cost
Property, plant and equipment	Market selling price

Following initial recognition at cost, property plant and equipment are carried at fair value less subsequent accumulated depreciation and accumulated impairment losses. Property, plant and equipment are revalued every year to determine if a significant change in the value of the assets has occurred during the financial year. Valuations are carried out by an independent qualified valuer.

Australian National Audit Office**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS****for the period ended 30 June 2010**

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 in the surplus/deficit. Revaluation decrements for a class of assets are recognised directly in the surplus/deficit 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 property, 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 improvement or the expired 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.

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

	2010	2009
Leasehold improvements	Lease term	Lease term
Plant and Equipment	3 to 15 years	3 to 15 years

The aggregate amount of depreciation allocated for each class of asset during the reporting period is disclosed in Note 6C.

Impairment

All assets were assessed for impairment at 30 June 2010. Refer to Note 6B for results of current period independent valuation.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

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 (2008-09: 3 to 5 years).

All software assets were assessed for indications of impairment as at 30 June 2010. No impaired software assets were identified.

1.18 Taxation

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

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

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

1.19 Work in Progress

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

Australian National Audit Office**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS****for the period ended 30 June 2010****1.20 Financial Risk Management**

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

1.21 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.

Administered Cash Transfers to and from the Official Public Account

Revenue collected by the ANAO for use by the Government rather than the agency 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.

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.

Loans and Receivables

Where loans and receivables are not subject to concessional treatment, they are carried at amortised cost using the effective interest method. Gains and losses due to impairment, derecognition and amortisation are recognised through profit or loss.

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Note 2 - Events after the Reporting Period

No events have occurred after balance date that should be brought to account or noted in the 2009-10 financial statements.

2010	2009
\$'000	\$'000

Note 3 - Expenses

Note 3A: Employee Benefits

Wages and salaries	29,250	26,667
Superannuation:		
Defined contribution plan	1,707	1,200
Defined benefits plan	3,528	3,832
Leave and other entitlements	3,744	3,308
Other employee expenses	169	132
Total employee benefits	38,398	35,139

Note 3B: Suppliers

Goods and services

Consultants	10,855	9,978
Contractors	15,736	17,474
Stationary	170	115
Total goods and services	26,761	27,569

Goods and services are made up of:

Provision of goods - external entities	236	385
Rendering of services - external entities	26,525	27,184
Total goods and services	26,761	27,569

Other supplier expenses

Operating lease rentals - external entities:		
Minimum lease payments	3,408	3,887
Worker's compensation premiums	224	116
Total other supplier expenses	3,632	4,003
Total supplier expenses	30,393	31,572

Note 3C: Depreciation and amortisation

Depreciation:

Property, plant and equipment	239	212
Buildings (Leasehold improvements)	791	382
Total depreciation	1,030	594

Amortisation:

Intangibles:		
Computer software	374	708
Total amortisation	374	708
Total depreciation and amortisation	1,404	1,302

Note 3D: Write down and Impairment of Assets

Asset write downs and impairments from:

Asset write-offs	3	4
Impairment and devaluation of infrastructure, plant and equipment	121	84
Total write down and impairment of assets	124	88

Note 3E: Net losses from asset sales

Property, plant and equipment:

Carrying value of assets sold	3	2
Net losses from asset sales	3	2

Note 3F: Finance costs

Unwinding of discount on surplus space liability	-	169
Total finance costs	-	169

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Note 4 - Income

	2010	2009
	\$'000	\$'000

REVENUE

Note 4A: Sale of goods and rendering of services

Audit related services	1,529	1,120
Other	1,999	1,868
Total sale of goods and rendering of services	3,528	2,988

Sale of goods and rendering of services to:

Related entities	1,529	1,120
External entities	1,999	1,868
Total sale of goods and rendering of services	3,528	2,988

Note 4B: Rental income

Operating lease	-	92
Total rental income	-	92

GAINS

Note 4C: Other Gains

Infrastructure, plant and equipment:

Fair value of contributed assets	117	-
Net gain from sale of assets	117	-

REVENUE FROM GOVERNMENT

Note 4D: Revenue from Government

Appropriations:

Departmental outputs	70,545	63,285
Departmental special appropriations	477	452
Total revenue from government	71,022	63,737

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	2010 \$'000	2009 \$'000
Note 5 - Financial Assets		
<u>Note 5A: Cash and Cash Equivalents</u>		
Cash on hand or on deposit	698	812
Total cash and cash equivalents	698	812
<u>Note 5B: Trade and Other Receivables</u>		
Goods and services:		
Goods and services - related entities	372	161
Total receivables for goods and services	372	161
Appropriation receivable:		
For existing outputs	13,139	10,778
Total appropriation receivable	13,139	10,778
Other receivables:		
GST receivable from the Australian Taxation Office	569	472
Employee related receivables	770	496
Total other receivables	1,339	968
Total trade and other receivables (gross)	14,850	11,907
Less impairment allowance account:		
Goods and services	-	-
Total impairment allowance account	-	-
Total trade and other receivables (net)	14,850	11,907
Receivables are expected to be recovered in:		
No more than 12 months	14,850	11,907
More than 12 months	-	-
Total trade and other receivables (net)	14,850	11,907
All receivables have credit terms of net 30 days (2009: 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	14,764	11,869
Overdue by:		
Less than 30 days	-	-
31 to 60 days	-	-
61 to 90 days	-	-
More than 90 days	86	38
Total trade and other receivables (gross)	14,850	11,907
<u>Note 5C: Other</u>		
Work in progress - audit related services	123	151

Australian National Audit Office

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for the year ended 30 June 2010

	2010 \$'000	2009 \$'000
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Note 6 - Non-Financial Assets

Note 6A: Land and Buildings

Leasehold improvements:

Fair value	6,539	5,204
Accumulated amortisation	(33)	(257)
Total leasehold improvements	6,506	4,947
Total land and buildings	6,506	4,947

No indicators of impairment were found for leasehold improvements.

No leasehold improvements are expected to be sold or disposed of within the next 12 months.

Note 6B: Property, Plant and Equipment

Property, plant and equipment:

Fair value	844	880
Accumulated depreciation	-	-
Total property, plant and equipment	844	880

All revaluations are independent and are conducted in accordance with the revaluations policy stated at Note 1. In 2009-10, the revaluations were conducted by an independent valuer - Australian Valuation Office in May 2010.

No indicators of impairment were found for property plant and equipment. No property plant and equipment is expected to be sold or disposed of within the next 12 months.

Note 6C: Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment (2009-10)

	Leasehold Improvements \$'000	Property, Plant & Equipment \$'000	TOTAL \$'000
As at 1 July 2009			
Gross book value	5,204	880	6,084
Accumulated depreciation and impairment	(257)	-	(257)
Net book value 1 July 2009	4,947	880	5,827
Additions:			
by purchase	2,344	213	2,557
by contribution	-	117	117
Depreciation expense	(791)	(239)	(1,030)
Revaluations and impairments recognised in other comprehensive income	6	-	6
Impairments recognised in the operating result	-	(121)	(121)
Reversal of impairments recognised in the operating result	-	-	-
Disposals:			
Accumulated depreciation	1,015	3	1,018
Assets	(1,015)	(9)	(1,024)
Net book value 30 June 2010	6,506	844	7,350
Net book value as of 30 June 2010 represented by:			
Gross book value	6,538	844	7,382
Accumulated depreciation	(32)	-	(32)
	6,506	844	7,350

Note 6C (Cont'd): Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment (2008-09)

	Leasehold Improvements \$'000	Property, Plant & Equipment \$'000	TOTAL \$'000
As at 1 July 2008			
Gross book value	1,205	630	1,835
Accumulated depreciation and impairment	(127)	-	(127)
Net book value 1 July 2008	1,078	630	1,708
Additions by purchase	4,244	552	4,796
Depreciation expense	(382)	(212)	(594)
Revaluations and impairments recognised in other comprehensive income	7	-	7
Impairments recognised in the operating result	-	(84)	(84)
Reversal of impairments recognised in the operating result	-	-	-
Disposals			
Accumulated depreciation	252	1	253
Assets	(252)	(7)	(259)
Net book value 30 June 2009	4,947	880	5,827
Net book value as of 30 June 2009 represented by:			
Gross book value	5,204	880	6,084
Accumulated depreciation	(257)	-	(257)
	4,947	880	5,827

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

	2010	2009
	\$'000	\$'000
Note 6D: Intangibles		
Computer software :		
Purchase	3,475	2,974
Total computer software (gross)	3,475	2,974
Accumulated amortisation	(1,583)	(2,283)
Total computer software (net)	1,892	691
Total intangibles	1,892	691

No indicators of impairment were found for intangible assets. No intangibles are expected to be sold or disposed of within the next 12 months.

Note 6E - Reconciliation of Opening and Closing Balances of Intangibles (2009-10)

	Computer Software
	\$'000
As at 1 July 2009	
Gross book value	2,974
Accumulated amortisation and impairment	(2,283)
Net book value 1 July 2009	691
Amortisation	(374)
Additions by purchase	1,575
Disposals:	
Asset	(1,074)
Accumulated amortisation	1,074
Net book value 30 June 2010	1,892
Net book value as of 30 June 2010 represented by:	
Gross book value	3,475
Accumulated amortisation and impairment	(1,583)
Net book value 30 June 2010	1,892

Note 6E (Cont'd) - Reconciliation of Opening and Closing Balances of Intangibles (2008-09)

Item	Computer Software
	\$'000
As at 1 July 2008	
Gross book value	2,806
Accumulated amortisation and impairment	(1,777)
Net book value 1 July 2008	1,029
Amortisation	(708)
Additions by purchase	370
Disposals:	
Asset	(202)
Accumulated amortisation	202
Net book value 30 June 2009	691
Net book value as of 30 June 2009 represented by:	
Gross book value	2,974
Accumulated amortisation and impairment	(2,283)
Net book value 30 June 2009	691

Note 6F: Other Non-Financial Assets

Prepayments	920	730
Total other non-financial assets	920	730
Total other non-financial assets - are expected to be recovered in:		
No more than 12 months	884	723
More than 12 months	36	7
Total other non-financial assets	920	730

No indicators of impairment were found for other non-financial assets.

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	2010	2009
	\$'000	\$'000

Note 7 - Payables

Note 7A: Suppliers

Trade creditors and accruals	2,593	2,299
Total supplier payables	2,593	2,299

Supplier payable expected to be settled within 12 months:

Related entities	34	58
External entities	2,559	2,241
Total	2,593	2,299

Supplier payables expected to be settled in greater than 12 months:

Related entities	-	-
External entities	-	-
Total	-	-
Total supplier payables	2,593	2,299

All supplier payables are current liabilities and will be settled within 30 days. Trade creditors includes supplier accruals of \$1,246,237 (2008-09: \$1,600,685 million). For the purpose of Note 13, other accruals have been presented as a supplier payable.

Note 7B: Operating Lease Payables

Operating lease incentive	1,637	1,825
Operating lease payables	-	10
Total operating lease payables	1,637	1,835

Total operating lease payables are expected to be settled in:

No more than 12 months	208	208
More than 12 months	1,429	1,627
Total operating lease payables	1,637	1,835

Note 7C: Other Payables

Salaries and wages	880	577
Superannuation	663	667
Total other payables	1,543	1,244

Total other payables are expected to be settled in:

No more than 12 months	1,499	1,194
More than 12 months	44	50
Total other payables	1,543	1,244

Note 8 - Provisions

Note 8A: Employee Provisions

Leave	9,300	8,539
Total employee provisions	9,300	8,539

Employee provisions are expected to be settled in:

No more than 12 months	8,207	7,388
More than 12 months	1,093	1,151
Total employee provisions	9,300	8,539

The classification of employee provisions no more than 12 months includes amounts for which there is not an unconditional right to defer settlement by one year, hence in the case of employee provisions the above classification does not represent the amount expected to be settled within one year of reporting date. Employee provisions expected to be settled in twelve months from the reporting date were \$2,092,000 (2009 \$1,921,000) and in excess of one year \$7,208,000 (2009: \$6,618,000)

Note 8B: Other Provisions

Provision for restoration obligations	40	40
Total other provisions	40	40

Other provisions are expected to be settled in:

No more than 12 months	40	40
More than 12 months	-	-
Total other provisions	40	40

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Note 9 - Restructuring

Net assets assumed - current year

Staff and the budget of the former Office of Evaluation and Audit was transferred to the ANAO from the Department of Finance and Deregulation on 14 December 2009. This transfer will allow the consolidation of the external audit and evaluation of Indigenous programs within the ANAO.

2010	2009
\$'000	\$'000

The net book value of assets and liabilities transferred to the ANAO for no consideration and recognised as at the date of transfer were:

Total assets assumed	-	-
Total liabilities assumed - employee provisions	(390)	-
Net assets assumed	(390)	-

Income and expenses for the functions assumed by the Agency were as follows:

Income

Recognised by Department of Finance and Deregulation up to 14 December 2009	1,159	-
Recognised by ANAO from 14 December 2009	2,839	-
Total Income	3,998	-

Expenses

Recognised by Finance Departmental up to 14 December 2009	1,549	-
Recognised by ANAO from 14 December 2009	2,449	-
Total expenses	3,998	-

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	2010 \$'000	2009 \$'000
Note 10 - Cash Flow Reconciliation		
Reconciliation of cash and cash equivalents per Balance Sheet to Cash Flow Statement		
Cash and cash equivalents as per:		
Cash flow statement	698	812
Balance Sheet	698	812
Difference	-	-
Reconciliation of net cost of services to net cash from operating activities:		
Net cost of services	66,677	65,192
Add revenue from Government	71,022	63,737
	4,345	(1,455)
Adjustments for non-cash items		
Depreciation/amortisation	1,404	1,302
Net write down of non-financial assets	124	88
Loss on disposal of assets	3	2
Non cash contribution of assets	(117)	-
Changes in assets / liabilities		
Increase in trade and other receivables	(2,944)	4,965
Decrease in other financial assets	28	(125)
Increase in prepayments	(191)	460
Increase in employee provisions	761	709
Increase in supplier payables	296	(724)
Increase in other payables	299	(126)
Decrease in operating lease payments	(198)	-
Net cash flow from operating activities	3,810	5,096

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Note 11: Senior Executive Remuneration

Note 11A: Actual Remuneration Paid to Senior Executives

Executive Remuneration

	2010	2009
The number of senior executives who received:		
\$145,000 to \$159,999	1	-
\$175,000 to \$189,999	-	3
\$190,000 to \$204,999	6	6
\$205,000 to \$219,999	7	8
\$220,000 to \$234,999	4	1
\$235,000 to \$249,999	1	2
\$250,000 to \$264,999	1	3
\$265,000 to \$279,999	2	-
\$280,000 to \$294,999	1	-
\$295,000 to \$309,999	-	1
\$355,000 to \$369,999	1	-
\$370,000 to \$389,999	-	1
\$505,000 to \$519,999	-	1
\$565,000 to \$579,999	1	-
Total	25	26

Total expense recognised in relation to Senior Executive employment

	\$	\$
Short-term employee benefits:		
Salary (including annual leave taken) ¹	4,727,424	4,671,276
Changes in annual leave provisions	56,394	71,891
Performance bonus	185,786	222,697
Other ²	64,988	74,352
Total Short-term employee benefits	5,034,592	5,040,216
Superannuation (post-employment benefits)	777,078	907,184
Other long-term benefits	201,463	183,558
Total	6,013,133	6,130,958

Notes

1. Salary includes cash in lieu of motor vehicle allowances for eligible officers.

2. "Other" includes motor vehicle allowances and other allowances.

Note 11B: Salary Packages for Senior Executives

Average annualised remuneration packages for substantive Senior Executives

	As at 30 June 2010			As at 30 June 2009		
	No. SES	Base salary (including annual leave) ¹	Total remuneration package ²	No. SES	Base salary (including annual leave)	Total remuneration package ¹
Total remuneration:						
\$175,000 to \$189,999	-	-	-	4	132,025	186,008
\$190,000 to \$204,999	6	140,050	198,459	7	139,957	199,503
\$205,000 to \$219,999	11	151,655	212,134	5	143,820	207,651
\$220,000 to \$234,999	1	178,204	234,588	3	147,433	221,960
\$235,000 to \$249,999	-	-	-	2	176,000	237,537
\$250,000 to \$264,999	4	186,000	254,108	2	180,800	255,653
\$265,000 to \$279,999	1	190,150	277,122			
\$280,000 to \$294,999	-	-	-	1	184,600	283,843
\$325,000 to \$339,999	1	250,702	330,140	1	243,400	338,659
\$340,000 to \$354,999	-	-	-			
\$475,000 to \$489,999	1	396,372	488,407	1	334,383	483,818
Total	25			26		

Notes

1. Disclosure based on actual terms and conditions.

2. Non-Salary elements available to Senior Executives include:

- (a) Performance Bonus based on historical trend of 5%;
- (b) Motor vehicle allowance; and
- (c) Superannuation.

