

# ANNUAL REPORT 2010–2011



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



#### Auditor-General for Australia



1901 - 2011 Celebrating 110 Years

22 September 2011

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

Dear Mr President

Dear Mr Speaker

In accordance with section 28 of the *Auditor-General Act 1997*, I present to the Parliament my report on the operations of the Australian National Audit Office for the year ended 30 June 2011.

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 2010-11

We delivered a range of audit services in 2010–11, including a number of performance audits on areas of considerable interest to the Parliament, the public sector and the community. In particular, we:

- carried out 54 performance audits, and made 143 recommendations to improve entities' performance and accountability
- issued 260 audit opinions on entity financial statements

We were proactive in engaging with the Parliament and the JCPAA. We continue to have a sound professional relationship with members of parliament.

Our innovative approaches included:

- introducing a revised risk approach to our financial statement audit planning resulting in efficiencies in our audit coverage
- enhancing our electronic records management system
- incorporating social media in our intranet and internet websites as an aid to internal feedback and external communication.

# AREAS OF FOCUS FOR 2011–12

We will continue to develop and improve our range of timely and relevant topics that are aimed at improving administration across the Australian Government sector.

We will seek improvement in staff recruitment and retention initiatives, including exploring opportunities for professionally rewarding secondments and other professional development activities.

We will continue to build on the sound relationships established with the Parliament and its committees.

We will consolidate IT improvements to enhance existing capability; improve business system availability and continuity; and improve audit team productivity in the field.

We will prepare for a possible expanded role should proposed amendments to the Auditor-General Act become law.

We will maintain our targeted activities to build capacity among audit institutions in the Asia–Pacific region.

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PART 1 FOREWORD BY THE AUDITOR-GENERAL

# MARKING 110 YEARS OF AUDIT SERVICE TO THE PARLIAMENT



lan McPhee Auditor-General

This is a significant year for the ANAO, as we are celebrating 110 years since the creation of the office of Auditor-General. The *Audit Act 1901* was the fourth piece of legislation passed by the Parliament; it followed the passage of the two Supply Acts and the *Acts Interpretation Act 1901*. Thus, the office had its genesis in the earliest days of federation. The Treasurer of the day, Sir George Turner, in introducing the Audit Bill into the House of Representatives on 5 July 1901, described it as a Bill the legislature needed to enact in order that the work of the Government may be properly carried out.

In reviewing the past year, I am pleased to report that the ANAO has continued a long tradition of delivering independent, soundly based quality audit reports to the Parliament. Those reports provided

recommendations and guidance on better practice to improve public administration. We also provided audit reports on the financial statements of 260 Australian Government–controlled entities.

The Parliament continues to recognise the ANAO's contribution to improving public administration, including through strong support from the Joint Committee of Public Accounts and Audit (JCPAA), which the office appreciates.

## Our support to the Parliament

The Parliament's continuing confidence in the way the ANAO undertakes its statutory responsibilities is built on our close working relationship with the JCPAA—Parliament's audit committee—aimed at ensuring that we are addressing the Parliament's priorities and concerns. Our work aids the Parliament in holding the executive government to account. The ANAO is recognised for the strength of its audit conclusions and recommendations, which, for significant audits, have been subject to inquiries by committees of the Parliament.

During 2010–11, two audits were undertaken and tabled as result of formal requests: the *Green Loans Program* report (tabled on 29 September 2010) and the *Home Insulation Program* report (tabled on 15 October 2010). The audits followed requests from Senator Christine Milne and the Hon. Greg Combet MP, the then Minister Assisting the Minister for Climate Change and Energy Efficiency, respectively.

# Our close relationship with the JCPAA

In building on our relationship with the Parliament, the ANAO adopts an active 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 JCPAA plays an important supporting role by providing an added 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 the reports.

In undertaking this role, the committee devoted significant time in 2010–11 to these matters, including tabling Report 419: *Inquiry into the* Auditor-General Act 1997, in December 2010. This, was a landmark report dealing with the Auditor-General's mandate, referred to in the following item.

#### JCPAA inquiry into the Auditor-General Act 1997

An important development relating to my mandate under the *Auditor-General Act 1997* was the JCPAA's inquiry into the Act and the resulting JCPAA Report 419, *Inquiry into the* Auditor-General Act 1997, tabled in December 2010.

The purpose of this inquiry was to review and report on whether the provisions of the *Auditor-General Act 1997* remain adequate in the modern public sector environment. This is in line with the JCPAA's statement in its Report 386 (2001) regarding the need to periodically review critical legislation such as the *Auditor-General Act* to ensure that its objectives are being met.

Report 419 made 13 recommendations which, if enacted as proposed, will expand my audit mandate to allow the Parliament to be better informed on the changing public sector landscape. The more significant proposed changes include:

- enabling the Auditor-General, at the request of the JCPAA, to conduct performance audits of non-Commonwealth entities that receive Commonwealth funding where there is a reciprocal responsibility to deliver specified outcomes (commonly referred to as 'following the money')
- amending the Act so that the functions performed by entities, including private contractors
  acting on behalf of the Commonwealth in the delivery of government programs, can be subject
  to direct audit by the Auditor-General
- enabling the Auditor-General to review an agency's compliance with its responsibilities for
  a subset of performance indicators to be identified annually by the Auditor-General and
  forwarded to the Parliament, via the JCPAA for comment, in a manner similar to the ANAO's
  annual performance audit work program
- providing explicit authority to conduct assurance engagements, such as the Major Projects
  Review, and utilising the same information-gathering powers that exist for the conduct of
  performance audits where such engagements have been identified as priorities by the Parliament
- providing the Auditor-General with the authority to initiate performance audits of Commonwealth-controlled government business enterprises.

Mr Robert Oakeshott MP, the Member for Lyne and Chair of the JCPAA, with the support of the Government, introduced the Auditor-General Amendment Bill 2011 into Parliament on 28 February 2011 to give effect to the central recommendations in the committee's report. The Bill is still under consideration by the Parliament.