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Note 12 - Remuneration of Auditors

	2010	2009
Amounts received, or due and receivable by the Independent Auditor for:		
Financial statement audit	89,925	87,200
Performance audit	92,650	5,000
	182,575	92,200

Under clause 1 of Schedule 2 to the *Auditor-General Act 1997*, Mr Geoff Wilson, a partner from the firm of KPMG, was reappointed as Independent Auditor for the term 24 April 2009 to 31 October 2013. Mr Wilson is appointed in a personal capacity and he performed no other services for the ANAO. Audit fees for financial statement audit includes an allowance for superannuation.

Note 13 - Financial Instruments

Note 13A: Categories of financial instruments

	Notes	2010 \$'000	2009 \$'000
Financial Assets			
Loans and Receivables:			
Cash and cash equivalents	5A	698	812
Receivables for goods and services	5B	372	161
Employee related receivables	5B	770	496
Total		1,840	1,469
Carrying amount of financial assets		1,840	1,469
Financial Liabilities			
At amortised cost:			
Trade creditors and accruals	7A	2,595	2,299
Lease incentive	7B	1,637	1,835
Total		4,232	4,134
Carrying amount of financial liabilities		4,232	4,134

The net fair values of the financial assets and financial liabilities approximate their carrying amounts. Any difference between the fair value and carrying value is determined not to be significant.

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 (2010: \$1,834,775 and 2009: \$1,279,267). The ANAO has assessed the risk of the default on payment to be nil as at 30 June 2010 (2009: 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 the 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. The ANAO has no derivative financial liabilities in both the current and prior year.

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', 'interest rate risk' or 'other price risk'.

Australian National Audit Office
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	2010 \$'000	2009 \$'000
Note 14 - Income Administered on Behalf of Government		
Revenue		
Non-Taxation Revenue		
Services		
Rendering of services - Financial statement audit fees (related entities)	7,956	8,141
Total Revenues Administered on Behalf of Government	7,956	8,141
Note 15 - Assets Administered on Behalf of Government		
FINANCIAL ASSETS		
Cash and cash equivalents		
Administered bank account - Australian National Audit Office	-	-
Receivables		
Services:		
Financial statement audit fees - related entities	1,549	2,448
Total receivables for services	1,549	2,448
Total receivables	1,549	2,448
Receivables are expected to be recovered in:		
No more than 12 months	1,549	2,448
More than 12 months	-	-
Total Receivables	1,549	2,448
Receivables were aged as follows:		
Not overdue	1,515	2,231
Overdue by:		
0 to 30 days	-	-
30 to 60 days	-	140
61 to 90 days	-	42
More than 90 days	34	35
Total receivables	1,549	2,448
Work in progress		
Financial statement audits - related entities	1,602	1,503
Credit terms are net 30 days (2009: 30 days)		
Note 16 - Liabilities Administered on Behalf of Government		
Other payables		
GST payable to Australian Taxation Office	175	248
Total other payables	175	248
Total Liabilities Administered on Behalf of Government	175	248
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	3,703	2,524
Adjusted opening administered assets less administered liabilities		
Plus: Administered income	7,956	8,141
Administered transfers to/from Australian Government:		
Transfers to the OPA	(8,683)	(6,962)
Closing administered assets less administered liabilities as at 30 June	2,976	3,703
Note 18 - Administered Contingent Assets and Liabilities		
Quantifiable Administered Contingencies		
There were no quantifiable Administered Contingent Assets or Liabilities as at 30 June 2010 (2009: Nil).		
Unquantifiable Administered Contingencies		
There were no unquantifiable Administered Contingent Assets or Liabilities as at 30 June 2010 (2009: Nil).		
Remote Administered Contingencies		
There were no remote Administered Contingent Assets or Liabilities as at 30 June 2010 (2009: Nil).		
Note 19 - Administered Financial Instruments		
Financial Assets		
Loans and receivables:		
Cash and cash equivalents	-	-
Receivables (audit fees) - related entities	1,549	2,448
Total	1,549	2,448
Carrying amount of financial assets	1,549	2,448
Financial Liabilities		
At amortised cost:		
GST payables	175	248
Total	175	248
Carrying amount of financial liabilities	175	248
The net fair values of the financial assets and liabilities approximate their carrying amounts. The ANAO is not subject to any credit, liquidity or market risk for Administered items as these relate to functions undertaken on behalf of Government		

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Note 20 - Appropriations

Table 20A: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund for Ordinary Annual Services Appropriations

Particulars	Departmental outputs		Total	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Balance brought forward from previous period (<i>Appropriation Acts</i>)	11,519	12,810	11,519	12,810
<i>Appropriation Act:</i>				
Appropriation Act (No. 1, 3&5) 2009-2010 as passed	67,989	63,285	67,989	63,285
Adjustment to prior year	-	-	-	-
Appropriations reduced (<i>Appropriation Act</i> sections 10, 11&12)	-	-	-	-
Advance to the Finance Minister (<i>Appropriation Act</i> section 13)	-	-	-	-
Indigenous Employment Special Account receipts (<i>Appropriation Act</i> section 14)	-	-	-	-
<i>FMA Act:</i>				
Repayments to the Commonwealth (<i>FMA Act</i> section 30)	-	-	-	-
*Appropriations to take account of recoverable GST (<i>FMA Act</i> section 30A) ¹	2,252	2,583	2,252	2,583
Relevant agency receipts (<i>FMA Act</i> s 31)	2,874	2,979	2,874	2,979
Transfer of agency functions (<i>FMA Act</i> s 32)	2,839	-	2,839	-
Total appropriation available for payments	87,473	81,657	87,473	81,657
Cash payments made during the year (GST inclusive)	(73,067)	(70,138)	(73,067)	(70,138)
Appropriations credited to special accounts (GST exclusive)	14,406	11,519	14,406	11,519
Balance of authority to draw cash from the Consolidated Revenue Fund for ordinary annual services appropriations and as represented by:	-	-	-	-
Cash at bank and on hand	698	812	698	812
*Departmental appropriations receivable	13,039	10,235	13,039	10,235
*Undrawn, unexpired administered appropriations	-	-	-	-
*Net GST payable (to)/from ATO	569	472	569	472
*Adjustments under s 101.13 of the Finance Minister's Orders not reflected above	100	-	100	-
Total as at 30 June	14,406	11,519	14,406	11,519

1. The amounts in this line item are calculated on an accrual basis to the extent that an expense may have been incurred that includes GST but has not been paid by year end

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Table 20B: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund for Other than Ordinary Annual Services Appropriations

Particulars	Non-operating			
	Equity		Total	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Balance brought forward from previous period (<i>Appropriation Acts</i>)	543	5,330	543	5,330
<i>Appropriation Act</i> :				
<i>Appropriation Act (No. 2, 4&6) 2009-2010 as passed</i>	208	-	208	-
[Other annual appropriation acts as passed] (show each Appropriation Act as a separate line item)	-	-	-	-
Appropriations reduced (<i>Appropriation Act</i> sections 12, 13&14)	-	-	-	-
Advance to the Finance Minister (<i>Appropriation Act</i> section 15)	-	-	-	-
<i>FMA Act</i> :				
Repayments to the Commonwealth (<i>FMA Act</i> section 30)	-	-	-	-
*Appropriations to take account of recoverable GST (<i>FMA Act</i> section 30A) ¹	75	479	75	479
Transfer of agency functions (<i>FMA Act</i> s 32)	-	-	-	-
Total appropriations available for payments	826	5,809	826	5,809
Cash payments made during the year (GST inclusive)	(826)	(5,266)	(826)	(5,266)
Appropriations credited to special accounts (GST exclusive)	-	543	-	543
Balance of authority to draw cash from the consolidated revenue fund for other than ordinary annual services appropriations and as represented by:	-	-	-	-
Cash at bank and on hand	-	-	-	-
*Departmental appropriation receivable	-	543	-	543
*Undrawn, unexpired administered appropriations	-	-	-	-
*Net GST payable (to)/from ATO	-	-	-	-
*Adjustments under s101.13 of the Finance Minister's Orders not reflected above	-	-	-	-
Total as at 30 June	-	543	-	543

1. The amounts in this line item are calculated on an accrual basis to the extent that an expense may have been incurred that includes GST but has not been paid by year end

Table 20C: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund - Special Appropriations (Unlimited Amount)

<i>Auditor-General Act 1997 - Schedule 1 sections 3 and 7</i>	2010	2009
	Outcome 1	
	\$'000	\$'000
<i>Purpose</i> : Remuneration expenses and allowances of the office of the Auditor-General		
<i>Nature</i> : Administered		
Cash payments made during the year	238	226
<i>Estimated actual</i>	225	196
	Outcome 2	
Cash payments made during the year	239	226
<i>Estimated actual</i>	225	196
Cash payments made during the year	477	452
<i>Estimated actual</i>	450	392

Note: This appropriation is recognised as a Departmental appropriation but is required to be disclosed as Administered under the FMOs.

Table 20D: Acquittal of Authority to Draw Cash from the Consolidated Revenue Fund - Special Appropriations (Refund Provisions)

<i>Financial Management and Accountability Act 1997 s. 28(2)</i>	2010	2009
	\$'000	\$'000
<i>Purpose</i> : To provide an appropriation to permit the repayment of an amount received by the Commonwealth and apart from this section there is no specific appropriation for the repayment.		
<i>Nature</i> : Administered		
Cash payments made during the year	1,570	1,487
<i>Budget estimate (FMA Act section 28)</i>	2,000	2,000

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Note 21 - Special Accounts

Other Trust Special Account - Special Public Monies	2010 \$'000	2009 \$'000
Appropriation: <i>Financial Management and Accountability Act 1997 section 20</i>		
<i>Purpose:</i> For expenditure of monies temporarily held on trust or otherwise for the benefit of a person other than the Commonwealth		
Balance brought forward from previous period	1	1
Other receipts - Comcare receipts paid in accordance with the <i>Safety Rehabilitation and Compensation Act 1998</i>	33	63
Available for payments	34	64
Total increase	34	64
Payments made to employees	(17)	(63)
Total decrease	(17)	(63)
Balance carried to next period (excluding investment balances) and represented by:	17	1
Cash - held in the Official Public Account	-	-
Cash – held by the agency	17	1
Total balance carried to the next period	17	1

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 2009-10 or 2008-09 financial years.

The purpose of the services for other Governments & non-Agency Bodies Special Account is for expenditure in connection with services performed on behalf of other Governments and bodies that are not Agencies under the FMA Act.

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Note 22 - Compensation and Debt Relief

	2010 \$	2009 \$
<i>Departmental</i>		
No payments made under section 73 of the Public Service Act 1999 (2008-09: No payments made).	<u>Nil</u>	<u>Nil</u>
<i>Administered</i>		
No 'Act of Grace' expenses were incurred during the reporting period (2008-09: No payments made).	<u>Nil</u>	<u>Nil</u>
No waivers of amounts owing to the Commonwealth were made pursuant to subsection 34(1) of the Financial Management and Accountability Act 1997. (2008-09: No waivers made).	<u>Nil</u>	<u>Nil</u>
No ex-gratia payments were made during the year (2008-09: No payments made).	<u>Nil</u>	<u>Nil</u>

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Note 23: Reporting of Outcomes

The ANAO uses an Activity Based Costing System to determine the attribution of its shared items. This system is based on a time and motion study for corporate activities that is conducted annually. The basis of attribution in the table below is consistent with the basis used for the Budget.

Note 23A: Net Cost of Outcome Delivery

	Outcome 1		Outcome 2		Total	
	Assurance Audit Services		Performance Audit Services			
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Expenses						
Administered	-	-	-	-	-	-
Departmental	42,192	42,985	28,130	25,287	70,322	68,272
Total	42,192	42,985	28,130	25,287	70,322	68,272
Income from non-government sector						
Administered						
Activities subject to cost recovery	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total administered	-	-	-	-	-	-
Departmental						
Activities subject to cost recovery	-	53	-	39	-	92
Other	-	-	-	-	-	-
Total departmental	-	53	-	39	-	92
Total	-	53	-	39	-	92
Other own-source income						
Administered	-	-	-	-	-	-
Departmental	2,820	2,203	825	785	3,645	2,988
Total	2,820	2,203	825	785	3,645	2,988
Net cost of outcome delivery	39,372	40,729	27,305	24,463	66,677	65,192

Outcomes 1 and 2 are described in Note 1.

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Note 23B: Major Classes of Departmental Expense, Income, Assets and Liabilities by Outcomes

	Outcome 1		Outcome 2		Total	
	Assurance Audit Services		Performance Audit Services			
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Departmental Expenses:						
Employee benefits	19,605	18,914	18,793	16,225	38,398	35,139
Suppliers	21,692	23,056	8,701	8,516	30,393	31,572
Depreciation and amortisation	818	866	586	436	1,404	1,302
Other expenses	77	149	50	110	127	259
Total	42,192	42,985	28,130	25,287	70,322	68,272
Departmental Income:						
Income from government	45,158	39,248	25,864	24,489	71,022	63,737
Sale of goods and services	2,820	2,257	825	823	3,645	3,080
Total	47,978	41,505	26,689	25,312	74,667	66,817
Departmental Assets						
Cash and cash equivalents	426	458	272	354	698	812
Trade and other receivables	9,058	6,713	5,792	5,194	14,850	11,907
Other financial assets	75	85	48	66	123	151
Land and buildings	3,969	2,788	2,537	2,159	6,506	4,947
Property, plant and equipment	515	496	329	384	844	880
Intangibles	1,154	390	738	301	1,892	691
Other non-financial assets	561	411	359	319	920	730
Total	15,758	11,341	10,075	8,777	25,833	20,118
Departmental Liabilities						
Suppliers	1,582	1,452	1,011	1,012	2,593	2,299
Operating lease	999	917	638	808	1,637	1,835
Other payables	941	864	602	547	1,543	1,244
Employee provisions	5,673	5,208	3,627	3,757	9,300	8,539
Other provisions	24	22	16	18	40	40
Total	9,219	8,464	5,894	6,141	15,113	13,957

Outcomes 1 and 2 are described in Note 1.

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Note 23C: Major Classes of Administered Expenses, Income, Assets and Liabilities by Outcomes

	Outcome 1		Outcome 2		Total	
	Assurance Audit Services		Performance Audit Services			
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Administered income						
Sale of goods and services	7,956	8,141	-	-	7,956	8,141
Total	7,956	8,141	-	-	7,956	8,141
Administered assets						
Receivables (audit fees)	1,549	2,448	-	-	1,549	2,448
Work in progress	1,602	1,503	-	-	1,602	1,503
Total	3,151	3,951	-	-	3,151	3,951
Administered liabilities						
GST payable	175	248	-	-	175	248
Total	175	248	-	-	175	248

Outcomes 1 and 2 are described in Note 1.

APPENDIX 2—STAFFING STATISTICS

Table A2.1 Staffing profile at 30 June 2010

Classification	ACT	NSW	2009–10 total	2008–09 total
SES Band 3	1		1	1
SES Band 2	6		6	5
SES Band 1	19		19	20
EL 2	83	4	87	91
EL 1	56	1	57	50
APS 6	64	6	70	54
APS 5	47	1	48	55
APS 4	35	1	36	40
APS 3	13	1	14	17
APS 2	5		5	5
APS 1				
Graduate	17		17	18
Undergraduate	7		7	9
Total	353	14	367	365

APS = Australian Public Service, EL = Executive Level, SES = Senior Executive Service

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

Table A2.2 ANAO paid operative staff (employed under the *Public Service Act 1999*) at 30 June, 2009 and 2010

Location	June 2009			June 2010		
	Audit	Non-audit	Subtotal	Audit	Non-audit	Subtotal
ACT	270	52	322	277	54	331
NSW	10	0	10	10	1	11
Total			332			342

Note: Excludes 25 inoperative staff.

Table A2.3 Paid full-time, part-time and non-ongoing staff at 30 June 2010

Classification	Full-time		Part-time		Non-ongoing		Total	
	M	F	M	F	M	F	M	F
SES Band 3	1						1	
SES Band 2	6						6	
SES Band 1	12	6		1			12	7
EL 2	46	22	3	12	2		51	34
EL 1	27	18	1	9	1		29	27
APS 6	31	25	2	7		2	33	34
APS 5	23	19		3		2	23	24
APS 4	9	24	1		1		11	24
APS 3		11		2				13
APS 2	1	1		2	1		2	3
APS 1								
Graduate	6	11					6	11
Undergraduate					3	4	3	4
<i>Subtotal</i>	<i>162</i>	<i>137</i>	<i>7</i>	<i>36</i>	<i>8</i>	<i>8</i>	<i>177</i>	<i>181</i>
Total		299		43		16		358

APS = Australian Public Service, EL = Executive Level, SES = Senior Executive Service

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

Table A2.4 Analysis of workplace diversity groups within salary levels, 2009–10

Salary range	Women	NESB1	NESB2	ATSI	PWD
Below \$47,631 (APS 1 and undergraduates)	4	1	–	–	–
\$47,631 to \$56,369 (APS 2–3 and graduates)	28	–	–	–	–
\$56,370 to \$70,552 (APS 4–5)	49	7	6	–	–
\$70,553 to \$97,577 (APS 6–EL 1)	63	9	8	–	1
\$97,578 and above (EL2–SES Band 3)	42	6	3	–	1
Total staff: 367	186 (51%)	23 (6%)	17 (5%)	–	2 (<1%)

APS = Australian Public Service, EL = Executive Level

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

Key: NESB1: Non-English speaking background, overseas born.

NESB2: Non-English speaking background, first-generation Australian.

ATSI: Aboriginal or Torres Strait Islander.

PWD: People with disability.

Table A2.5 Details of gains and losses (ongoing staff), 2009–10

Location	Movements to other departments	Resignations	Medical retirements	Voluntary retirements	Other	Total losses	Gains
ACT	25	41	–	–	–	66	78
NSW	–	–	–	–	1	1	–
Total	25	41	–	–	1	67	78

Table A2.6 Details of staff training, 2005–06 to 2009–10

Description	2009–10	2008–09	2007–08	2006–07	2005–06
Net eligible training expenditure (including salaries)	\$920,130	\$890,642	\$993,759	\$1,161,057	\$993,236
Total number of person-days spent by staff on eligible training programs	2,131	2,168	1,753	2,176	2,044
Total number of staff eligible to participate in training programs	371	352	297	321	319

Table A2.7 Basis of employment, 2009–10

Level	Enterprise agreement	Australian Workplace Agreement	Common law contract
SES	–	10	16
Non-SES	334	7	–
Total	334	17	16

SES = Senior Executive Service

Table A2.8 Performance payments in 2009–10

Classification	Number	Total (\$)	Average (\$)	Minimum (\$)	Maximum (\$)
SES	25	196,786	7,871	3,000	15,000
EL 2	49	180,025	3,674	1,637	8,469
EL 1	24	60,628	2,526	1,341	3,131
APS 6	31	65,487	2,112	1,120	2,386
APS 5	15	29,131	1,942	1,457	2,223
APS 4	5	9,047	1,809	1,026	2,959
APS 1–3	3	4,955	1,652	1,556	1,759
Total	152	546,059			

APS = Australian Public Service, EL = Executive Level, SES = Senior Executive Service

APPENDIX 3—AUDIT REPORTS TABLED IN 2009–10

Report title	Date tabled	Cost (\$) ^a
Audit Report No.1 2009–10 Performance Audit <i>Representations to the Department of the Treasury in Relation to Motor Dealer Financing Assistance</i>	4 August 2009	225,000
Audit Report No.2 2009–10 Assurance Report <i>Campaign Advertising Review 2008–09</i>	7 September 2009	762,000 ^b
Audit Report No.3 2009–10 Performance Audit <i>Administration of Parliamentarians' Entitlements by the Department of Finance and Deregulation</i>	8 September 2009	970,000
Audit Report No.4 2009–10 Performance Audit <i>The Management and Processing of Annual Leave</i>	15 September 2009	295,000
Audit Report No.5 2009–10 Performance Audit <i>Protection of Residential Aged Care Accommodation Bonds</i>	17 September 2009	415,000
Audit Report No.6 2009–10 Performance Audit <i>Confidentiality in Government Contracts—Senate Order for Departmental and Agency Contracts (Calendar Year 2008 Compliance)</i>	28 September 2009	392,000
Audit Report No.7 2009–10 Performance Audit <i>Administration of Grants by the National Health and Medical Research Council</i>	20 October 2009	396,000
Audit Report No.8 2009–10 Performance Audit <i>The Australian Taxation Office's Implementation of the Change Program: a strategic overview</i>	29 October 2009	630,000
Audit Report No.9 2009–10 Performance Audit <i>Airservices Australia's Upper Airspace Management Contracts with the Solomon Islands Government</i>	5 November 2009	265,000
Audit Report No.10 2009–10 Performance Audit <i>Processing of Incoming International Air Passengers</i>	16 November 2009	360,000
Audit Report No.11 2009–10 Performance Audit <i>Garrison Support Services</i>	17 November 2009	370,000
Audit Report No.12 2009–10 Performance Audit <i>Administration of Youth Allowance</i>	19 November 2009	400,000
Report No.13 2009–10 Assurance Report <i>2008–09 Major Projects Report</i>	24 November 2009	1,085,000
Audit Report No.14 2009–10 Performance Audit <i>Agencies' Contract Management</i>	25 November 2009	440,000
Audit Report No.15 2009–10 Performance Audit <i>AusAID's Management of the Expanding Australian Aid Program</i>	26 November 2009	518,000
Audit Report No.16 2009–10 Performance Audit <i>Do Not Call Register</i>	16 December 2009	237,000
Audit Report No.17 2009–10 Financial Statement Audit <i>Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2009</i>	17 December 2009	165,800

Report title	Date tabled	Cost (\$) ^a
Audit Report No.18 2009–10 Performance Audit <i>LPG Vehicle Scheme</i>	18 December 2009	340,000
Audit Report No.19 2009–10 Performance Audit <i>Child Support Reforms: Stage One of the Child Support Scheme Reforms and Improving Compliance</i>	18 December 2009	387,000
Audit Report No.20 2009–10 Performance Audit <i>The National Broadband Network Request for Proposal Process</i>	3 February 2010	390,000
Audit Report No.21 2009–10 Performance Audit <i>Administration of the Water Smart Australia Program</i>	4 February 2010	530,000
Audit Report No.22 2009–10 Performance Audit <i>Geoscience Australia</i>	11 February 2010	480,000
Audit Report No.23 2009–10 Performance Audit <i>Illegal Foreign Fishing in Australia's Northern Waters</i>	23 February 2010	290,000
Audit Report No.24 2009–10 Performance Audit <i>Procurement of Explosive Ordnance for the Australian Defence Force</i>	10 March 2010	435,000
Audit Report No.25 2009–10 Performance Audit <i>Security Awareness and Training</i>	15 April 2010	225,000
Audit Report No.26 2009–10 Performance Audit <i>Administration of Climate Change Programs</i>	20 April 2010	272,500
Audit Report No.27 2009–10 Performance Audit <i>Coordination and Reporting of Australia's Climate Change Measures</i>	20 April 2010	272,500
Audit Report No.28 2009–10 Performance Audit <i>The Australian Electoral Commission's Preparation for and Conduct of the 2007 Federal General Election</i>	21 April 2010	695,000
Audit Report No.29 2009–10 Performance Audit <i>Attorney-General's Department Arrangements for the National Identity Security Strategy</i>	21 April 2010	235,000
Audit Report No.30 2009–10 Performance Audit <i>Management of the Strategic Regional Program/Off-Network Program</i>	22 April 2010	510,000
Audit Report No.31 2009–10 Performance Audit <i>Management of the AusLink Roads to Recovery Program</i>	22 April 2010	690,000
Audit Report No.32 2009–10 Performance Audit <i>Management of the Overseas Owned Estate</i>	28 April 2010	470,000
Audit Report No.33 2009–10 Performance Audit <i>Building the Education Revolution—Primary Schools for the 21st Century</i>	5 May 2010	725,000
Audit Report No.34 2009–10 Performance Audit <i>The Management and Use of Double Taxation Agreement Information Collected through Automatic Exchange</i>	18 May 2010	455,000
Audit Report No.35 2009–10 Performance Audit <i>Administration of the Superannuation Co-contribution Scheme</i>	18 May 2010	290,000

Report title	Date tabled	Cost (\$) ^a
Audit Report No.36 2009–10 Performance Audit <i>Emergency Management and Community Recovery Assistance in Centrelink</i>	19 May 2010	600,000
Audit Report No.37 2009–10 Performance Audit <i>Lightweight Torpedo Replacement Project</i>	20 May 2010	436,000
Audit Report No.38 2009–10 Assurance Report <i>Campaign Advertising Review July 2009 – March 2010</i>	21 May 2010	696,000 ^c
Audit Report No.39 2009–10 Performance Audit <i>Medicare Australia's Administration of the Pharmaceutical Benefits Scheme</i>	24 May 2010	550,000
Audit Report No.40 2009–10 Performance Audit <i>Application of the Core APS Values and Code of Conduct to Australian Government Service Providers</i>	26 May 2010	457,000
Audit Report No.41 2009–10 Performance Audit <i>Effective Cross-Agency Agreements</i>	26 May 2010	240,000
Audit Report No.42 2009–10 Performance Audit <i>Fraud Control in Australian Government Agencies</i>	26 May 2010	690,000
Audit Report No.43 2009–10 Performance Audit <i>Army Individual Readiness Notice</i>	16 June 2010	390,000
Audit Report No.44 2009–10 Performance Audit <i>Administration of the Tax Obligations of Non-Residents</i>	16 June 2010	465,700
Audit Report No.45 2009–10 Performance Audit <i>Contracting for Defence Force Recruiting Services</i>	17 June 2010	360,000
Audit Report No.46 2009–10 Performance Audit <i>Child Support Reforms: Building a Better Child Support Agency</i>	22 June 2010	367,000
Audit Report No.47 2009–10 Performance Audit <i>Management of Live Animal Imports</i>	23 June 2010	360,000
Audit Report No.48 2009–10 Performance Audit <i>Community Intelligence—Collecting and Processing Tip-offs</i>	23 June 2010	287,600
Audit Report No.49 2009–10 Performance Audit <i>Defence's Management of Health Services to Australian Defence Force Personnel in Australia</i>	24 June 2010	367,000
Audit Report No.50 2009–10 Financial Statement Audit <i>Interim Phase of the Audit of Financial Statements of Major General Government Sector Agencies for the year ending 30 June 2010</i>	24 June 2010	301,600

a These are final figures rounded to the nearest \$100.

b This was the cost to the ANAO of undertaking reviews and associated activities over the 2008–09 financial year.

c This was the cost to the ANAO of undertaking reviews and associated activities from 1 July 2009 until May 2010.

APPENDIX 4—SUMMARY OF REPORTS TABLED IN 2009–10

This appendix summarises the main issues raised in reports tabled in 2009–10 (including performance audit reports, an assurance report on major Defence projects and two reports on our audits of financial statements of Australian Government entities). The summaries are grouped according to the following portfolios:

- Agriculture, Fisheries and Forestry
- Attorney-General's
- Broadband, Communications and the Digital Economy
- Climate Change and Energy Efficiency
- Defence
- Education, Employment and Workplace Relations
- Environment, Water, Heritage and the Arts
- Finance and Deregulation
- Foreign Affairs and Trade
- Health and Ageing
- Human Services
- Infrastructure, Transport, Regional Development and Local Government
- Resources, Energy and Tourism
- Treasury
- cross-portfolio performance audits.

Agriculture, Fisheries and Forestry portfolio

Audit Report No.47 2009–10, *Management of Live Animal Imports*

The audit objective was to examine how effectively the Department of Agriculture, Fisheries and Forestry (DAFF) managed the importation of live animals into Australia.

DAFF had established a sound framework for managing quarantine risks. The department assessed quarantine risks and imposed import conditions to mitigate risks. Processes underpinning Australia's quarantine arrangements were outlined in instructional material which had been reviewed following the Callinan inquiry. In addition, the department had implemented verification programs.

However, the audit found that there was a lack of documentation demonstrating examinations and quarantine decisions for the majority of the 207 consignments reviewed by the ANAO. Furthermore, the Live Animal Import Program's verification program did not check the completeness and accuracy of documentation. The absence of appropriate documentation undermined department's ability to be confident that quarantine processes had been implemented effectively. In addition, data could not be collected from DAFF's electronic systems to inform compliance strategies and highlight emerging quarantine risks and operational issues. To collect and analyse data relating to importation and quarantine processes nationally, DAFF will need to develop an approach for recording examinations on a consistent basis.

Animals ordered into quarantine were sent to either a quarantine station or a quarantine approved premises (QAP). There were arrangements in place to manage access to, and the security of, these facilities; monitor animal health and wellbeing; and control animal-specific quarantine risks. DAFF approved QAPs and conducted audits to monitor QAPs' compliance with the conditions of approval and its criteria. The audit found that QAP audit reports had not been completed as required and audit checklists did not clearly record the extent of checking by the quarantine auditor. Furthermore, there were no systems or processes in place to monitor corrective action where noncompliance was identified, and follow-up action was at the discretion of the individual quarantine auditor. As a consequence, DAFF had limited assurance that QAPs were meeting all requirements.

The ANAO made two recommendations aimed at providing DAFF with greater assurance that import conditions are being met and QAPs are complying with the conditions of approval and the relevant criteria.

Attorney-General's portfolio

Audit Report No.10 2009–10, *Processing of Incoming International Air Passengers*

The audit assessed the processing of incoming international air passengers in the primary line by the Australian Customs and Border Protection Service (Customs and Border Protection). In particular, it assessed the extent to which:

- systems and controls effectively support the referral of incoming air passengers who pose a risk or who are carrying prohibited items
- air passengers presenting an immigration risk are processed appropriately
- Customs and Border Protection has arrangements in place to effectively promote cooperation and information sharing between Customs and Border Protection and the Department of Immigration and Citizenship (DIAC).

The audit concluded that Customs and Border Protection's management arrangements for processing incoming international air passengers in the primary line are broadly effective. Air passengers presenting an immigration risk are processed appropriately. The routine for Customs and Border Protection officers undertaking primary line activities was specifically designed in conjunction with DIAC to mitigate immigration risks at the border. The routine was generally adhered to. However, performance of some aspects of the routine was not consistently undertaken and cannot be clearly assessed or measured by Customs and Border Protection.

Customs and Border Protection's IT systems and control arrangements provide appropriate support to intercept incoming air passengers who pose a risk or who may carry prohibited items. However, IT incident and IT problem management could be improved. Furthermore, service times for IT incidents and problems should be established and documented, especially for those with a significant business impact.

Arrangements to share management information and promote cooperation between Customs and Border Protection and DIAC are sound. However, there was no clear evidence of monitoring of whether all the key performance indicators are being met.

Audit Report No.23 2009–10, *Illegal Foreign Fishing in Australia's Northern Waters*

The audit assessed the effectiveness of the Australian Customs and Border Protection Service's performance in managing and coordinating enforcement operations against illegal foreign fishing in Australia's northern waters.

The audit concluded that, overall, Customs and Border Protection had effectively managed and coordinated enforcement operations against illegal foreign fishing in northern waters. Additional funding for increased detection, apprehension and destruction of illegal foreign fishing vessels had resulted in a substantial decline in the number and extent of incursions by such vessels into Australia's exclusive economic zone, and foreign fishing vessels had retreated to waters north of the zone boundary. The number of foreign fishing vessels apprehended fell from 367 in 2005–06 to 216 in 2006–07, 156 in 2007–08 and 27 in 2008–09.

This outcome has rested on the effective coordination of surveillance and response operations by Border Protection Command (BPC) and an effective whole-of-government coordination structure overseen by the former Strategic Maritime Management Committee.

Challenges for the administration of the whole-of-government program include program leadership responsibility, the lack of a continuing overarching implementation plan, the need to improve agencies' strategic understanding of the drivers and dynamics of illegal foreign fishing activity, and ongoing performance evaluation of the program.

The ANAO has also identified several areas for improvement within Customs and Border Protection, including BPC's intelligence support for policy and long-term planning and strategy development; deficiencies in the risk assessment processes managed by BPC; the transparency of planning and prioritisation processes for BPC's client agencies; and the definition, measurement and reporting of program effectiveness.

Audit Report No.29 2009–10, *Attorney-General's Department Arrangements for the National Identity Security Strategy*

This audit assessed the effectiveness of the arrangements used by the Attorney-General's Department's (AGD) for coordinating the development of the National Identity Security Strategy (NISS). It focused on governance arrangements for the NISS, progress to date of the six NISS elements, and AGD's administrative arrangements for developing the NISS.

Diverse personal identification credentials, issued for primarily operational purposes, are routinely used by government agencies, business and individuals as de facto identity documents. Currently, identity-related credentials are of variable quality and accuracy, which exposes government, business and individuals to a variety of risks from not being able to verify that a person is who they claim to be.

In 2007, the Australian Government and state and territory governments, as part of a Council of Australian Governments (COAG) initiative, agreed to the NISS. The NISS, when developed and implemented, was intended to provide a framework for intergovernmental cooperation to strengthen Australia's personal identification processes. The NISS depends on complementary actions by different agencies, the majority of which are located in Australia's states and territories. For the Australian Government, AGD is the lead agency for identity security issues and has lead responsibility for coordinating the development of the NISS.

Overall, the ANAO concluded that, despite progress in the development of the NISS and its six elements, there are opportunities for AGD to further strengthen the integrity of Australia's personal identification processes.

Broadband, Communications and the Digital Economy portfolio

Audit Report No.16 2009–10, *Do Not Call Register*

The audit examined the effectiveness of the Australian Communications and Media Authority (ACMA) in operating, managing and monitoring the Do Not Call Register, including compliance with legislative requirements, since its implementation in May 2007.

Overall, the ANAO concluded that ACMA had implemented arrangements that effectively supported its regulatory oversight of the Do Not Call Register. Registration take-up had met ACMA's expectations. Promotional and awareness-raising activities were relatively effective in maintaining a high level of consumer awareness of and interest in the register, and in developing telemarketers' understanding of the Do Not Call Register Scheme. Research conducted by ACMA indicates that consumers are generally satisfied with the registration process and that telemarketers are generally satisfied with the process for submitting call lists for checking (washing) to identify numbers that are on the register.