# Our audit program

Over the years, governments have acted to improve public administration following the tabling of our performance audit reports, which provide information on government programs and make recommendations to enhance accountability for program administration. These audit reports provide a positive stimulus to advance public administration and improve accountability.

The highlights of the year's performance audit work are detailed in Part 3 of this annual report. During 2010–11, the ANAO tabled 54 performance audit reports. Looking across the audit reports tabled during the year, it is apparent that the performance by public sector agencies in implementing new policy measures has been mixed. There is also more to be done in requiring

a stronger focus on the performance of government programs, particularly on their impact. The returns can be significant in providing greater transparency in government operations, in allowing better targeting of programs by government, and in improving administrative efficiency. This is in the interests of good government.

Two performance audit reports in particular underline the importance of effective implementation in achieving government policy objectives: Audit Report No.9 2010–11, *Green Loans Program*, and Audit Report No.12 2010–11, *Home Insulation Program*.

Other well-received audits that highlighted the need for improved public administration included Audit Report No.11 2010–11, *Direct Source Procurement*; Audit Report No.33 2010–11, *The Protection and Security of Electronic Information Held by Australian Government Agencies*; and Audit Report No.57 2010–11, *Acceptance into Service of Navy Capability*.

Our audits of financial statements assist Australian Government entities to fulfil their annual accountability obligations under the *Financial Management and Accountability Act 1997* (FMA Act), the *Commonwealth Authorities and Companies Act 1997* (CAC Act) or the *Corporations Act 2001*.

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 internal control regime and accounting processes relevant to the preparation of the financial statements. A copy is also provided to the responsible minister.

Additionally, each year the ANAO tables two reports on its financial statement audit program:

- Audits of the Financial Statements of Australian Government Entities, tabled in December each
  year. There were no qualified opinions for the 2009–10 financial year and, as in recent years,
  there was a reduction in the number and significance of issues arising from the final phase of
  the 2009–10 financial statement audits.
- Interim Phase of the Audit of Financial Statements of Major General Government Sector Agencies, tabled in June each year. The 2010–11 financial year reflected the continuing reduction over recent years in the number of significant and moderate risk audit findings, which demonstrates the general stability and maturity of the control regimes in most government entities. However, our audits continue to identify control weakness in areas such as the management of inventories, business systems, and business continuity management.

Ongoing developments in accounting and auditing frameworks and standards continue to have an impact on the financial reporting responsibilities of public sector entities and on the ANAO's auditing methodology. We continue to devote significant resources to the implementation of revised auditing and accounting requirements.

Part 3 of this annual report provides further information on our audits of the financial statements of public sector entities.

# Our contribution to promoting better practice

It has been a longstanding practice of the ANAO to reinforce our audit findings and recommendations through the publication of our better practice guides, which are designed to provide practical, workable guidance to promote better practice in specific areas of public administration. The better practice guides issued in 2010–11 provided guidance on the management of assets by public sector entities, fraud control, and risk and controls for human resources information systems. The guides, which draw on our audit experience, continue to be very well received, and I look forward to them continuing to have a positive impact on public administration.

## Our 110th anniversary

As mentioned above, this year marks 110 years since the first Commonwealth Parliament created the office of Auditor-General as an independent public official with wide powers of investigation to scrutinise Commonwealth administration and provide independent, impartial assessments on the state of the public accounts. The ANAO is one of only a handful of Commonwealth entities that can trace their origins back to federation.

Over our 110 years, the office has undergone a number of fundamental shifts in the way it fulfils its statutory responsibilities. Initially, as required by the *Audit Act 1901*, the office conducted a complete checking and reporting of all transactions through government. It was not until the 1920 amendments to the Audit Act that the 100 per cent check requirement was formally abolished. During this early period there were many challenges for the fledgling office, including the introduction of commercial activities of government (the Post Office and the Commonwealth Bank) and the impact of the First World War.

The predominant focus on the integrity of financial reports and on ensuring the compliance of financial transactions with relevant laws and regulations was maintained until the 1970s. The 1976 Coombs Commission (the Royal Commission on Australian Government Administration) provided an opportunity for the then Auditor-General, Don Steele Craik, to successfully argue that parliamentary scrutiny would be greatly improved if a fresh approach to the role of the Auditor-General could be engineered, allowing Parliament to have independent and expert advice on the economy and efficiency achieved in government financial administration.

There have been two comprehensive reviews into the Australian National Audit Office. The first was by the Joint Committee of Public Accounts in 1989, when Report 296, *The Auditor-General: Ally of the People and Parliament*, importantly recommended that the Auditor-General continue to have responsibility for performance audits. The committee also endorsed the importance of the performance audit function to the Parliament.

The second, referred to above, was the recent JCPAA Report 419, which recommended giving the Auditor-General greater authority to 'follow the dollar' where non-Commonwealth bodies are in receipt of Commonwealth funding to deliver agreed outcomes, recognising that changes have occurred in the way the Commonwealth and the states and territories interact and are expected to interact in the future.

Over our 110 years, there have been 14 Auditors-General, each of whom contributed to what the office is today. Our role is unique, and the audit work undertaken by the ANAO forms an important link in the accountability chain from the public sector to the Parliament and ultimately to the Australian community.

# Our contribution to the auditing and accounting professions

The ANAO continues to support the auditing and accounting professions 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 during the year, and other staff members are involved in the work of professional bodies through their committees. I am Deputy Chair of the Australian Accounting Standards Board and have completed a two-year term as President of the ACT Division of the Institute of Public Administration Australia.