ACMA could improve the education of consumers on how the register and the scheme operate; oversight of the register's information and communications technology arrangements; treatment of the risks of inconsistency in compliance enforcement decision-making; and transparency in enforcement action. The ongoing success of the register and the scheme relies on consumers and telemarketers understanding both how the register and scheme operate (for example, the three-year registration period and the complaints and compliance regime) and their limitations (such as the fact that they will not prevent all unsolicited calls). The audit identified the end of the three-year registration period for the approximately 1 million people who registered at commencement, due in May 2010, as a key test for ACMA.

Audit Report No.20 2009–10, *The National Broadband Network Request for Proposal Process*

The objective of the audit was to examine key aspects of the National Broadband Network request for proposal (RFP) process, including:

- the background to and conduct of the RFP process
- management of key risks associated with the process and outcome
- stakeholder consultations.

The audit examined management by the Department of Broadband, Communications and the Digital Economy of key aspects of:

- the implementation of the RFP process from the time of the election of the new government on 24 November 2007 to the release of the RFP document on 11 April 2008
- the conduct of the RFP process from after the release of the RFP document to the termination of the process on 7 April 2009.

The department informed the ANAO that the Government was made fully aware of all of the key risks and their significance for a successful outcome to the RFP process. While key risks and their broad significance were identified in early advice to the Government, the department did

not fully assess the consequences of some of those risks until relatively late in the RFP process. These included, in particular, the possible magnitude of the potential payment of compensation to Telstra should a non-Telstra proposal using fibre-to-the-node technology be successful and the consequences for investment in fibre-to-the-node equipment, which largely would become obsolete, should the network be upgraded to fibre-to-the-premises technology. The design of the Government's approach to the market would have been better informed had the department provided timely advice on these issues ahead of the RFP process being settled.

As it was, the Government decided to seek binding offers from the market through a one-stage RFP process and to give proponents wide scope to request regulatory changes to facilitate their proposals. This approach was not conventional for a competitive assessment process of this size, nature and risk. Given the amount of government funding on offer, Telstra was the proponent most likely to be in a position to build and operate a viable fibre-based National Broadband Network. The likely impact on the prospects of a successful RFP outcome had Telstra lodged an eligible proposal is indeterminate. As the outcome of the RFP process showed, no other proponents were successful either.

The audit has not made any recommendations to the department, as the RFP process has been finalised. Nevertheless, the audit emphasises the importance of departments gaining, as early as possible, a sound understanding of the implications of risks that are critical to the success of major tender processes, among the many risks that must be managed. This is particularly challenging in a one-stage process that seeks binding offers.

Climate Change and Energy Efficiency portfolio

Audit Report No.26 2009–10, *Administration of Climate Change Programs*

The objective of this audit was to assess the effectiveness of the administration of specific climate change programs by the Department of the Environment, Water, Heritage and the Arts (DEWHA)—which had responsibility for programs now with the Department of Climate Change and Energy Efficiency (DCCEE)—and the Department of Resources, Energy and Tourism. In undertaking this audit, particular emphasis was given to the implementation of good administrative practice and the extent to which the program objectives were being met.

Overall, the ANAO concluded that each program had different administrative challenges, and that the effectiveness of some of the programs was constrained by weaknesses in program design and implementation. Greater consideration needs to be given to setting clear and measurable objectives, assessing and implementing appropriate risk mitigation strategies, applying a rigorous merit-based assessment of applications for competitive grants, and effectively measuring and reporting on performance.

This audit made one recommendation aimed at improving grant administration in DEWHA, and could also be taken into account by DCCEE in the ongoing administration of relevant programs. The audit also identified a number of lessons that may have application to other grant programs in the departments concerned.

Audit Report No.27 2009–10, *Coordination and Reporting of Australia's Climate Change Measures*

The objective of this audit was to assess the coordination of Australian Government and state and territory government climate change programs and the integrity of measuring and reporting of Australia's greenhouse gas emissions and abatement.

In 2008, there were some 550 climate change–related measures across jurisdictions, resulting in the overlap and duplication of programs. In general, the program reviews requested by COAG resulted in some rationalisation and subsequent adjustment to programs to enhance complementarity and consistency with the proposed Carbon Pollution Reduction Scheme. However, progress in streamlining some state and territory programs was slower than COAG had expected. There is still considerable scope for further rationalisation across jurisdictions. However, this is a matter for consideration by the responsible governments.

Australia's national greenhouse gas inventory is well developed and provides a reliable method for measuring and reporting national emissions. Australia's national inventory has been improved over time and provides a sound basis for understanding the sources, trends and levels of emissions from industry sectors.

The aggregate impact of all government mitigation actions has been revised by the DCCEE over time. The estimated aggregate level of abatement is 74.5 million tonnes of carbon dioxide equivalent annually over the five-year Kyoto Protocol period—a 15 per cent revision down from 2007. The downward revision reflects a more realistic assessment of program achievements as well as the termination of and adjustments to a range of programs. Overall, the methodology employed by DCCEE to estimate the impact of abatement measures provides a reasonable level of assurance as to the integrity of the aggregate abatement.

For greater transparency, abatement figures for individual measures and in aggregate could be reported more regularly by the department in a consolidated domestic publication. The ANAO has made one recommendation aimed at improving the transparency and consistency of reporting climate change abatement.

Defence portfolio

Audit Report No.11 2009–10, *Garrison Support Services*

The Department of Defence (Defence) contracts out the provision of garrison support services (GSSs) to allow the Australian Defence Force (ADF) to focus on its core functions. GSSs include catering, access control and grounds maintenance. The ANAO examined the recent tender selection process conducted for the base services contract (which encompasses GSSs) for the North Queensland region, and also contract management arrangements for three existing GSS regional contracts.

Overall, the ANAO considers that Defence's current tender selection processes and contracting arrangements are delivering the necessary services. However, the effectiveness of GSS contracting is constrained by weaknesses in risk management, performance management and contract amendment administration for current GSS contracts. Inconsistencies in Defence's application of the performance management framework for GSSs, both across and within regions, raise issues of the equitable treatment of contractors, and whether the level of performance payments made by Defence has been adequately substantiated. Defence has recognised the need for reform of GSS/Base Services and has already begun to implement a range of reforms. However, in the context of the challenging savings target for GSSs under the Strategic Reform Program (\$700 million over the next 10 years), successful completion of reforms already in train and identification and implementation of further improvements will be essential.

Report No.13 2009–10, *2008–09 Major Projects Report*

This second annual review of the status of selected Defence equipment acquisition projects built on the work undertaken by the Defence Materiel Organisation (DMO) and the ANAO to improve the transparency and public accountability of major Defence acquisitions. The *2008–09 Major Projects Report* includes more data analysis than the previous report, and provides a basis for longitudinal analysis of project performance for future years. To meet stakeholder requirements, the report provides additional information in a project data summary sheet, including enhancements proposed by the Joint Committee of Public Accounts and Audit.

The review report covered the cost, schedule and capability progress achieved by 15 DMO projects, which had an approved budget totalling \$37.8 billion at 30 June 2009. The ANAO reviewed project data provided by the DMO in its major projects report and provided an independent conclusion on the data to parliament in 2009–10. The non-inclusion of the prime contract price for three projects and expenditure at base date prices for 11 projects represented a departure from the Project Data Summary Sheet Guidelines, and constituted the basis for the ANAO's qualified conclusion. DMO did not include this information as, in its view, the figures were difficult to obtain without a significant investment to present the figures at a level of accuracy that DMO could be assured of. In addition, project information on major risks and issues was deemed to be outside the scope of the review.

The ANAO's analysis indicated that maintaining major acquisition projects on schedule remains the major challenge for the DMO and industry contractors, affecting when the capability is made available to the ADF as the end user. Across the 15 projects reviewed, on average, there was a schedule slippage of just over two years against original target dates for achieving final operational capability.

The review was conducted in accordance with ASAE 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information*. By its nature, the review provided less assurance than an audit.

Audit Report No.24 2009–10, *Procurement of Explosive Ordnance for the Australian Defence Force*

The audit examined the effectiveness of Defence's and the DMO's management of procurement and through-life support arrangements to meet the explosive ordnance requirements of the ADF, particularly the non-guided munitions requirements of the Army. This included a review of the progress of Defence and the DMO in implementing the recommendations of ANAO Audit Report No.40 2005–06.

The audit found that while only four of the 15 recommendations of the 2005–06 audit report had been fully implemented, all 15 had been closed as complete in Defence's system for managing recommendations. The ANAO identified a range of ongoing issues that detracted from the effective procurement of explosive ordnance for the ADF. These ranged from moderately significant issues, such as the adequacy of the DMO's management of prepayments to suppliers, to issues with greater significance such as the management of the serviceability of explosive ordnance inventory, explosive ordnance requirements determination and the strategic management of domestic manufacturing arrangements. There remained considerable scope for improvement in the management of explosive ordnance, and the ANAO noted the importance for Defence and the DMO of effectively implementing the current reform programs that seek to remediate these issues.

Audit Report No.37 2009–10, *Lightweight Torpedo Replacement Project*

The objective of this audit was to review the effectiveness of Defence's and the DMO's management of the acquisition arrangements for Joint Project 2070—Lightweight Torpedo Replacement Project (JP 2070). JP 2070 involved the acquisition of a new weapon and the integration of the weapon onto multiple platforms which were also being upgraded, by a number of other DMO-managed projects.

The audit identified significant weaknesses in Defence's risk management of JP 2070 and assessed the project against the key indicators of capability delivery, schedule achievement and cost control. This assessment found that JP 2070 has not been managed effectively by DMO, as the project:

- will not deliver the capability originally sought
- has not achieved schedule
- only remained within budget by removing three of the five platforms that were originally intended to be integrated with the torpedo.

The audit noted that, when a major capital acquisition encounters cost, schedule and capability difficulties, it remains the responsibility of the procuring agency to deliver the best possible project outcomes to the Commonwealth; and that where circumstances that affect project performance arise they should be readily detectable through the ongoing performance monitoring mechanisms in place. The audit concluded that this project demonstrates that, in respect of Defence major capital equipment acquisition projects, further enhancement of reporting and monitoring mechanisms is required to properly inform decision making by both Defence and the Government.

Audit Report No.43 2009–10, *Army Individual Readiness Notice*

The purpose of the audit was to examine whether the Army effectively administers the Army Individual Readiness Notice (AIRN) to support the achievement of its purpose.

The AIRN stipulates individual readiness requirements that every member of the Army is required to attain and continuously maintain. These requirements address an Army member's medical, dental and physical fitness, as well as their proficiency in using a weapon, job performance and availability to deploy at short notice.

There is scope for improving the Army's implementation of the AIRN in a number of areas; for example, reviewing the suitability of the AIRN component requirements for providing assurance of individual readiness. Notwithstanding this, the ANAO considered that the AIRN is generally well administered within the Army at the unit level, with the notable exception of the large proportion of members who are reported as 'Not Ready' only because they have not adhered to the testing frequency requirements of the AIRN Instruction. Defence's current Strategic Reform Program, Delivering Force 2030, has committed the department to gross savings of some \$20 billion over the 10 years from 2009 to 2019. In this context, the ANAO considered that it is important that, in addressing the matters raised in the audit report and in seeking to improve the effectiveness of its ongoing administration of the AIRN, the Army estimate the expected costs and/or potential savings of any changes to AIRN requirements.

Audit Report No.45 2009–10, *Contracting for Defence Force Recruiting Services*

The purpose of the audit was to assess whether Defence effectively managed the procurement process for services related to the recruitment of personnel to the ADF and the introduction of a new service provider. On 2 July 2008, Defence signed the new Defence Force Recruiting (DFR) contract with the Chandler Macleod Group (CMG). The contract was for a five-year term ending on 1 February 2014, with an estimated cost of up to \$405 million. However, Defence and CMG agreed in October 2009 to the early termination of the contract after only nine months of operation.

Factors within the control of both parties contributed to the contractual difficulties encountered during transition to the new DFR contract. As the impact of the global economic crisis deepened, some of those difficulties intensified. Defence did not have sufficient knowledge of key aspects of the contractual arrangements under the previous DFR contract (for example, in relation to IT and DFR premises). For its part, CMG has referred to a projected shortfall in revenue due to a lower level of recruits and a number of unanticipated costs contributing to a projected loss on the new DFR contract for the year ended 30 June 2009. CMG informed the ANAO that it had not fully comprehended the risks it was assuming in signing the contract.

Audit Report No.49 2009–10, *Defence's Management of Health Services to Australian Defence Force Personnel in Australia*

The purpose of the audit was to assess whether Defence is effectively managing the delivery of health services to ADF personnel in Australia (chiefly garrison health services). ADF personnel must be fit and free from illness or disability so that they can perform effectively under operational conditions. For this reason, free health care, including dental and other ancillary health care, is a condition of service in the ADF. The ADF employs medical, dental and ancillary support health professionals, including members of the ADF Reserves, to support its military operations. There are some 104 health facilities around Australia currently providing health support services to ADF personnel in garrison.

Defence provides comprehensive health support to around 55,000 ADF personnel. However, Defence recognises that there is scope to significantly improve the efficiency and effectiveness of its garrison health services (to non-deployed ADF personnel) and is implementing reforms to the management and delivery of those services. While the overall direction of these changes is sound, because they are in the early stages of implementation and will take some years to complete the ANAO has not been able to assess their effectiveness. However, there are further opportunities to improve the governance arrangements for garrison health services as well as opportunities to reduce the cost of those services. Over the 10 years from 2009 to 2019, Defence expects to realise savings in the provision of health care of around \$118 million.

Education, Employment and Workplace Relations portfolio

Audit Report No.33 2009–10, *Building the Education Revolution—Primary Schools for the 21st Century*

The audit objective was to examine the effectiveness of the establishment of the Primary Schools for the 21st Century (P21) element of the Building the Education Revolution (BER) program by the Department of Education, Employment and Workplace Relations (DEEWR). The audit focused on the establishment of administrative arrangements for BER P21; assessment and approval of

funding allocations; and arrangements to monitor and report progress and the achievement of broader program outcomes. Examining individual projects was outside the audit's scope.

The BER formed a major part of the Government's response to the global financial crisis. BER P21, a large, high-profile program, required rapid establishment to maximise its stimulatory effect. Quick implementation needed to be balanced against the need to deliver quality, sustainable and value-for-money primary school infrastructure. The program was also established within a new framework for intergovernmental program delivery, untested for a program of this kind, and a coordination structure that added to the monitoring and reporting obligations on administering agencies.

The BER Guidelines established targets for the commencement of projects. About 78 per cent of BER P21 projects met commencement targets. Construction has progressed more slowly. All BER P21 projects were to have commenced construction by 1 December 2009. Of the 10,700 approved BER P21 projects, 1,995 projects (18.6 per cent) met the construction commencement milestones originally agreed.

The Government set funding maxima per school, by school size, and allocated \$12.4 billion. However, within six months, it was necessary to allocate a further \$1.7 billion. Essentially, the original budget had assumed that BER P21 as a whole would be completed for 90 per cent of the cost of providing the maximum funding for each school. In establishing the program, the approach adopted made maximum per school funding available to all schools. As was evident to DEEWR at the outset, this would require greater funding. Normally, administering agencies would be expected to return promptly to the Government to outline the case for additional funding and seek formal approval. However, in the case of BER P21, ministers comprising the Strategic Priorities and Budget Committee of Cabinet advised that, depending on the response of schools, a budget estimates variation may be required. Ultimately, additional funds for the program were reallocated by the Government in August 2009.

In implementing a program of this kind there is a premium on sound governance which balances control and flexibility, and maintains clear lines of responsibility and accountability. DEEWR's governance arrangements have ensured that BER P21 is delivering improved education facilities to almost all primary schools in Australia, in line with government policy objectives. Nevertheless, administrative decisions taken by the department have unduly constrained the flexibility of authorities to determine how the program will be delivered within their jurisdictions.

DEEWR's approach expanded its role in service delivery and, as such, was not in step with the thrust of recent reforms to the delivery of intergovernmental programs—that is, to reduce prescriptive rules on how services are delivered through a focus on mutually agreed outputs and outcomes. The approach adopted reduced the capacity of school systems to take account of system priorities and the differing needs of schools in their systems within the Australian Government's policy parameters for the program. It was open to the department to have adopted a more streamlined approach.

As BER P21 has been established, the ANAO has not made any recommendations to DEEWR concerning the implementation of the program. Nevertheless, the findings from this audit underline the greater need for departments to keep in view the balance between control and devolution in implementing a national partnership agreement under the new federal financial relations framework, compared to previous requirements. The audit also recognises that many of the issues arising were a function of the compressed timetable for the establishment of the program, given the prevailing economic downturn.

Environment, Water, Heritage and the Arts portfolio

Audit Report No.21 2009–10, *Administration of the Water Smart Australia Program*

The audit objective was to assess whether the Water Smart Australia Program, a \$1.6 billion discretionary grants program, had been administered effectively and was achieving its stated objective of accelerating the development and take-up of 'smart' technologies in water use.