#### Our international activities

#### Hosting a range of international delegations

In 2010–11, the ANAO once again hosted a range of international visiting groups. We were pleased to meet colleagues from Vietnam, Russia, China, Bangladesh, New Zealand, Canada, Brazil and the United States. ANAO staff enjoy meeting international colleagues and sharing information in these less formal settings. During the year, ANAO staff also met with members of the Norwegian Parliament, the Indonesian Ministry of Finance, the Iraqi Ministry of Finance, the Papua New Guinean Ombudsman's Office and the United Nations Population Fund. Two representatives of the Samoan Audit Office took part in our performance audit learning and development course.

#### **ANAO-AusAID** programs

The ANAO participates in two key AusAID-funded programs which have been in place since 2007. The objective of the programs is to assist in capacity building in auditing and governance in our region.

One program is funded under the auspices of the Australia–Indonesia Government Partnership Fund and includes a range of activities to support the Indonesian Board of Audit (Badan Pemeriksa Keuangan or BPK). The program has three elements: the provision of technical advice and professional educational support as required; the secondment of BPK staff to the ANAO for up to 11 months; and the deployment of an ANAO Senior Executive Service officer to Jakarta to support the program on the ground and to provide technical and advisory support to BPK.

Our second program provides support to the Papua New Guinea Auditor-General's Office (PNG AGO) and has two elements. The first involves the Strongim Gavman Program (SGP), under which two ANAO officers have been placed as senior advisers to the Papua New Guinea Auditor-General and his deputies. The ANAO has had SGP advisers on deployment in the PNG AGO, through the current program and its predecessors, for a number of years. The second element of the program is the ANAO – PNG AGO Twinning Scheme, under which we provide a range of support activities to the PNG AGO, including visits of our staff to the PNG AGO to build capacity in auditing and governance. Papua New Guinea graduate auditors participate in the ANAO's graduate program and are seconded to the ANAO for 11 months. We also coordinate placements of PNG AGO audit managers and graduates in the Queensland Audit Office and the New South Wales Audit Office.

#### Papers delivered at international forums

I presented a paper on environmental auditing and sustainable development at the 20th International Congress of Supreme Audit Institutions (INCOSAI) in Johannesburg, South Africa, in October 2010. The Deputy Auditor-General presented a paper on the fallout of the global financial crisis and lessons arising from that for government agencies and supreme audit institutions at the 12th Global Working Group of Auditors-General meeting in Kumarakom, India, on 21–23 March 2011. In addition, I presented a keynote paper on aligning institutional capacity and the performance of supreme audit institutions at the 21st Conference of Commonwealth Auditors-General, held in Windhoek, Namibia, on 10–13 April 2011.

#### International peer review activities

As I noted in last year's report, 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 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 was well received by the Canadian Standing Committee on Public Accounts and Audit in September 2010, with the chair of the committee, on behalf of all members of the Canadian Parliament, thanking ANAO staff and other members of the review team for their efforts. It was very pleasing to note that as part of her final report to the Canadian Parliament in May 2011, Serving Parliament through a Decade of Change, the retiring Auditor-General, Ms Sheila Fraser, stated her belief that the peer review was one of the most extensive peer reviews of a legislative audit office that has ever been done.

#### Our resources

The ANAO continues to benefit from increased funding in the 2009–10 budget for our performance audit program, IT audit and technical support capacity. However, in common with other agencies, the ANAO is facing increased employee and supplier costs. I am conscious of the overall pressures on the Government's budget, and the ANAO will continue to manage additional resource pressures, such as the ongoing additional requirements of new auditing standards, salary and contract costs, and the range of efficiency dividends applied to the public sector.

While we are not seeking additional budget supplementation at this time, further pressure may result from the implementation of the JCPAA's recommendations in Report 419, *Inquiry into the* Auditor-General Act 1997, in relation to the conduct of audits of key performance indicators. This is not expected to affect the ANAO's 2011–12 budget. However, an audit program involving an assessment of a subset of agency key performance indicators would involve a substantial commitment of resources, in addition to initial set-up costs.

Overall, the office is in a manageable resource position. With appropriate attention to managing our costs, we are confident of delivering our corporate outcomes over the next 12 months.

#### **Our staff**

The high regard in which the ANAO is held is due to the commitment and professionalism of my staff and my senior leadership group. Our work has gained wide parliamentary and community acceptance, which reflects well on the solid work undertaken by the office.

Two of my staff are currently providing long-term in-country support to BPK and the PNG AGO: Dr Paul Nicoll is on posting to Jakarta, and Wayne Jones is stationed in Port Moresby.

Several staff received awards to recognise their achievements in 'going the extra distance' in delivering our audit products or delivering on our corporate goals. Our strengths lie in our ability to anticipate significant issues and to respond rapidly when required. Our achievements during these challenging times have placed the office on a sound footing for the coming year, 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



# **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 reports, opinions and publications 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 Auditor-General, Ian McPhee, and Deputy Auditor-General, Steve Chapman.

## 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**

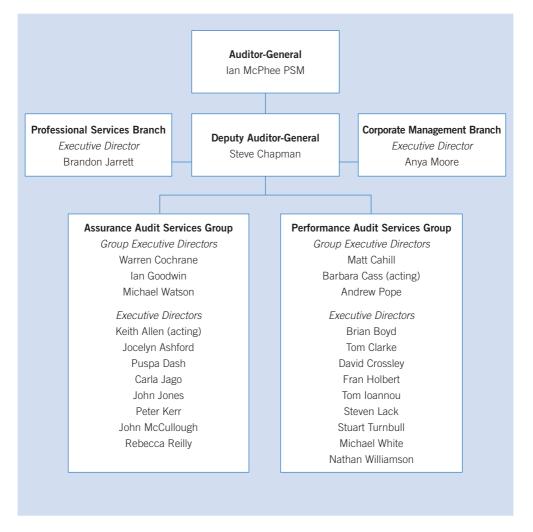
The ANAO is organised into two service groups and two support branches:

- 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, IT support and building services.

The ANAO is located in Canberra, with a small number of staff based in Sydney.

The organisational and senior management structure of the ANAO at 30 June 2011 is shown in Figure 1.

Figure 1 Organisational and senior management structure at 30 June 2011



# **OUTCOMES AND PROGRAMS FRAMEWORK**

This section describes our outcomes and programs framework, as set out in the 2010–11 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, 2010-11

#### **Outcomes**

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

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

#### **Programs**

#### 1.1: Assurance Audit Services

# 2.1: Performance Audit Services Components

Components

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 2010–11 was an operating surplus of \$4.699 million (up from an operating surplus of \$4.345 million in 2009–10), 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 controls were operating effectively and year-end financial statement preparation procedures were well organised and undertaken in an efficient and timely manner. Internal audit coverage during the year also found that our control environment is sound.

Our financial resources for 2010–11, on an outcome–program basis, are summarised in Table A1.2 and Table A1.3 in Appendix 1. The ANAO's financial statements for 2010–11, and a commentary on our financial performance for the year, are also set out in Appendix 1.



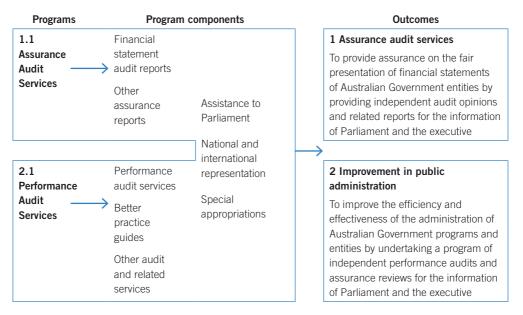
PART 3 REPORT ON PERFORMANCE

# PERFORMANCE STRUCTURE

This part of the annual report describes the ANAO's performance against the measures set out in our Portfolio Budget Statements and Business Plan for 2010–11.

In 2010–11 the ANAO worked to achieve two outcomes, through two programs. As Figure 3 shows, the programs contributed to the outcomes through both separate and shared program components.

Figure 3 Program components contributing to planned outcomes in 2010-11



The first two sections of the report on performance deal with the components of Program 1.1 and Program 2.1, while the third section addresses the components that are common to both programs.

# PROGRAM 1.1—ASSURANCE AUDIT SERVICES

Table 1 provides a summary of the performance of Program 1.1 in 2010–11. The delivery of Assurance Audit Services is described in more detail in the following sections.

Table 1 Program 1.1: Performance against 2010–11 Portfolio Budget Statements deliverables and performance indicators

Outcome 1: Assurance Audit Services					
To provide assurance on the fair presentation of finan- entities by providing independent audit opinions and Parliament and the executive.					
Deliverables	2010–11 target	2010-11 result			
Number of financial statement audit opinions to be issued <sup>a</sup>	250	260			
Other regulatory assurance engagements <sup>b</sup>	59			59 62	
Number of financial statement related reports to be produced	2	2			
Key performance indicators	2010-11 result				
Audit opinions issued in respect of all Australian public sector entities					
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.				
	90% of audit opinions were issued within two days of the ANAO receiving the signed financial statements.				
in accordance with ANAO auditing standards	The Quality Assurance Review Program did not identify any major systematic or repetitive deficiencies in application of the relevant auditing standards, but matters requiring attention were identified.				
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					
\$40.060 million (\$42.192 million in 2009–10).					

JCPAA = Joint Committee of Public Accounts and Audit

- a In addition, the ANAO audits the annual consolidated financial statements of the Australian Government.
- b A total of 149 separate opinions were issued in respect of other regulatory assurance engagements for 2010–11 as engagements with Aboriginal land councils required multiple opinions to be issued.

## Financial statement audit reports

The ANAO's audits of financial statements assist Australian Government entities to fulfil their annual accountability obligations under the *Financial Management and Accountability Act* 1997 (FMA Act), the *Commonwealth Authorities and Companies Act* 1997 (CAC Act) or the *Corporations Act* 2001.

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 the statements:

- 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 entity's financial position, financial performance and cash flows.

The Auditor-General delegates responsibility for signing 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 relevant to the preparation of the financial statements. 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 allows an Australian Government entity to fulfil its accountability obligations by stating whether the annual financial statements of the entity provide a true and fair view of the matters required to be disclosed under the financial reporting framework.

A risk-based methodology is used in conducting 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 governance arrangements and business processes. Our audit methodology is supported by customised technology and comprehensive training programs.

Where an entity's financial statements fairly represent its financial operations and position, the audit report is 'unqualified'. The need to qualify an audit opinion can arise for a number of reasons, including material misstatement of the final balances, or where the Auditor-General is unable to obtain sufficient appropriate audit evidence to form an opinion on the entity's financial statements. 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 2009–10 financial year, 260 audit opinions were issued, of which none were qualified. Figure 4 shows audit opinions from 2005–06 to 2009–10.

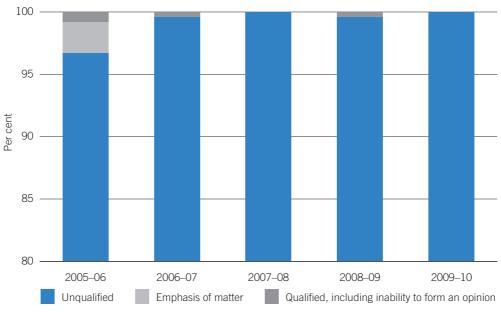


Figure 4 Comparison of audit opinions

Note: The 'emphasis of matter' references are provided in unqualified reports to draw the reader's attention to matters disclosed in the financial statements that, in the auditor's judgement, are of fundamental importance to the understanding of the financial statements.

#### Financial statement audit—2010

The report *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2010* was tabled in December 2010. This report summarised the final result of the audits of the 2009–10 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.

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 2009–10 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 16 August 2010. For non-material entities, the date was 31 August 2010.