Overall, the Water Smart Australia Program has been administered effectively by the National Water Commission (NWC) and DEWHA. The NWC was initially responsible for administering the program, with DEWHA taking over the ongoing administration of the program in July 2008. The NWC established, and generally followed, a sound framework for assessing the merits of the projects against approved selection criteria. Both agencies had adequate arrangements in place for developing funding agreements, monitoring the progress of projects following approval, and managing financial risks when making milestone (or advance) payments.

Notwithstanding these effective administrative arrangements, the full and timely achievement of funded water objectives has been adversely affected by significant delays in signing funding agreements; projects failing to meet agreed milestones; decisions not to terminate funding agreements where little or no progress has been made; and, for some projects, insufficient rainfall to generate agreed water savings.

The full benefits of the program may not be known until several years after funding ceases on 30 June 2011. Therefore, it will be important for DEWHA to have arrangements in place for monitoring proponents' ongoing evaluation reports. Also, since the Water Smart Australia Program was the first major grants program aimed at improving the management and use of Australia's water resources, there are obvious benefits in disseminating the good practices and lessons learned from the program to inform the design and delivery of other departmental grant programs. This includes the water programs that DEWHA administers under the Government's \$12.9 billion Water for the Future plan.

The NWC advised the responsible minister of cases where proposals were assessed to be uncompetitive and/or inconsistent with relevant National Water Initiative reforms when putting forward projects for funding, including three examined by the ANAO. In addition, there were two National Icon projects for which the funding awarded was materially higher than recommended by the NWC. Also, one project was announced by the Prime Minister before the proposal had been received and assessed by the NWC.

Although advice provided by the NWC was not accepted, it was the prerogative of the responsible ministers to reach a different decision, provided that they were satisfied that the expenditure they approved was in accordance with government policy and represented an efficient and effective use of public money. Under the rules applying at the time these funding decisions were made, ministers were not required to document any additional advice sought, or the specific reasons for approving funding, and no such documentation was evident from departmental records. The Government subsequently strengthened the administrative arrangements applying to the assessment and approval of grants. While not affecting a minister's right to decide on the allocation of grants, there is now an expectation that there will be greater transparency and accountability for the funding decisions made.

Finance and Deregulation portfolio

Audit Report No.3 2009–10, *Administration of Parliamentarians' Entitlements by the Department of Finance and Deregulation*

This audit assessed whether the framework for parliamentarians' entitlements was sound, including whether rules and guidance on entitlements were clear and precise; whether entitlements considered as part of the audit were claimed and administered in a cost-effective manner that was consistent with the entitlements framework underpinning them; and whether accountability arrangements (including internal and public reporting and certifications) were effective and appropriate.

To strike a better balance between assisting parliamentarians and ensuring accountability for the public funds spent on providing entitlements to them, the ANAO's 2001–02 audit report on parliamentarians' entitlements (Audit Report No.5 2001–02) indicated that there would be merit in conducting a comprehensive review of the entitlements framework. No such review was undertaken. In the eight years since that audit, various changes were made to some individual entitlements, but no fundamental changes were made to the framework. The result was an entitlements framework that was difficult to understand and manage for both parliamentarians and the Department of Finance and Deregulation (Finance).

A key shortcoming was that there was not a consistent approach to specifying the purpose for which entitlements may be used and, where purposes were specified, the meaning of key terms had not been articulated. Shortcomings in the framework had not assisted Finance in its role, and the department had also adopted a relatively gentle approach to entitlements administration.

A positive outcome of this audit was that, in July 2009, the Government made some decisions concerning reform of the printing entitlement, communications allowance, newspapers and periodicals entitlement and office requisites and stationery entitlement. The Government also agreed to a 'root and branch' review of the entitlements framework; the provision of significant additional funding for Finance to improve the administration of entitlements; and the online publishing of details of the entitlements framework and all entitlements expenditure administered by Finance.

Audit Report No.28 2009–10, *The Australian Electoral Commission's Preparation for and Conduct of the 2007 General Election*

Transparent, timely federal elections conducted with integrity are central to an effective electoral system. Federal elections are a complex logistical event, and the 24 November 2007 general election was the largest to date. The audit assessed the effectiveness of the measures taken by the Australian Electoral Commission (AEC) to prepare the electoral roll and the AEC's planning and preparation for and conduct of the 2007 general election, including the speed and accuracy of the count.

On polling day, out of an estimated 14.8 million eligible electors, 13.6 million were enrolled to vote, 13.3 million turned out to vote and 12.9 million votes were counted. Therefore, 87.5 per cent of the eligible population cast a vote that counted in the final result, but 12.5 per cent did not.

Improving the enrolment rate is one of the greatest challenges facing the AEC. While the AEC made significant efforts to recover and improve the enrolment rate before the 2007 federal election, on polling day the enrolment rate was well below the target of 95 per cent of the estimated eligible population. As a result, an estimated 1.1 million eligible electors were missing from the rolls on polling day. Post-election enrolment rates have deteriorated further.

The AEC's planning and preparation for the 2007 federal election was effective, though its existing approaches may be reaching their limit in terms of cost-effectiveness. A significant proportion of people on the electoral roll did not vote. Some polling booths were less than optimal, making voting more onerous for electors and officials alike, and the AEC had difficulty in recruiting and training polling booth staff to a suitable standard. The AEC could improve the transport and security arrangements for ballot papers completed by electors and the security of the process for communicating election night results from polling booths. The AEC could also report on its performance in undertaking the 24 key election activities it has identified.

Foreign Affairs and Trade portfolio

Audit Report No.15 2009–10, *AusAID's Management of the Expanding Australian Aid Program*

The audit assessed whether AusAID's management of the expanding aid program supports the delivery of effective aid. The audit focused on the progress of AusAID's internal reforms to achieve that objective.

The audit considered critical aspects of AusAID's management of the aid program. These included management arrangements and staff capacity; how aid investments are selected; major forms of aid or modes of delivery (being technical assistance and use of partner government systems); coordination of whole-of-government engagement; monitoring and evaluating aid performance; and external reporting.

The audit concluded that, since 2005, AusAID has managed the expansion of the aid program in a way that supports the delivery of effective aid. This period has seen AusAID increase the management responsibilities of country offices, recruit additional staff and build in-house technical expertise, and strengthen monitoring and evaluation of aid—supporting the delivery of more aid and improved aid effectiveness. AusAID has also made progress in changing the way Australian aid is delivered, by increasing the use of partner government systems and working more collaboratively with other donors.

Notwithstanding this progress, the aid program is likely to double in size between 2008–09 and 2015–16, and AusAID faces considerable management challenges amid ongoing program growth. AusAID staff are concerned about workloads and stress levels at many overseas posts, and there is a shortfall of expertise in some areas. Many country programs have operated without an agreed development assistance strategy; the number of aid activities under management has grown strongly, contributing to aid proliferation; and reducing reliance on traditional forms of aid is proving difficult. Resolving these issues requires a particular focus on AusAID's internal capacity and the composition of Australian assistance to make the delivery of aid more manageable and effective.

AusAID can strengthen accountability for aid funding by clarifying its approach to classifying administered and departmental expenses and by improving external reporting, which would help make aid program running costs more transparent to external stakeholders. Importantly, the implementation of strengthened performance assessment for aid programs and activities, and the work of the Office of Development Effectiveness, are focusing the attention of AusAID's management and staff on the factors that lead to better aid outcomes. Continued improvement in monitoring and evaluating aid is required if AusAID is to remain in a good position to meet the challenges of the coming years.

Audit Report No.32 2009–10, *Management of the Overseas Owned Estate*

This audit assessed the effectiveness of the Department of Foreign Affairs and Trade's management of the overseas owned estate through its Overseas Property Office (OPO). In particular, the audit examined whether:

- sound arrangements were in place to effectively plan and oversight the management of the overseas estate
- OPO effectively managed overseas owned property on a day-to-day basis
- the condition of the overseas owned estate was being adequately maintained by structured and systematic repair and maintenance arrangements
- OPO had appropriate information to facilitate the effective management of the owned estate, and appropriately consulted with stakeholders.

The management of the overseas owned estate is a challenging task, involving some 400 properties in 60 overseas locations with a total value of about \$1.7 billion. Some buildings are old and have heritage significance, which can make maintenance and compliance with current standards difficult and expensive. The requirement to manage the estate on a commercial basis and the increased priority given to security-related upgrades in recent years added to the complexity of the task.

Against the background of these challenges, the audit concluded that the administrative processes for planning, managing and maintaining the estate and reporting on its performance were not yet sufficiently developed to support the effective management of a property portfolio of the scale and complexity of the overseas owned estate. Some of the work required to strengthen the administrative processes was underway or had been identified, but will require close management oversight to achieve.

The ANAO made four recommendations to strengthen the management of the estate. They related to the management of agency tenancy arrangements, estate maintenance arrangements, performance indicators for the estate, and the continuing effectiveness of the commercial model in meeting the Government's objectives for the estate.

Health and Ageing portfolio

Audit Report No.5 2009–10, *Protection of Residential Aged Care Accommodation Bonds*

The audit objective was to assess the administration of prudential arrangements for the protection of residential aged care accommodation bonds by the Department of Health and Ageing (DoHA).

Since the inception of prudential arrangements in 1997, there has been rapid growth in the number of bonds, the total value of bond holdings (to some \$8 billion) and the proportion and diversity of aged-care providers relying on bonds to fund the delivery of aged-care services.

The administrative framework established by DoHA to manage prudential arrangements for the protection of residential aged care accommodation bonds does not sufficiently support effective regulatory oversight. The department had established some of the elements necessary to underpin a sound administrative framework, such as a dedicated prudential regulation capability, a separate database to hold prudential data, and an annual audited provider compliance statement process. Nevertheless, three key areas require attention in order to strengthen regulatory oversight: the systematic assessment and treatment of prudential risks

that have resulted from new and evolving threats; the expansion of DoHA's regulatory activities to include whether bonds and bond income are being used for the purpose of providing aged care as established under the *Aged Care Act 1997*; and the development of robust approaches to effectively identify and act upon instances of provider noncompliance with prudential regulations.

Audit Report No.7 2009–10, *Administration of Grants by the National Health and Medical Research Council*

The audit objective was to assess the effectiveness of grant administration by the National Health and Medical Research Council (NHMRC).

Since becoming a statutory agency in 2006 and separating its administrative functions from DoHA, the NHMRC has experienced a period of transition and implemented a significant change agenda. Notwithstanding the agency's progress to date, there were several shortcomings in the NHMRC's administration of this substantial grant program. Collectively, those shortcomings significantly reduced the effectiveness of the agency's grant administration.

In particular, inconsistent application of guidelines and procedures for specific aspects of the NHMRC's grant selection process, including conflict of interest provisions, exposed the agency in terms of transparency and defensibility of grant selection. Poor compliance in many aspects of the post-award management of grants also diminished the agency's ability to provide sufficient assurance that grant funds were used as intended. Further development of the agency's grant management systems was required to adequately support the administration of grants and allow sufficient collection of information to report against program outcomes.

The ANAO made five recommendations to assist the NHMRC in improving the overall effectiveness and accountability of its grant administration.

Human Services portfolio

Audit Report No.19 2009–10, *Child Support Reforms: Stage One of the Child Support Scheme Reforms and Improving Compliance*

In 2006, the Government provided funding of \$877 million over five years to implement the Child Support Reforms. The reforms comprised three key initiatives: the Child Support Scheme Reforms (CSSRs); the Improving Compliance program; and the Building a Better CSA program. This audit assessed the effectiveness of the management of the implementation of stage one of the CSSRs and the Improving Compliance program by the Department of Human Services (including the Child Support Agency), the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA), and Centrelink.

The changes to the Child Support Scheme associated with stage one of the CSSRs took effect as planned on 1 July 2006, despite a compressed timeframe for planning and implementation. Some weaknesses were evident in both whole-of-government and individual agency governance and project management arrangements. Due to limitations in the setting, monitoring and reporting of performance indicators, it is difficult to determine whether the intended outcomes of stage one of the CSSRs and their contribution to overall CSSR were achieved.

The Improving Compliance program was designed to achieve three key outcomes. Based on results to date, the program is on track to achieve one of those outcomes through meeting the adjusted child support collection target of \$339 million by 30 June 2010. In relation to the two remaining outcomes:

- the child support compliance rate was not maintained during the transitional compliance period
- it is unknown whether the revised Family Tax Benefit savings of \$43 million over four years will be achieved, because savings attributable to cases that have been subject to Child Support Agency compliance action are not assessed.

The Improving Compliance program was not based on a strategic assessment of the risks to the Child Support Scheme and had some inadequate financial management practices in costing, budgeting and resourcing. The delay in implementing governance frameworks to support its implementation and the lack of robust project management strategies were further limitations of the program.

Audit Report No.36 2009–10, *Emergency Management and Community Recovery Assistance in Centrelink*

The audit assessed Centrelink's effectiveness in delivering financial assistance for community emergencies and disasters and its ability to respond effectively to business disruptions caused by such events. The scope of the audit covered Centrelink's emergency management framework and community recovery assistance operations in general, with a specific focus on the 2009 North Queensland floods and Victorian bushfires. FaHCSIA's role during those disaster was also considered, as it played a key role in establishing the policy parameters of the services Centrelink delivered and in addressing issues arising from policy implementation.

In delivering the financial assistance and a range of other support and recovery activities to people affected by the floods and bushfires, Centrelink demonstrated that it has the capability to adapt its service delivery arrangements to effectively respond to disasters and to Australian Government directions. Centrelink rapidly delivered over \$110 million in financial assistance to approximately 93,000 people. It also provided support services, such as case management, to meet the needs of communities affected by the disasters. The demand of responding to large-scale concurrent disasters, however, along with increased demands on its service delivery network, affected Centrelink's capacity to manage the disruptions to its business-as-usual activities and maintain its customer service obligations as outlined in its customer service charter.

Notwithstanding Centrelink's significant effort and effectiveness in delivering disaster recovery assistance, the response to the floods and bushfires highlighted some areas that could be improved so that Centrelink's emergency management capabilities can be deployed more effectively in the future.

Audit Report No.39 2009–10, *Medicare Australia's Administration of the Pharmaceutical Benefits Scheme*

The audit objective was to examine the effectiveness of Medicare Australia's administration of the Pharmaceutical Benefits Scheme (PBS).

Overall, the audit found that the PBS program operates in an effective and efficient manner for patients and pharmacists, in that patients have affordable and timely access to drugs listed on the PBS Schedule and pharmacists' claims are processed in a timely manner. There remain, however, areas of risk and opportunities for improvement in relation to Medicare Australia's administration of the scheme. These include the governance arrangements among agencies involved in the PBS; the operational arrangements and processes supporting Medicare Australia's delivery of the scheme, including the use of the online claiming system to improve customer access to the PBS safety net; and the monitoring and reporting of delivery performance.

Audit Report No.46 2009–10, *Child Support Reforms: Building a Better Child Support Agency*

The Building a Better Child Support Agency (BBCSA) program was established to assist the Child Support Agency (CSA) to implement the Child Support Reforms and address identified shortcomings in its operations and culture. The BBCSA program was expected to develop an organisational culture that was more customer focused, and improve CSA's engagement with customers and stakeholders. The audit assessed the effectiveness of the management of the implementation of the BBCSA program.

Feedback from customers and stakeholders, gathered by CSA, showed an increase in general satisfaction levels with communication and, particularly, a greater level of awareness and knowledge of CSA, its role in relation to the Child Support Scheme and the services it provides. CSA made progress in some areas during the rollout of the BBCSA program (such as customers' satisfaction with CSA services and customers' perceptions of CSA's fairness in dealing with customers). However, in many cases where performance indicators and information was available, the momentum had not been sustained. As a consequence, the overall improvement has been limited. These results were, in part, a reflection on the limited effectiveness of some areas of CSA's implementation of the program, particularly the planning and monitoring and review aspects.

Infrastructure, Transport, Regional Development and Local Government portfolio

Audit Report No.9 2009–10, *Airservices Australia's Upper Airspace Management Contracts with the Solomon Islands Government*

ANAO Audit Report No.8 2006–07, *Airservices Australia's Upper Airspace Management Contracts with the Solomon Islands Government*, which was tabled in the Parliament on 18 October 2006, found that Airservices Australia's commercial interests had overshadowed its responsibilities as a Commonwealth statutory authority incorporated by an Act of the Australian Parliament for a public purpose. Of particular note was that Airservices Australia's administration of the Solomon Islands Government's air navigation fee revenue departed significantly from the approach specified in the upper airspace management contracts. The objective of this follow-up audit was to assess the extent to which Airservices Australia and, where relevant, the Department of Infrastructure, Transport, Regional Development and Local Government, had implemented the four ANAO recommendations contained in the previous audit report.

Airservices Australia recently changed its strategic direction to focus on its core business activities and no longer aims to pursue new commercial revenue opportunities similar to the Solomon Islands upper airspace management contract. As a consequence, Airservices Australia has not entered, and has advised that it is not currently seeking to enter, into new commercial contracts with other countries of a similar nature to its Solomon Islands contract. In these circumstances, the likelihood of administrative irregularities recurring is reduced. Airservices Australia has also significantly improved its processes and procedures for the management of the financial aspects of the existing upper airspace management contract with the Solomon Islands Government. In summary, Airservices Australia and the Department of Infrastructure, Transport, Regional Development and Local Government, where relevant, have substantially implemented the four recommendations of the 2006–07 Audit Report.