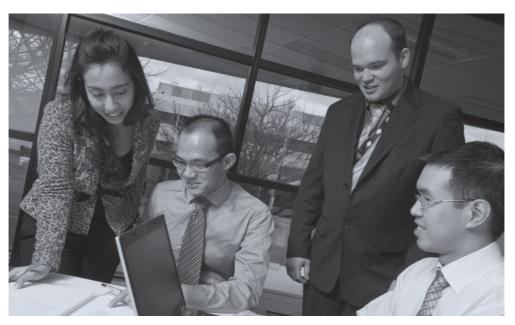
Some 76 per cent of material entities and 57 per cent of non-material entities met their clearance deadlines. This was a small improvement from 2008–09, when 75 per cent of material entities and 54 per cent of non-material entities met the deadlines. Overall, a large majority of entities' financial statements were completed within three months of the end of the financial year.

#### Summary of findings

The December 2010 report provided details of the number of unmodified audit opinions (clear opinions) issued. No audit reports for the 2009–10 year contained a qualification or an emphasis of matter (compared with one qualified report in 2008–09). Two audit reports for the 2009–10

year contained a reference to 'other legal and regulatory requirements' (compared with one in 2008–09). This is a good outcome and reflects the progressive improvements to financial reporting made by Australian Government entities.

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 2009–10 financial statement audits. New issues that were identified in the final audit phase were in respect of controls in entities' IT environments, such as user access and data management controls; asset management processes, including accounting policy, accounting for the disposal of assets and calculations of asset impairment and write-downs; and business system processing controls, such as reconciliation controls. Our December 2010 report also mentioned that most entities had made good progress in addressing and resolving outstanding audit issues.



Indonesian secondee Rahmi Istanti with financial statement auditors Peter Nguyen, Doug Johnson and Eric Phoummathep.

#### 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 with the FMA Act. 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.

The Department of Finance and Deregulation advised that agencies reported a total of 17,003 breaches in 2009–10. This represents an increase of 13.6 per cent compared with 2008–09, when 14,961 breaches were reported. The Department of Finance and Deregulation advised that the increase in noncompliance largely relates to the introduction of revised financial framework requirements, particularly relating to the revised *Commonwealth Grant Guidelines* that came into effect on 1 July 2009.

The ANAO's performance audit report *Management of the Certificate of Compliance Process in FMA Act Agencies* was tabled on 20 April 2011. The audit focused on the effectiveness of annual certificate of compliance processes for FMA Act agencies by considering the Department of Finance and Deregulation's administration of the certificate process at whole-of-government level; selected agencies' annual certificate processes; and the design and impact of the certificate. Several independent or external members of FMA Act agency audit committees were surveyed and interviewed to obtain their views on the process.

The main area for improvement identified by the audit concerned the need for more targeted quality assurance activity by agencies in regard to compliance with the financial management framework. Quality assurance activities commonly involve risk-based reviews of some financial transactions, tests of key internal controls and review of business areas such as the central procurement unit. Well-targeted quality assurance activities to complement self-assessments could focus on higher risk, more significant or high-volume transactions in the agency's context.

External members of audit committees, chief finance officers (CFOs) and the audited agencies have provided positive feedback on the impact of the certificate process. For example, 90 per cent of CFOs who responded to an ANAO survey agreed that the certificate process had helped to improve their agency's compliance with the financial management framework; 80 per cent agreed that the certificate process had helped to improve agency staff's understanding of financial management responsibilities; and 83 per cent agreed that the certificate process had helped to strengthen internal controls in their agency. At a whole-of-government level, as a result of issues identified through certificate reporting, the Department of Finance and Deregulation has revised some financial management framework requirements and improved guidance material, which has contributed to reductions in noncompliance. These findings illustrate that the certificate process has helped improve compliance with the financial management framework. In particular, the necessity for chief executives to be attentive to the range of requirements covered by the certificate has flowed through to heightened focus on these requirements by agency staff, and improvements in internal controls.

The Australian Government recently instigated a Commonwealth Financial Accountability Review (CFAR), which presents an opportunity to consider means to address systemic noncompliance issues identified in certificate reporting. The CFAR is designed to analyse the Commonwealth's financial framework from first principles and includes a range of activities to improve the delivery of government services, policies and programs and upgrade the public management framework.

#### Interim financial statement audit—period ended 30 June 2011

The report *Interim Phase of the Audit of Financial Statements of Major General Government Sector Agencies for the year ending 30 June 2011* was tabled in June 2011. This report presented the results of the interim phase of the 2010–11 financial statement audits of 27 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 technology system 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 2011 report indicated that the results of the interim phase of our 2010–11 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 scale that rates the business or financial management risk to the entity in terms of material misstatement of the financial statements or noncompliance with legislation.) 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.

The June 2011 report also mentioned that our audits continue to identify control weaknesses in a number of areas, such as the management of inventory and assets, including stocktakes; business systems; the management of user access to key financial systems; and business continuity management. Our report also commented that, generally, agencies were positive and timely in their response to ANAO audit findings.



IT auditors Jim Street and Thierry Guerin.

#### **Developments in the auditing profession**

In October 2009, the Australian Auditing and Assurance Standards Board released a replacement set of standards for auditing financial statements for implementation for reporting periods beginning on or after 1 January 2010. The new standards are referred to in chapter 1 of the report *Interim Phase of the Audit of Financial Statements of Major General Government Sector Agencies for the year ending 30 June 2011*, tabled in June 2011. They include a quality standard for the audit firm, which took effect on 1 January 2010. The replacement standards represent a significant revision of the previous standards, resulting in clearer and more rigorous standards. The changes follow closely changes made to auditing standards made by the International Auditing and Assurance Standards Board.

With the assistance of a leading international auditing firm, the ANAO has revised its audit methodology to ensure compliance with the new standards. This work included the update of ANAO policies, manuals, testing procedures and audit templates. ANAO auditors' reports on financial statements for 2010–11 will be issued in accordance with the new standards.