Audit Report No.30 2009–10, *Management of the Strategic Regional Program/Off-Network Program*

This audit assessed whether the Strategic Regional Program (as it was under the *AusLink (National Land Transport) Act 2005*)/Off-Network Program (as it became under the *Nation Building Program (National Land Transport) Act 2009*) has been effectively administered.

The administration of the program has been affected by decisions of governments to use the available program funding to meet the cost of election commitments. In this case, adopting such an approach meant that stakeholder expectations were unlikely to be met, given that the formal policy document that led to the establishment of Part 6 of the land transport legislation had outlined that all funding would be competitively allocated based on applications received from local government authorities (LGAs).

All of the projects funded in 2006 and most of the projects funded in 2007 were drawn from applications submitted to a March 2006 application round. A common feature of the 2006 and 2007 rounds was that funding decisions were not demonstrably focused on approving those projects assessed as best meeting published eligibility and assessment criteria.

With effect from 1 July 2009, the legislative and policy framework applying to grants administration has been significantly enhanced through amendment of the Financial Management and Accountability Regulations 1997 and the associated promulgation of the *Commonwealth Grant Guidelines* (CGGs). However, based on advice provided to the ANAO by the department in April 2010, 34 of 45 projects within the Off-Network Program (those being delivered by the states) have been excluded from the coverage of the CGGs by virtue of the administrative arrangements that have been adopted.

Irrespective of whether the payment arrangements are captured by the CGGs, the essential principles applying to sound grants administration include transparent and accountable decision-making processes. The legislative provisions governing ministerial approval of funding for Off-Network projects were developed before the new grants policy framework was adopted. Documentation of the funding criteria would assist the Minister for Infrastructure, Transport, Regional Development and Local Government to approve funding in line with the principles underpinning the grants policy framework. This could be achieved through either legislative amendment or the publication of program guidelines (as previously occurred in 2006).

Audit Report No.31 2009–10, *Management of the AusLink Roads to Recovery Program*

This audit assessed the effectiveness of the management of the AusLink Roads to Recovery Program (R2R Program).

As part of the AusLink R2R standard and supplementary programs audited by the ANAO, more than \$1.5 billion was paid to local government for expenditure on the construction and maintenance of roads, in respect of more than 16,500 projects. Accordingly, the key aspect of the programs relating to distribution of funds to local government and LGAs using these funds for roadworks has been effectively administered.

In terms of the benefits from the R2R Program, a fundamental principle underpinning the program was that the funding provided to LGAs was to be additional to existing road funding. Accordingly, LGAs are required to maintain their own spending on local roads and report their performance in this regard to the department. Over time, the expenditure maintenance obligation

placed on LGAs has been made less demanding. Despite this, significant numbers of LGAs have not maintained their own expenditure in one or more years (and some LGAs have not maintained their own expenditure in any year). In these circumstances, the administrative practice adopted has been to waive the requirement where a satisfactory explanation has been provided and to ask that the shortfall be made up in later years (this often does not occur).

Reflecting the judgment that LGAs were best placed to make decisions on road investment at the local level, the grant payment and acquittal processes were designed to be simple. However, there have been a range of important funding conditions with which LGA compliance has been less than satisfactory.

The ANAO made three recommendations directed at:

- adopting a range of cost-effective strategies aimed at improving understanding of, and adherence to, program funding conditions and administrative arrangements by LGAs and their auditors
- reviewing key elements of the program design to confirm their continuing appropriateness
- enhancing the administration of program accountability arrangements and strengthening the program governance framework.

Resources, Energy and Tourism portfolio

Audit Report No.22 2009–10, *Geoscience Australia*

The objective of the audit was to assess how effectively Geoscience Australia provides geoscientific and geospatial information and services to assist the Australian Government and key stakeholders.

Geoscience Australia is effectively providing geoscientific and geospatial services and products to government agencies, industry sectors and the public. Feedback from government agencies and key industry stakeholders confirmed that Geoscience Australia's work is valued and often essential to their outcomes. Notwithstanding this positive feedback, Geoscience Australia's website, its key interface with customers, is complex to use and more data and information could be made publicly available. In addition, the management of many product and service projects lacked project plans, risk assessments and key performance indicators.

Overall, the agency has a sound governance framework, but it could make improvements to its strategic planning process. Also, Geoscience Australia could more effectively report its achievements by aggregating project-level key performance information such as time, cost, client satisfaction and outcomes. Geoscience Australia's provision of geoscientific and geospatial products and services relies on effective information management. There is no inventory that documents the purpose, extent and nature of Geoscience Australia's data and information holdings and physical collections. It is therefore not well positioned to appropriately maintain and store its data holdings or make informed decisions about the accessibility of that data.

Treasury portfolio

Audit Report No.1 2009–10, *Representations to the Department of the Treasury in Relation to Motor Dealer Financing Assistance*

This audit was undertaken at the request of the Prime Minister so as to examine and report on:

- any representations to the Department of the Treasury (Treasury) since October 2008 from all sources regarding automotive finance arrangements for car dealers, including any made in relation to John Grant Motors
- the nature of the representations
- the manner in which the representations were responded to by officials, having regard to any relevant standards and procedures
- any related administrative matters that came to attention.

The ANAO's examination of relevant records and evidence obtained through interviews confirmed that one representation was made by a motor dealer personally to the Prime Minister. This dealer was not Ipswich Central Motors/John Grant Motors. The Prime Minister's office forwarded the representation to the Treasurer's office and Treasury. There was no evidence that either the Prime Minister or his office played any role in any of the other 11 representations received by Treasury, including the representation made in relation to Ipswich Central Motors/John Grant Motors.

Concerning the issue of whether preferential treatment was given to Mr Grant's case, the Treasurer spoke briefly with Mr Grant, at the request of the Member for Oxley. Treasury was aware that the dealer was acquainted with the Prime Minister, but there is no evidence that the Prime Minister was aware of the representation, or that the Treasurer or his office applied any pressure on Treasury to give this dealer more or better assistance than others. The dealer was provided with less assistance than some others and, as it eventuated, later made arrangements for ongoing wholesale floorplan finance without further departmental assistance.

The audit also considered Treasury's development of the policy proposal to address the effects of reduced liquidity on motor dealers, and the department's implementation of the policy following the Government's decision in early December 2008 to proceed with a special purpose vehicle for wholesale floorplan financing. The ANAO concluded that Treasury's approach to the development of the policy was sound, utilising independent expert advice and involving input from a range of key stakeholders. However, there was less attention given to management of the implementation of the policy measure. The ANAO's examination of the implementation phase of the policy also raised serious questions as to whether the code of conduct has been breached by the senior Treasury officer primarily responsible for the implementation of the policy response to motor dealer industry liquidity issues.

The audit did not make any recommendations to Treasury, as the ANAO did not examine, in the time available, whether the policy implementation shortcomings identified were isolated or more widespread. However, Treasury was encouraged to review its practices more broadly in the light of the matters raised in this report so that the culture of the department could absorb the experience in a positive manner. The ANAO understands that Treasury has reviewed the matters raised.

Audit Report No.8 2009–10, *The Australian Taxation Office's Implementation of the Change Program: a strategic overview*

The audit objective was to provide a strategic review on the progress of the implementation of the Change Program by the Australian Taxation Office.

The Tax Office originally intended to implement the Change Program through three self-contained staged releases. The implementation of the first two releases improved and transformed key aspects of Tax Office activity that support tax administration. As a result, the Tax Office is now better placed to manage internal administration and communication arrangements with taxpayers, tax professionals and the community, and taxpayer information is now available on a national, integrated risk basis, rather than in a fragmented and regional way. The first release was fully implemented in April 2006, 10 months later than originally planned. The second release was fully implemented in March 2007, six months later than originally planned.

The third release, designed to create an integrated core processing system by replacing the nine separate tax processing systems, was the largest and most complex of the implementation releases. During 2007, the Tax Office decided to break the release into smaller discrete modules. Despite this, there remained significant shortcomings in the office's management of the implementation risks. For example, the implementation of the first module—fringe benefits tax returns—insufficiently involved end users in the development and testing of the fringe benefits tax functionality, which resulted in delays and increased costs. Furthermore, testing and assurance processes were inadequate and were not carried out in accordance with existing Tax Office standards.

The scale and complexity of the tasks yet to be completed mean that the Tax Office still faces significant challenges in finalising the project to the standard required for the systems which automate most of Australia's tax administration. There is a significant risk that the deadlines for the completion of further releases may be put under pressure or that functionality in the original scope of the Change Program will be reduced to meet current budget and timetable expectations.

Audit Report No.34 2009–10, *The Management and Use of Double Taxation Agreement Information Collected through Automatic Exchange*

The ANAO reviewed three key areas: governance arrangements; risk of inappropriate disclosure; and the effectiveness of the use of automatic exchange of information (AEOI) data in the context of compliance activities conducted by the Tax Office.

The Tax Office faces a number of challenges and limitations in establishing and managing the use of AEOI data as part of its compliance program activity. AEOI transfers occur across international boundaries, resulting in operational complexities, many of which are largely outside the control of the Tax Office. The ANAO concluded that the Tax Office's management of the AEOI program has generally been sound, and that the Tax Office has generally made appropriate use of the bulk taxpayer information that it has received under double taxation agreements through compliance exercises.

The inherent risk to the Tax Office in the AEOI program is significant, given the likely reaction of taxpayers to a privacy breach involving unauthorised access to, or inappropriate disclosure of, taxpayer information, regardless of whether the AEOI data was being sent or received by the Tax Office. The Tax Office transfers the vast bulk of data in an encrypted state, although this has not always been the case. The Tax Office may influence, but cannot control, the security practices of double taxation agreement partners that send AEOI data to it. The Tax Office introduced procedures over the course of the audit to reduce the risks associated with sending AEOI data.

Audit Report No.35 2009–10, *Administration of the Superannuation Co-contribution Scheme*

The audit assessed the effectiveness of the Tax Office's administration of the Superannuation Co-contribution Scheme. The ANAO reviewed five key areas: governance arrangements; information technology systems and controls; co-contribution processing; compliance approaches; and communication with clients.

The Tax Office has effectively administered the Superannuation Co-contribution Scheme, typically providing accurate and prompt payment of the co-contribution, and accordingly received relatively few queries and complaints from members and funds. However, this is against a background of only around 15 per cent of potential recipients participating in the scheme, and a significant number of large funds not providing member statements required by the Tax Office to calculate entitlements. Greater pressures have been placed on administration since 2007 with the extension of the scheme to the self-employed, and in 2009 with deployment into the new IT system, Integrated Core Processing (ICP). The Tax Office has focused on meeting these challenges, returning to high levels of timely and accurate processing in the peak period of late 2009 after some delays associated with ICP deployment. However, co-contribution payments were suspended again after that peak processing; the suspension stemmed from the deployment of income tax to ICP.

Audit Report No.44 2009–10, *Administration of the Tax Obligations of Non-residents*

The ANAO reviewed five key areas: the Tax Office's organisational and governance arrangements for the management of non-resident tax obligations; the effectiveness of the office's identification of risks and monitoring of compliance in relation to non-residents; the data the office collects on non-residents and its use of this data for risk identification and compliance activities; the effectiveness of non-resident educational programs; and progress in implementing the recommendation relating to the use of third-party data made by Audit Report No.57 2002–03, which reviewed tax administration in relation to non-residents.

Overall, the Tax Office has implemented appropriate systems and processes to effectively manage the tax obligations of non-residents. The office has continued to improve the administration arrangements of the payment of tax by non-residents since Audit Report No.57 2002–03, particularly in respect of improved coordination of non-resident tax compliance activity, and increased and improved the application of external data sources. Increased compliance has also resulted from the introduction of additional withholding arrangements applying to non-residents.

These initiatives have all contributed to improved risk mitigation and increased compliance by non-residents, although there remains the inherent difficulty and additional expense of identifying and contacting non-residents who may be unknown to the tax system.

The Tax Office could continue to build on the improvements it has made to non-resident tax administration since Audit Report No.57 2002–03 by investigating the expanded use of external data sources for risk identification and compliance activities as they relate to non-residents, and by providing additional, and more easily accessible and targeted, education materials for non-residents.

Audit Report No.48 2009–10, *Community Intelligence—Collecting and Processing Tip-offs*

The audit assessed the effectiveness of the management of community intelligence by the Tax Office. The audit reviewed four key areas: governance arrangements; information quality and privacy issues; community intelligence processing; and monitoring and assessing costs and benefits.

Australia's self-assessment system of tax administration involves inherent risks of taxpayers not complying with registration, lodgment, reporting and payment obligations. The Tax Office's response involves weighing competing risks to make decisions about the best use of resources to address noncompliance. Community intelligence is just one element of the compliance framework. Encouraging members of the community to report suspicions of tax evasion can both deter people from taking part in those activities and strengthen shared community support for the integrity of the tax system.

To facilitate such reporting by the community, the Tax Office has in place a structured tip-off program for collecting and managing community intelligence. Information received from the community is used by areas of the office to inform compliance activities, and contributes to the collection of additional taxes, penalties and interest. In 2008–09, the Tax Office estimated that this amounted to some \$13 million. The availability of the community intelligence program also assists in providing a visible deterrent to abuse of the tax system. Nevertheless, the Tax Office could more effectively manage this program by evaluating the risks and benefits of accepting community intelligence. A clearer understanding of those risks and benefits would assist the Tax Office to allocate resources to manage and use community intelligence in a manner that best matches limited resources with appropriate outcomes.

Cross-portfolio performance audits

Assurance Report No.2 2009–10, *Campaign Advertising Review 2008–09*

As an element of the arrangements implemented to support the role of the ANAO in reviewing campaigns' compliance with the *Guidelines on Campaign Advertising by Australian Government Departments and Agencies* announced on 2 July 2008, the ANAO advised the Chair of the Joint Committee of Public Accounts and Audit (JCPAA) that the ANAO will provide regular summary reports to parliament. Section 25 of the *Auditor General's Act 1997* provides for the tabling of such reports.

This report provides the ANAO's perspective on the operation of the government advertising framework over the first 12 months of operation. The report provides an overview of the current framework for government advertising; identifies the roles of the various agencies, including the ANAO; and provides information on the assurance review activity for government advertising campaigns conducted by the ANAO. In considering the experience of the ANAO in undertaking assurance reviews during the financial year, the report also discusses key issues identified by the ANAO during 2008–09.

The guidelines have been particularly useful in establishing the principles required for relevant government advertising campaigns. However, agencies can further adjust their business processes to better align with the requirements of the guidelines. Also, there are several areas where, in the light of experience, the guidelines could be refined or supplemented by additional guidance. The ANAO has written to the Special Minister of State and to the Chair of the JCPAA to provide information on specific areas where the guidelines could be refined or supplemented.

Audit Report No.4 2009–10, *The Management and Processing of Annual Leave*

The management of annual leave entitlements is important for the wellbeing of employees, an organisation's productivity, and minimisation of associated financial risks. The audit was designed to determine whether selected Australian Government organisations had effective processes for managing the annual leave entitlements of their staff, and whether systems and controls over the processing of annual leave were working as intended.

Overall, the audited organisations had developed and, for the most part, implemented effective arrangements for managing the annual leave entitlements of their staff. The effectiveness of these arrangements was underlined by the fact that only a relatively small proportion of staff had accumulated annual leave credits above maximum entitlements. The controls examined were generally operating as intended, although around 20 per cent of the annual leave applications reviewed were recorded in leave processing systems as being approved after the annual leave had commenced. To reduce the risks that staff may access leave to which they are not entitled, organisations need to routinely monitor the timely approval of leave applications in their leave processing systems and take appropriate action.

Audit Report No.6 2009–10, *Confidentiality in Government Contracts—Senate Order for Departmental and Agency Contracts (Calendar Year 2008 Compliance)*

The audit objectives were to assess whether all agencies compiled internet listings of contracts, and tabled ministers' letters, as required by the Senate Order; and to review, in selected agencies, the accuracy and completeness of the listing and the correctness of the use of confidentiality provisions.

The Senate Order listings for the five agencies contained 4,592 contracts totalling \$8.5 billion, of which 397 (9 per cent) were reported as containing confidentiality provisions. The ANAO reviewed a sample of 115 of the 397 contracts and found that only 23 (20 per cent) of them were correctly listed. These results were mainly due to the audited agencies not using the criteria provided by Finance for assessing whether particular contract provisions should be confidential. Incorrectly including confidentiality provisions, or incorrectly listing contracts as containing confidentiality provisions, potentially precludes or restricts the Parliament and the public from accessing information about these contracts.

Of the 99 agencies subject to the Senate Order at the end of 2008, 82 agencies posted their contract listings on the internet by 2 March 2009, which was the first business day after the due date of 28 February 2009. Seven agencies published within one month or shortly thereafter, and the remaining 10 agencies had not published a listing by 10 August 2009. Additionally, ministers' letters relating to 81 agencies were tabled by the due date and another 13 were tabled within six weeks. The remaining minister's letter covering five agencies was tabled on 5 August 2009.

The Senate Finance and Public Administration Committee has twice reviewed the Senate Order. One of the recommendations was to use the Finance-administered AusTender system to replace individual agencies' internet listings. However, there were substantial mismatches between agencies' contract information held in their Senate Order listings and AusTender, due to the inaccuracy of agency data loaded into AusTender and limitations identified in AusTender. Until these issues are addressed, it will not be possible for interested parties to use the current agency data in AusTender to determine the accurate number or total value of contracts.

Audit Report No.12 2009–10, *Administration of Youth Allowance*

The objective of the audit was to assess the effectiveness of administrative arrangements for Youth Allowance, including service delivery. Overall, there are effective administrative arrangements in place for Centrelink to deliver Youth Allowance consistent with the relevant legislation and DEEWR's service delivery requirements. Key operational processes used by Centrelink, such as means testing, establishing proof of identity, activity testing, and determining independence, are defined and controlled through the use of appropriate procedures.

Particular aspects of DEEWR's administration of the allowance should, however, be strengthened to allow more meaningful and complete measurement of the performance of the allowance against its program intent, and to better inform DEEWR's program management. Enhancements would be of particular benefit in developing and using appropriate effectiveness measures; capturing and using data to support program management; and adopting a more strategic approach to overseeing Centrelink's performance in delivering Youth Allowance services.

Audit Report No.14 2009–10, *Agencies' Contract Management*

The audit objective was to assess the effectiveness of agencies' contract management by determining whether they had sound practices and systematic approaches to this activity. Particular attention was given to each agency's day-to-day management of individual contracts and approach to managing its contract population.

Contract management processes and practices for the three audited agencies provided an adequate level of support for the provision of goods and services. However, there were a number of instances in which there was insufficient evidence that delegates had approved contract variations or invoice payments. Additionally, none of the agencies periodically reviewed the success of its approach to contracting—such as through monitoring the percentage of contracts completed on time and on budget, or the number and purpose of contract variations—to improve procurement and contract management practices. Consequently, agencies will benefit from improving the management and recording of payments, including compliance with relevant Finance regulations, and giving more attention to the approval process for contract variations.

The three agencies' procurement and contract advisory units provided a satisfactory level of support for agency staff to manage contracts. Given the devolved nature of contract management in agencies and their continued reliance on contracts with the for-profit and not-for-profit sectors, the audit identified potential improvements in the units' roles. These included potential improvements to providing contract management advice and periodically reviewing agency-wide contracting performance—for example, through analysis of the contract register or surveys to encapsulate agency trends in contract management practices and approaches which delivered superior contract outcomes.

Audit Report No.17 of 2009–10, *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2009*

Of the 250 audit reports issued, including for the Consolidated Financial Statements (CFS), only one report, for the Department of Resources, Energy and Tourism (RET), was qualified; one report, for the Australian Taxation Office, referred to breaches of section 83 of the Constitution; and one report, for the CFS, included an 'other matters' reference.

The RET audit report was qualified in respect of the valuation of the investment of approximately \$374 million in Snowy Hydro Limited due to a limitation on the scope of the audit, as the department did not have sufficient documentation to support the valuation of the investment.

The breaches referred to in the Tax Office audit report were as a result of processing errors that resulted in incorrect payments without a legislative basis being made to taxpayers. The number of payments identified by the Tax Office was a very small proportion of the total payments made by the office.

The 'other matters' reference in the CFS audit report referred to the fact that the Australian Government did not prepare and present to the ANAO for audit a general government sector financial report in accordance with Australian Accounting Standards Board standard AASB 1049, *Whole of Government and General Government Sector Financial Reporting*.

The total number of significant and moderate audit findings in material entities was 73 (4 significant and 69 moderate), down from 77 in 2007–08 (5 and 72). This continues the downward trend evident over recent years. Final audits identified issues common to a number of entities: controls in entities' IT environments, such as change management controls and the segregation of duties; asset management processes, including accounting for assets under construction, asset stocktakes and the integrity of asset registers; and business system processing controls.

Audit Report No.17 provides summary details of the results of the financial statement audits of all entities and also includes a discussion (in Chapter 3) of the impact of the global economic downturn on entities' 2008–09 financial statements, the 2008–09 certificate of compliance process, and the COAG financial reforms.

During 2008–09, 61 entities obtained approval to incur a loss as a result of increases in employee provisions. Sixty-nine entities incurred a loss for 2008–09, mainly due to a variety of operational factors, most of which were associated with the need to manage the financial impact of the economic downturn. In this context, it is relevant to note that the effect of the reduction in bond rates that led to an increase in superannuation and employee provisions was not as severe as expected.

Of note is the fact that entities generally were well prepared to address the range of issues arising from the economic downturn during the preparation of their financial statements.

In respect of the certificate of compliance process, agencies reported a total of 14,961 breaches in 2008–09. This is a significant reduction compared with 2007–08, when approximately 32,600 breaches were reported. A possible reason for the reduction is that the certificate of compliance process has resulted in staff having an increased awareness of legislative requirements, which has led to staff giving higher priority to meeting those requirements.

Audit Report No.18 2009–10, LPG Vehicle Scheme

The audit objective was to assess whether the administration of the Liquefied Petroleum Gas Vehicle Scheme was effective. Overall, the ANAO concluded that the scheme was well designed and effectively administered. Eligibility requirements and administrative arrangements were clearly articulated in policy, guidelines and agreements; the Department of Innovation, Industry, Science and Research, Centrelink and Medicare combined to provide central contact points for applicants and effective service delivery; and managerial oversight and risk management for the program were generally sound.

Notwithstanding these conclusions, the ANAO identified some relatively low-cost improvements which could be made to quality assurance and compliance activity for the scheme. Centrelink's 'random' reviews of granted applications should be undertaken using a random sampling approach so that they provide an unbiased basis for assessing payment accuracy for the broader population. Meanwhile, Centrelink's targeted reviews of granted applications should be better focused on the scheme's key compliance risks. Improvement can also be made by Centrelink better documenting all checks on multiple payments to individuals' bank accounts.

Performance measures for the scheme focused on inputs and outputs, rather than on whether the outcomes sought are being achieved. In light of this, there would be benefit in clarifying the scheme's objectives and examining whether the grant has helped to achieve those objectives by influencing individuals' behaviour as intended.

Audit Report No.25 2009–10, *Security Awareness and Training*

The audit reviewed the effectiveness of security awareness and training arrangements at selected Australian Government organisations, including whether they addressed selected security issues from the *Protective Security Manual*.

Overall, the audit concluded that the security awareness and training arrangements at the audited organisations were generally adequate and operating as intended. For the most part, the content of security awareness and training programs adequately reflected the organisations' circumstances, as well as providing good coverage of selected security issues from the *Protective Security Manual*. The main areas for improvement related to the need for more thoughtful planning, including tailoring the approaches used in the light of the organisations' security risks and issues, and better monitoring to help identify security awareness techniques that are not effective or working well. In addition, the audited organisations would benefit from improved record keeping.

Assurance Report No.38 July 2009—March 2010, *Campaign Advertising Review July 2009 – March 2010*

As part of the ANAO's role in reviewing proposed advertising campaigns for compliance with the June 2008 *Guidelines on Campaign Advertising by Australian Government Departments and Agencies*, the Auditor-General advised the JCPAA that the ANAO would provide regular summary reports to parliament on its advertising review activities. This report follows Report No.2 2009–10, *Campaign Advertising Review 2008–09*, and provides the ANAO's perspective on the operation of the Government's campaign advertising arrangements from July 2009 to the end of March 2010, when the Government announced changes to the government advertising framework. The changes included a new review body, the Independent Communications Committee, to take over the role of the Auditor-General in reviewing proposed advertising campaigns. In considering the experience of the ANAO in undertaking assurance reviews from June 2008 to the end of March 2010, the report also discussed key issues relevant to the operations of the June 2008 guidelines.

During the period of the ANAO's role in reviewing government advertising campaigns, the operation of the arrangements for government advertising generally held up well, and continued to encourage sound administrative practices in agencies to support evidence-based compliance with the June 2008 guidelines. Those agencies with the most mature administrative arrangements were able to efficiently provide the ANAO with the required documentation to evidence compliance with the June 2008 guidelines.

Agencies have continued to refine their approach, leading to a much better understanding of the support required for the certificate provided by chief executive officers to demonstrate compliance with the June 2008 guidelines.

Audit Report No.40 2009–10, *Application of the Core APS Values and Code of Conduct to Australian Government Service Providers*

The audit assessed the extent to which Australian Government agencies ensure that service providers are made aware of the core Australian Public Service (APS) Values and Code of Conduct and that those arrangements are monitored. The audited agencies included DAFF, DEEWR, FaHCSIA and DoHA.

At the whole-of-agency level, the four audited agencies each addressed in varying ways and using different methods the role of values statements and codes of conduct. The most common approach was through the use of standard clauses in agency-wide funding agreements or through supporting cross-program quality assurance arrangements that addressed values statements and codes of conduct.

While agencies had considered and incorporated aspects of values and codes of conduct in agreements with third-party providers, areas for consideration and, where appropriate, strengthening, include:

- requiring service providers to address a core set of service delivery values
- guidance for service providers on the design and use of complaints systems
- ‘fit for purpose’ reporting requirements.

Audit Report No.41 2009–10, *Effective Cross-Agency Agreements*

The audit objective was to assess whether agreements between Australian Government agencies reflect sound administrative practices. Across the 21 agencies audited, around 1,800 current agreements were reported—an indication of the large number of agreements likely to be in place across the APS at any given time.

A diverse range of agreements exist, generally providing a useful basis for cross-agency relationships. For the most part, the agreements provide adequate specifications for roles and responsibilities, activities, and deliverables. However, more consistent inclusion of key provisions, and strengthening of monitoring and coordination processes within agencies, would improve the overall effectiveness of agreements.

The audit informed the development of better practice principles in the following areas:

- *principles and practice*—to encourage consistent form, content, and processes for developing fit-for-purpose cross-agency agreements
- *guidelines*—to assist agencies in providing appropriate and accessible guidance material their staff
- *key provisions*—to help ensure that cross-agency agreements include sufficient clear and relevant information, including essential provisions such as roles and responsibilities, identified risks, costs and performance measures
- *effective agency coordination*—to provide guidance on suitable means for monitoring agreements, including provisions for early consideration of review and termination of agreements.

Audit Report No.42 2009–10, *Fraud Control in Australian Government Agencies*

The objective of this audit was to assess key aspects of Australian Government agencies' fraud control arrangements to effectively prevent, detect and respond to fraud, as outlined in the *Commonwealth Fraud Control Guidelines*. The ANAO also examined how the Attorney-General's Department (AGD) and the Australian Institute of Criminology fulfilled their roles as assigned in the guidelines.

Since the ANAO's 2002 fraud survey, the reported level of compliance with the guidelines has improved, particularly in relation to the oversight arrangements put in place by agencies to prevent fraud. Notwithstanding this indication of improvement, a key area of fraud management requiring greater attention by agencies is the evaluation of specific fraud control strategies. Only 12 per cent of agencies were able to provide an example of an evaluation conducted on fraud control strategies, and only one of those evaluations considered the cost-effectiveness of fraud controls implemented.

The AGD is currently reviewing the *Commonwealth Fraud Control Guidelines*. To ensure that the revised guidance takes into account the matters being raised by agencies, the ANAO recommended that the following known issues could be considered during the review:

- the definition of fraud as provided in the guidelines to allow the Australian Institute of Criminology to collect, analyse and disseminate fraud trend data on a consistent basis
- the applicability of the guidelines to *Commonwealth Authorities and Companies Act 1997* bodies
- the opportunities available to Australian Government agencies (especially smaller agencies with fewer than 249 employees) to exchange practical experience on fraud control.

Audit Report No.50 2009–10, *Interim Phase of the Audit of Financial Statements of Major General Government Sector Agencies for the year ending 30 June 2010*

This report provides details of the results of the interim phase of the 2009–10 financial statement audits of all portfolio departments and other major general government sector (GGS) agencies. The 26 agencies covered by the report collectively represent some 95 per cent of total GGS revenues and expenses.

The results of the interim phase of our 2009–10 financial statement audits identified that, generally, the effectiveness of controls over finance and accounting processes in the majority of agencies supports the production of reliable financial statement information. In 2009–10, there were 55 significant or moderate audit findings compared with 68 in 2008–09, reflecting a continuation of the reduction over recent years in the number of significant and moderate risk audit findings. This reflects the general stability and maturity of the control regimes in the majority of agencies and actions taken by agencies to address prior year audit findings. Our audits do, however, continue to identify control weaknesses in a number of areas, particularly relating to agencies' IT control environments, business continuity management and the management of assets.

In respect of IT controls, our audits noted an overall improvement in agencies' IT security management controls, and most agencies had also established effective IT change management controls. Areas where our audits identified the need for improvement in controls to manage IT incident and problem management included the regular review and updating of change management processes, and user access controls in agencies' financial and human resource management systems, particularly the logging and review of privileged user activities and controls over generic access accounts.

Our audits found that over 25 per cent of agencies did not have effective business continuity management procedures in place and did not maintain the currency of their business continuity plans, putting at risk their capacity to deal effectively with a disruptive event.

Areas requiring improvement in relation to the management of assets in some agencies included the timely reconciliation between agencies' asset registers and their financial systems; procedures for the capitalisation and disposal of assets; the application of stocktake policies and procedures; and accounting for assets under construction.

The results of our interim audits are reported to agency management, and summary reports are provided to the relevant ministers.

APPENDIX 5—ADDRESSES BY THE AUDITOR-GENERAL AND SENIOR STAFF

Name	Title of address	Forum	Place/date
McPhee, Ian (Auditor-General)	Panel discussion, <i>Lessons learned in auditing the management of tsunami-related funds</i>	BPK Advisory Board on Tsunami-related Audit meeting	Indonesia 16 August 2009
	<i>The business of government—why public sector management must evolve</i>	'The Brookes Oration', Deakin University / Deakin Business School	Melbourne 27 August 2009
	<i>Different perspectives on public sector governance—Asia and Australia</i>	Australian Institute of Company Directors, Canberra	Canberra 14 October 2009
	<i>Thirtysomething—developments in performance auditing</i>	Canberra Evaluation Forum	Canberra 26 February 2010
	Acceptance of Bintang Jasa Utama (First Class Medal of Honour)	Indonesian Embassy	Canberra 26 February 2010
	<i>Contributing to the setting of accounting standards for the public sector</i>	CFO Public Sector Lunch, CPA Australia	Canberra 21 April 2010
	<i>Public sector governance—challenges and opportunities</i>	Corporate Governance Forum, Austrade	Canberra 4 May 2010
Chapman, Steve (Deputy Auditor-General)	<i>Integrating performance and professionalism—public and private sector governance—seizing the opportunities</i>	Chartered Secretaries Association Queensland Conference	Brisbane 27 August 2009
Cahill, Matt	<i>New challenges for public sector governance and how to work external audits in this changing environment</i>	Corporate Governance Forum	Canberra 25 August 2009
	<i>Emerging priorities in public sector governance—insights from the ANAO</i>	Fourth Annual Ethical Leadership and Governance in the Public Sector Forum	Canberra 10 June 2010
Cobcroft, Roger	<i>ANAO client seminars on financial reporting</i>	Financial accounting staff of ANAO	Canberra, Sydney and Melbourne 12–24 March 2010

Name	Title of address	Forum	Place/date
Crossley, David	<i>Business Continuity Management —Building resilience in public sector entities</i>	Continuity in Government Conference	Canberra 18 November 2009
	<i>Business Continuity Management —Building resilience in public sector entities</i>	Risk Management Institution of Australasia Annual Conference	Cairns 24 November 2009
	<i>Business Continuity Management —Building resilience in public sector entities</i>	Business Continuity Summit 2010	Sydney 24 March 2010
Guilfoyle, Grace	<i>Security risk management</i>	Presentation to the Agency Security Advisor Forum	Canberra 21 July 2009
Little, Greg	<i>Lessons learnt from the Super Seasprite project</i>	Capability and Technology Management College, Australian Defence Force Academy	Canberra 18 May 2010
Palmer, Rachel	<i>ANAO assurance review work</i>	Presentation to the Public Relations Institute of Australia annual general meeting	Canberra 6 November 2009
Pettigrove, Gary	<i>Multisourcing in an ICT outsourcing environment</i>	CIO magazine / Unisys seminar	Canberra 13 August 2009
White, Peter and Cahill, Matt	<i>Performance audit</i>	Department of the House of Representatives	Canberra 15 April 2010
Williamson, Nathan	<i>An auditor's experience with issues of service delivery in human services</i>	Crawford School of Economics and Government, Australian National University, presentation to the Social Policy Implementation and Service Delivery course	Canberra 11 September 2009

APPENDIX 6—PROCUREMENT

The Commonwealth purchasing policy framework is outlined in the *Commonwealth Procurement Guidelines* (December 2008).