During 2010–11 the ANAO continued to pursue improvements in the quality and efficiency of its audit methodology and practices. In particular, it commenced a Methodology Support Project to provide audit teams with greater consultative opportunities and to provide opportunities to discuss the efficiency and effectiveness of the audit plans with an independent team. Ten audits were selected for review in 2010–11. Further reviews are planned to be undertaken in 2011–12.

#### **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.

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 and not retained by the ANAO.

The fees are based on a scale determined by the Auditor-General under section 14 of the Auditor-General Act. In determining audit fees, 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 audit opinions for 2009–10. 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. Figure 5 shows the number of audit opinions issued for the 2009–10 financial statement audit cycle, in comparison to previous periods.

260

250

240

230

200

2006

2007

2008

2009

2010

Figure 5 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 2009–10 audit cycle, we issued 90 per cent of opinions on the day the financial statements were signed or within two days of the signing, a slight improvement from 88 per cent for the previous audit cycle. Figure 6 shows the timeliness with which we have issued audit opinions over the past five years.

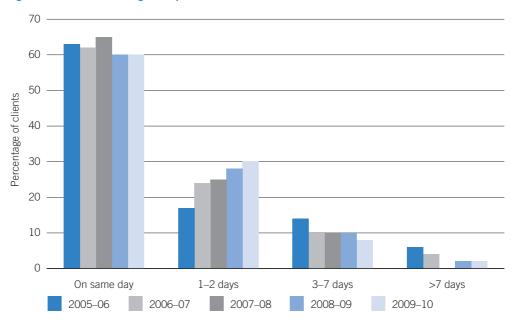


Figure 6 Timeliness of issuing audit opinions

#### Cost

Table 2 summarises the costs of conducting financial statement audits in the past two reporting periods.

Table 2 Costs of financial statement audit reports by reporting period, 2009–10 to 2010–11

	2009–10	2010–11
Audits conducted	251	260ª
Direct labour hours	159,966	149,230
Resources (including overheads)	\$39.73m	\$37.68m

In addition, the ANAO audits the annual consolidated financial statements of the Australian Government and tables two financial statement related reports in the Parliament.

#### Quality assurance

During 2010–11, we conducted a program of quality assurance reviews of a selection of completed 2009–10 financial statement audits and other assurance reports, 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 2010–11 program, which reviewed 10 financial statement audits and two audits by arrangement, identified no major systematic or repetitive deficiencies. However, the reviews highlighted matters that required attention, including the level of documentation of work performed, particularly in relation to areas of judgement. The results of the reviews were reviewed by senior management 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 and increased support for outposted staff.

#### Client satisfaction

In March 2011, an independent survey was conducted to gain feedback from entities on the conduct of the audit of their 2009–10 financial statements. The report on the survey presents the views of 147 agencies.

The survey results were positive overall and indicated high satisfaction with our performance in auditing the 2009–10 financial statements. In particular:

- 92 per cent of respondents (94 per cent in 2009–10) agree that ANAO staff have the necessary understanding and skills to carry out audit work
- 88 per cent of respondents (95 per cent in 2009–10) acknowledge the value added by ANAO products and services.

While the results declined marginally from the previous year, the movement is not statistically significant and the results demonstrate the professional approach taken to maintain a high level of client satisfaction. The relevant senior leadership team has considered the results of the survey and will use the information to better focus audit efforts and improve client services.

## Other regulatory assurance engagements

Other regulatory assurance engagements 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 activities on a cost-recovery basis, and a number of entities, as part of their corporate governance arrangements, seek reviews or audits of their half-year financial statements. Services also included grant acquittal certificates, performance information verification and other special purpose engagements.

Table 3 summarises the costs of conducting other regulatory assurance engagements in the past two reporting periods.

Table 3 Costs of other regulatory assurance engagements by reporting period, 2009–10 to 2010–11

	2009–10	2010–11
Audits conducted	65	62
Direct labour hours	13,261	12,371
Resources (including overheads)	\$1.62m	\$1.54m

# PROGRAM 2.1—PERFORMANCE AUDIT SERVICES

Table 4 provides a summary of the performance of Program 2.1 in 2010–11. The delivery of Performance Audit Services is described in more detail in the following sections.

Table 4 Program 2.1: Performance against 2010–11 Portfolio Budget Statements program deliverables and performance indicators

Outcome 2: Improvement in public administration			
To improve the efficiency and effectiveness of the ac programs and entities by undertaking a program of i assurance reviews for the information of Parliament	ndependent performance a		
Deliverables	2010–11 target	2010-11 result	
Number of performance audits to be produced	56	54	
Number of better practice guides produced	4	3	
Review of DMO Major Projects Report	1	1	
Other audit and related reports	1	1	
Key performance indicators	2010-11 result		
Delivery of a work program which is balanced in coverage and nature and which recognises the audit priorities of the Parliament			
The value of the ANAO contribution is recognised by the Parliament	Not assessed in 2010–11. S every two years. <sup>a</sup>	urvey conducted	
The value added by ANAO products and services is recognised by public sector entities	86% of public sector entities acknowledged the value added by Performance Audit Services Group products and services. <sup>b</sup>		
The JCPAA's general satisfaction with the overall quality, timeliness and coverage of ANAO products and services	Not assessed in 2010–11. Survey conducted every two years. <sup>a</sup>		
Cost			
\$28.170 million (\$26.107 million in 2009–10).			

JCPAA = Joint Committee of Public Accounts and Audit

- a The parliamentary survey from January 2009 found that 94% of parliamentarians surveyed expressed satisfaction with ANAO products and services and the JCPAA reported a high level of satisfaction with the overall quality, timeliness and coverage of ANAO products and services. The next parliamentary survey will be conducted in 2011–12 under a two-year cycle).
- b PASG Client Survey, August 2011.

#### Performance audit services

Performance audits cover a wide range of topics and commonly examine related 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 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 5 summarises the program's performance in terms of the number, timeliness and cost of performance audit reports.