Performance against core purchasing policies

The ANAO's purchasing activities in 2009–10 adhered to the requirements set out in the guidelines and in the Auditor-General's Instructions and associated procedural rules on procurement. The ANAO seeks high-quality services that provide value-for-money solutions for the ANAO in all its procurement activities.

To ensure that we meet the objectives and mandatory requirements set out in the guidelines, we periodically update the Auditor-General's Instructions and the procedural rules. 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.

We published our Annual Procurement Plan for 2009–10 on AusTender in June 2009.

We have mechanisms in place to ensure that our processes are fair and equitable and that all potential suppliers have opportunities to compete for our business.

Policy on the selection and engagement of consultants

We use consultants on a needs basis for a variety of tasks. The most common uses of contracted 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 legal advice.

The ANAO participates in a number of collaborative procurement arrangements with other agencies, such as the Design, Production and Distribution Tender program led by Centrelink.

After an initial open tender process, we 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.

Standard form contracts were developed for staff use in setting up consultancies. Where necessary, our staff can readily adapt those documents to suit individual circumstances.

Consultants contracted to provide services under the *Auditor-General Act 1997* must sign a deed of confidentiality to ensure that they are aware of their legal commitment to the relevant confidentiality and secrecy provisions under the Act. Consultants may exercise those powers only in respect of 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 2009–10. The total figure refers to total value of the contracts let, irrespective of the period of the contract; some contracts are let for periods of more than one year.

Table A6.1 Consultancy services let during 2009–10 of \$10,000 or more

Consultant name	Description	Contract price (\$)	Selection process ^a	Justification ^b
Allanson Consulting Pty Ltd	Independent survey for a performance audit: Application of the Core APS Values and Code of Conduct to Australian Government Service Providers	42,613	Panel	C
Allanson Consulting Pty Ltd	Data analysis for Centrelink fraud investigations	34,146	Panel	B
Allanson Consulting Pty Ltd	Develop a survey and conduct analysis for a performance audit: Building the Education Revolution—Primary Schools for the 21st Century	34,913	Panel	C
Allanson Consulting Pty Ltd	Audit sampling and data analysis for a performance audit: Direct Sourcing Procurement Processes	18,200	Panel	B
Allanson Consulting Pty Ltd	Advice for a performance audit: Administration of the Superannuation Co-contribution Scheme	16,500	Panel	B
Allanson Consulting Pty Ltd	Conduct survey and analyse data for a performance audit: Digital Education Revolution	20,000	Panel	C
Allanson Consulting Pty Ltd	Data analysis for a performance audit: Trade Training Centres in Schools	15,000	Panel	B
Aquitaine Consulting Pty Ltd	Assistance with a performance audit: Information and Communication Technology Strategic Plans	14,200	Direct	B
Australian Government Actuary	Actuarial assistance for Comcover audit	14,005	Panel	B
Australian Government Actuary	Actuarial services for financial statement audit	14,073	Panel	B
Australian Government Solicitor	Legal advice on a number of matters during 2009–10	110,853	Panel	B
Blake Dawson	Review of procurement procedural rules	25,000	Panel	B
Coffey Projects (Australia) Pty Limited	Monitoring costs associated with the profit and loss claims	25,000	Select	B

Consultant name	Description	Contract price (\$)	Selection process ^a	Justification ^b
Customware Asia Pacific Pty Ltd	Development of <i>Policy Audit and Administration Manual</i>	30,800	Direct	B
Customware Asia Pacific Pty Ltd	Development of performance audit manual knowledge	76,358	Select	B
Customware Asia Pacific Pty Ltd	Improved data export functions	17,169	Direct	B
Deborah Joy Wauchop	External panel member for advice on a performance audit: Illegal Foreign Fishing in Australia's Northern Waters	13,670	Panel	B
Deloitte Actuaries and Consultants Limited	Actuarial assistance in relation to the Department of Education, Employment and Workplace Relations	27,500	Panel	B
Deloitte Actuaries and Consultants Limited	Scoping and planning of workforce plan	19,239	Panel	B
Deloitte Touche Tohmatsu	Quality assurance reviews for financial statement audits	82,100	Open	C
Deloitte Touche Tohmatsu	Identify and analyse workforce segmentation	36,300	Panel	B
Deloitte Touche Tohmatsu	Workforce planning services	104,709	Open	B
Deloitte Touche Tohmatsu	Review and update of the quality assurance review program for financial statement audits	13,200	Open	C
Gartner Australasia Pty Limited	Gartner for IT Leaders consultancy	34,540	Direct	B
GHD Pty Ltd	Intruder-resistant audit of 19 National Circuit	12,029	Select	C
HBO EMTB Interiors (ACT) Pty Limited	Design work associated with the new accommodation requirements	15,000	Select	B
IPS Worldwide	Assessment and counselling services available for ANAO staff	10,230	Select	B
KPMG Actuaries Pty Limited	Actuarial assistance for Department of Health	18,150	Panel	B
Mallesons Stephen Jaques	Legal advice on standard contract amendments	24,000	Panel	B
Mallesons Stephen Jaques	Legal advice regarding the cleaning contract request for tenders	12,595	Panel	B
Monash University	Research review of aid for tertiary education	19,907	Direct	B

Consultant name	Description	Contract price (\$)	Selection process ^a	Justification ^b
ORIMA Research	Advice for a performance audit: Emergency Management and Community Recovery Assistance in Centrelink	45,560	Panel	B
ORIMA Research	Conduct online survey for a performance audit: Application of the Core APS Values and Code of Conduct to Australian Government Service Providers	10,470	Panel	C
ORIMA Research	Survey for a performance audit: Building the Education Revolution—Primary Schools for the 21st Century	37,936	Panel	C
ORIMA Research	Conduct agency survey for 2009–10	45,925	Panel	C
ORIMA Research	Assurance Audit Services Group 2010 client survey	33,495	Panel	C
ORIMA Research	ANAO staff survey 2010	32,934	Panel	C
ORIMA Research	Two surveys of Green Loans stakeholders (online survey of householders and assessors)	67,000	Panel	C
ORIMA Research	Conduct online survey of schools for a performance audit: Digital Education Revolution	17,995	Panel	C
PricewaterhouseCoopers	TeamMate Replacement Audit Methodology	901,414	Open	B
PricewaterhouseCoopers Actuarial Pty Limited	Actuarial assistance in relation to the 2008–09 financial statement audit of the Australian Taxation Office	19,602	Panel	B
PricewaterhouseCoopers Actuarial Pty Limited	Actuarial assistance for audit of Department of Veterans' Affairs	55,000	Panel	B
PricewaterhouseCoopers Actuarial Pty Limited	Actuarial assistance audit of the Department of Families, Housing, Community Services and Indigenous Affairs	55,000	Panel	B
PricewaterhouseCoopers Actuarial Pty Limited	Actuarial services for financial statement audit of the Department of Education	38,500	Panel	B
PricewaterhouseCoopers Actuarial Pty Limited	Actuarial services for audit of the financial statement audit of Department of Families, Housing, Community Services and Indigenous Affairs	34,320	Panel	B
PricewaterhouseCoopers Actuarial Pty Limited	Actuarial services for the 2009–10 financial statement audit of the Australian Taxation Office	21,000	Panel	B

Consultant name	Description	Contract price (\$)	Selection process ^a	Justification ^b
Reading Room Australia Pty Limited	Website review—scoping and design project and usability testing	35,820	Direct	B
Stratsec.net Pty Ltd	Projects threat risk assessment	35,200	Select	B
Unisys Australia Pty Ltd	Engage CustomWare through Unisys to undertake design work relating to performance manual	17,820	Open	B
Unisys Australia Pty Ltd	Performance Audit Support Group audit report process review	15,580	Open	B
Unisys Australia Pty Ltd	Enterprise architecture review	25,300	Open	B
Unisys Australia Pty Ltd	ChangePoint SSRS Reports	60,088	Open	B
Unisys Australia Pty Ltd	Test and development network design	29,879	Open	B
Unisys Australia Pty Ltd	SSRS Reporting Service setup	45,265	Open	B
Total		2,633,102		

- a Explanation of selection process terms drawn from the *Commonwealth Procurement Guidelines* (December 2008):
- 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. Public tenders are generally sought from the Australian Government AusTender internet site.
- Select Tender: A procurement procedure in which the procuring agency selects which potential suppliers are invited to submit tenders (this includes tenders submitted through Multi Use Lists). This procurement process may only be used under certain defined circumstances.
- Direct Sourcing: A form of restricted tendering, available only under certain defined circumstances, with a single potential supplier or suppliers being invited to bid because of their unique expertise and/or their special ability to supply the goods and/or services sought.
- Panel: An arrangement under which a number of suppliers, initially selected through an open tender process, may each supply property or services to an agency as specified in the panel arrangements. Quotes are sought from suppliers that have pre-qualified on the agency panels to supply to the Government. This category includes standing offers and supplier panels where the supply of goods and services may be provided for a pre-determined length of time, usually at a prearranged price.
- b 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.

APPENDIX 7—ADVERTISING AND MARKET RESEARCH

Payments over \$11,200 (including GST) to advertising agencies, market research organisations, polling organisations, direct mail organisations and media advertising organisations are set out in Table A7.1.

Table A7.1 Advertising and market research, payments over \$11,200, 2009–10

Market research organisation	Service provided	Payments (\$)
Allanson Consulting Pty Ltd	Develop a survey and conduct analysis for a performance audit: Building the Education Revolution	33,250
ORIMA Research	Conduct agency survey for 2008–09	22,963
ORIMA Research	Survey for a performance audit: Building the Education Revolution	32,397
ORIMA Research	Conduct agency survey for 2009–10	22,963
ORIMA Research	Assurance Audit Services Group 2010 client survey	33,495
ORIMA Research	ANAO staff survey 2010	16,467
ORIMA Research	Two surveys of Green Loans stakeholders (online survey of householders and assessors)	61,388
ORIMA Research	Conduct online survey of schools for a performance audit: Digital Education Revolution	13,945

APPENDIX 8—CONTACT DIRECTORY

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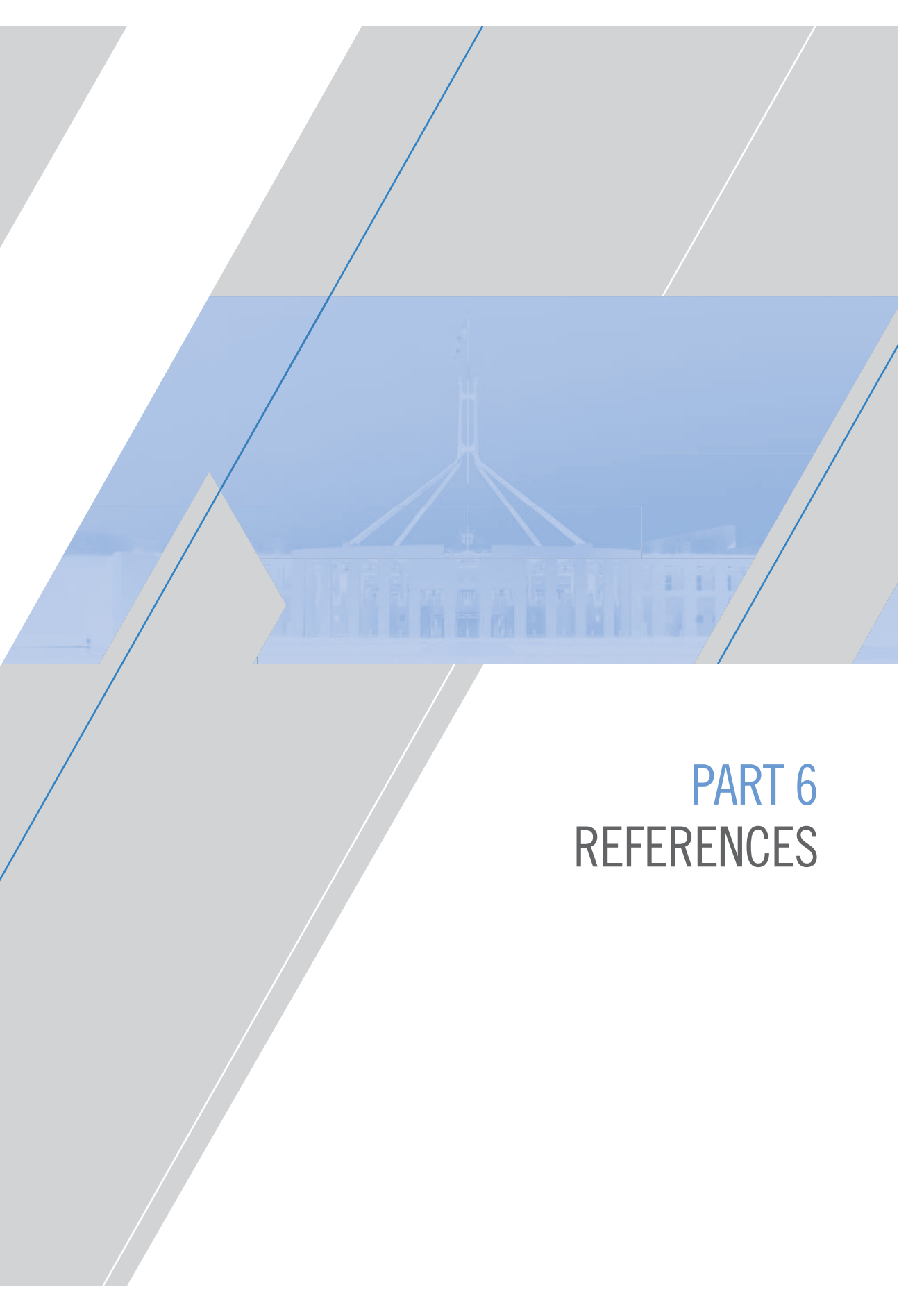
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PART 6

REFERENCES

ABBREVIATIONS AND ACRONYMS

AAS	Australian Accounting Standards
AASB	Australian Accounting Standards Board
ACMA	Australian Communications and Media Authority
ADF	Australian Defence Force
AEC	Australian Electoral Commission
AEOI	automatic exchange of information
AGD	Attorney-General's Department
AIRN	Army Individual Readiness Notice
ANAO	Australian National Audit Office
APS	Australian Public Service
ASOSAI	Asian Organization of Supreme Audit Institutions
ATSI	Aboriginal or Torres Strait Islander
AusAID	Australian Agency for International Development
BBCSA	Building a Better Child Support Agency
BER	Building the Education Revolution
BPC	Border Protection Command
BPK	Badan Pemeriksa Keuangan, the Indonesian Board of Audit
CAC Act	<i>Commonwealth Authorities and Companies Act 1997</i>
CGGs	<i>Commonwealth Grant Guidelines</i>
CMG	Chandler Macleod Group
COAG	Council of Australian Governments
CPA	certified public accountant
CSA	Child Support Agency
CSSRs	Child Support Scheme Reforms
Customs and Border Protection	Australian Customs and Border Protection Service
DAFF	Department of Agriculture, Fisheries and Forestry
DCCEE	Department of Climate Change and Energy Efficiency
DEEWR	Department of Education, Employment and Workplace Relations
Defence	Department of Defence
DEWHA	Department of the Environment, Water, Heritage and the Arts
DFR	Defence Force Recruiting

DIAC	Department of Immigration and Citizenship
DMO	Defence Materiel Organisation
DoHA	Department of Health and Ageing
DVA	Department of Veterans' Affairs
EEGO	energy efficiency in government operations
EL	Executive Level
ESD	ecologically sustainable development
FaHCSIA	Department of Families, Housing, Community Services and Indigenous Affairs
Finance	Department of Finance and Deregulation
FMA Act	<i>Financial Management and Accountability Act 1997</i>
GBE	government business enterprise
GGS	general government sector
GSSs	garrison support services
GST	goods and services tax
HSMAs	health and safety management arrangements
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
ICAA	Institute of Chartered Accountants in Australia
ICP	Integrated Core Processing
ICT	information and communications technology
INTOSAI	International Organization of Supreme Audit Institutions
IPAA	Institute of Public Administration Australia
IT	information technology
JCPAA	Joint Committee of Public Accounts and Audit
JP 2070	Joint Project 2070—Lightweight Torpedo Replacement Project
LGAs	local government authorities
MPR	Major Projects Report
MPR 2007–08	<i>Defence Materiel Organisation—Major Projects Report 2007–08</i>
NBNCo	National Broadband Network Company Ltd
NESB	non-English speaking background
NHMRC	National Health and Medical Research Council
NISS	National Identity Security Strategy
NWC	National Water Commission

OAG	Office of the Auditor General of Canada
OH&S	occupational health and safety
OPO	Overseas Property Office
P21	Primary Schools for the 21st Century
PASAI	Pacific Organisation of Supreme Audit Institutions
PBS	Pharmaceutical Benefits Scheme
PNG	Papua New Guinea
PSM	Public Service Medal
PWD	people with disability
QA	quality assurance
QAP	quarantine approved premises
QMS	quality management system
R2R Program	Roads to Recovery Program
RDR	Reduced Disclosure Regime
RET	Department of Resources, Energy and Tourism
RFP	request for proposal
SAIs	supreme audit institutions
SES	Senior Executive Service
Tax Office	Australian Taxation Office
Treasury	Department of the Treasury

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