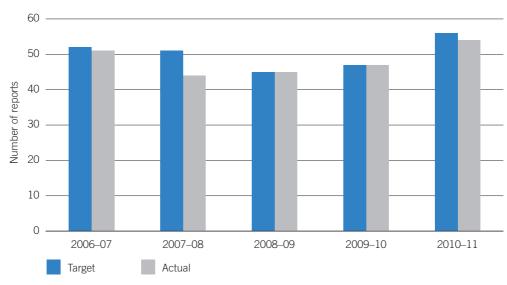
Table 5 Program 2.1: Performance, quantitative measures, 2008–09, 2009–10 and 2010–11

	Number of performandit reports	ormance			Average correport (\$m)	•
	Target	Result	Average	Range	Average	Range
2010–11	56	54	12.0	6.4–20.3	0.42	0.2-0.8
2009–10	47	47	12.2	1.3–24.3	0.42	0.2-1.0 <sup>a</sup>
2008–09	45	45	13.2	5.5–24.1	0.39	0.1–0.7

a Due to a transcription error, this appeared as '0.2–0.1' in the annual report for 2009–10.

Figure 7 shows the numbers of performance audit reports completed over the past five financial years.

Figure 7 Number of performance audit reports, 2006-07 to 2010-11



### Performance audit topics

A major outcome from our performance audit work is improvement in the management and administration of Australian Government programs. Performance audit reports also provide assurance to the Parliament about the way an area of public administration is being conducted.

Our performance audit work program is developed annually in consultation with the JCPAA and public sector entities. This ensures that our audit products and outputs meet the needs of the Parliament and public sector entities.

The program is based on an assessment of the changing Australian Public Service environment and the ANAO's understanding of the expectations of government and the operations of agencies. 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.

Key environmental factors influencing the 2010–11 program included:

- the ongoing implementation of economic stimulus measures
- · the Council of Australian Governments reform agenda
- whole-of-government policy and program design and delivery
- areas identified by past performance audits and reviews, including governance, risk management, and effective use of human and financial resources.

Particular areas identified for audit focus in 2010–11 included:

- program implementation
- procurement and capability acquisition processes
- grants administration
- monitoring program progress and outcomes
- Indigenous programs.

The performance audits conducted in 2010–11 are summarised by portfolio in Appendix 4. A published audit work program is one of the ANAO's key products, and is discussed in more detail later in this report.

## Program implementation

The development of new policies and programs, particularly in response to the recent stimulus measures, requires agencies to respond rapidly to changed priorities and to quickly implement new initiatives. Significant reports in this area included Audit Report No.9 2010–11, *Green Loans Program*, and Audit Report No.12 2010–11, *Home Insulation Program*.

The audit of the Green Loans program provided a timely reminder of the challenges in program implementation and the importance of executive management engagement. In 2006, the ANAO and the Department of the Prime Minister and Cabinet jointly produced a better practice guide, *Implementation of Programme and Policy Initiatives*, that stated in the foreword:

Too often the challenges involved in turning a policy idea into effective outcomes, and the skills and effort required to do so, are not fully appreciated. Too often the results fall short of expectations. Yet we know that defects in implementation rob the community of the full benefits of a new policy and waste community resources.

The audit reinforced the view that the guide is a useful framework to assist agencies in managing program implementation, and reflects the collective experience and wisdom of senior managers and executives in the Australian Public Service.

The audit of the Home Insulation Program identified a number of challenges to implementation of programs that arise during the policy development stage, including maintaining compatibility between program design and policy objectives, developing appropriate assumptions and identifying early the critical program components, while highlighting the particular challenges of planning demand-driven programs. Agencies need to establish effective governance arrangements that provide proactive and effective oversight and response to emerging problems, and to implement effective and timely risk treatments. The audit also showed that effective program implementation requires the identification of the resources and systems needed to support implementation, and the timely operation of appropriate compliance and audit programs.

These and other audits of program implementation have highlighted the fact that delivery of a government's policy agenda relies not only on the provision of sound policy advice, where the Australian Public Service has traditionally performed well, but on the effective implementation of new programs, where performance has been mixed.

More broadly, new policy implementation also requires effective organisational arrangements to support the management of a suite of new policy initiatives, which was identified in Audit Report No.29 2010–11, *Management of the Implementation of New Policy Initiatives*. This audit assessed the effectiveness of the approach taken by the Australian Federal Police (AFP) in managing the implementation of new policy initiatives. While the broad strategy developed in 2008 to improve project management in the AFP was sound, its implementation has not been effective. As a consequence, the measures taken to improve organisational project management capability have had little effect and, at the time of the audit, the AFP still lacked the processes, controls and structures necessary to provide the commissioner and the Government with assurance that new policy initiatives were being delivered in accordance with the Government's time, quality and cost expectations. The audit made recommendations aimed at enhancing governance structures, improving the early identification of implementation issues and building a stronger organisational capability to plan, support and monitor the implementation of new policy initiatives.

### Procurement and capability acquisition processes

Performance audits that review agencies' procurement activities provide assurance that agencies are making appropriate decisions about the use of government resources to develop capability and deliver outcomes. A number of performance audits in 2010–11 identified potential for agencies to further improve their procurement processes.

Audit Report No.11, *Direct Source Procurement*, assessed how well agencies had implemented the *Commonwealth Procurement Guidelines* and relevant financial management and accountability legislation when undertaking direct source procurement. The guidelines promote 'value for money' as the core principle in all procurements. The other key principles—encouraging competition; efficient, effective and ethical use of resources; and accountability and transparency in decision making—underpin the achievement of value for money. Agencies are required to have regard to all such considerations in their procurement activities. The audit found that, overall, the four audited agencies were reasonably familiar with the Government's procurement framework and the guidelines. However, in practice, they did not consistently follow key elements of the guidelines when choosing and conducting direct source

procurements. For the majority of direct source procurements examined, from the circumstances of the procurement and/or procurement documentation, it was not evident that one or more obligations, requirements or specified sound practices had been met, including for higher value procurements.

Audit Report No.40 2010–11, *Management of the Explosive Ordnance Services Contract*, focused on the Department of Defence's contractual arrangements for storing and distributing its \$3.1 billion inventory of explosive ordnance, representing some 60 per cent of Defence's reported total inventory at 30 June 2010. The audit found that Defence had established mechanisms to support the effective management of the Explosive Ordnance Services Contract, but should seek to incorporate a firm contract expiry date to allow the services provided under the contract to be market tested. There is currently no limit on the number of performance-based contract extensions available to the incumbent contractor: provided the contractor continues to meet contractually defined performance standards, the contract may be extended indefinitely. Longstanding advice from the Department of Finance and Deregulation is that such 'evergreen' provisions are likely to limit competition, and do not provide the necessary assurance that the value-for-money requirements of the policy framework in the *Commonwealth Procurement Guidelines* will be met.

The ANAO also identifies areas of good practice in its performance audits. Audit Report No.26, *Management of the Tender Process for a Replacement BasicsCard*, found that the Department of Human Services (DHS) demonstrated sound procurement and management practice and acted in a manner consistent with Finance's operational guidance to agencies contained in the *Guidance on the Mandatory Procurement Procedures*. In planning and managing the procurement, including approaching the market, evaluating tender submissions and conducting contract negotiations, DHS also complied with the requirements of the *Commonwealth Procurement Guidelines*.

The procurement outcomes for Defence capability are contingent on effective acceptance arrangements. Audit Report No.57 2010–11, *Acceptance into Service of Navy Capability*, found that Defence is still some way from achieving its decade-old objective of seamless, well-developed processes and systems for the effective and efficient delivery of Navy capability. The overall picture is of a capability development system that has not consistently identified and responded, in a timely and comprehensive way, to conditions that adversely affected Navy capability acquisition and support. Opportunities to identify and mitigate cost, schedule and technical risks have been missed, resulting in chronic delays in Navy mission systems achieving final operational capability. At the highest level, acquisition plans have not clearly set out the Government's agreed scope, cost and schedule for each project at the time of each project's approval. Consequently, compliance with government requirements, which is a fundamental responsibility of Defence, could not be confirmed by Defence.

The pathway to better capability outcomes is reliant on clear up-front agreements on capability requirements definition, verification and validation procedures, and configuration management. In all cases, the Capability Development Group, Defence Materiel Organisation and Navy would benefit from working more closely together during important phases of the development of major systems. At key stages of each project, all parties would benefit from a definite agreed view on the risks that must be managed in order to achieve a successful outcome. Experience in the United Kingdom and the United States underscores the importance of the acquisition organisation and the navy working together to ensure that hand-offs do not become 'voyages of discovery' in the final stages of the project.

Without the application of greater discipline by Defence in the implementation of its own policies and procedures, the necessary improvements in acquisition outcomes will not be achieved. In some essential systems engineering, technical regulatory elements and capability integration management areas, there are insufficient numbers of qualified staff; this needs to be addressed as a priority. The ANAO made eight recommendations designed to improve Defence's management of the acquisition and transition into service of Navy capability, including reducing delays in achieving operational release.



Performance auditors Joe Keshina, Corinne Horton and Tessa Osborne on four-wheel drive training for audit fieldwork.

### Grants administration

Audits continue to identify issues in regard to the administration of grants and application of the enhanced grants administration framework. For example, the ANAO regularly identifies that key requirements for transparency in grants management, such as the publication and consistent application of selection criteria, are not being met. Agencies should provide clear advice on the merits of each proposed grant, including a recommendation to the decision maker concerning whether or not funding should be approved under the relevant program guidelines, having regard to the statutory obligations governing the approval of spending proposals.

Two audits in particular found incomplete documentation or inconsistent application of criteria for selecting grant recipients. Audit Report No.3 2010–11, *The Establishment, Implementation and Administration of the Strategic Projects Component of the Regional and Local Community Infrastructure Program*, found that no version of the program guidelines outlined the assessment criteria that would be used to select successful applicants, and other opportunities to publish the selection criteria were not taken. The audit highlighted problems in the assessment process, with the eligibility and compliance checking process abandoned part way through its implementation, resulting in all applications received being considered. The reasons for the selection of some of the short-listed applications and the non-selection of others were not apparent from the program document or subsequent advice provided to the ANAO.

Audit Report No.24 2010–11, *The Design and Administration of the Better Regions Program*, found that, overall, the program was effectively designed and has been well administered by the Department of Infrastructure, Transport, Regional Development and Local Government (and later the Department of Regional Australia, Regional Development and Local Government). Because the program was established solely to fund various regional election commitments, neither department had a role in the selection of projects. There remains, however, an obligation to assess the efficient and effective use of public money for a proposed grant, and the published program guidelines and departmental administration of the program recognised that there was a requirement for both an assessment of whether each project would make efficient and effective use of public money and an assessment of whether any risk mitigation measures should be imposed. While results of risk analyses and mitigation proposals were clearly and effectively communicated to the relevant parliamentary secretary, assessment briefings provided to the parliamentary secretary did not similarly outline the basis upon which the department had assessed each project as representing an efficient and effective use of public money.

### Monitoring program progress and outcomes

Several performance audits have identified scope for improvement in agencies' arrangements for monitoring and reporting on program progress, including annual reporting to the Parliament under the outcome and programs framework.

Audit Report No.25 2010–11, Administration of the Trade Training Centres in Schools Program, found that the planning approach and administrative framework for the program established by the Department of Education, Employment and Workplace Relations (DEEWR) were generally sound. Nevertheless, the audit identified issues relating to DEEWR's implementation of the program's framework, and scope to further strengthen the program's Portfolio Budget Statements (PBS) performance information framework.

The audit found that the program's PBS performance information framework had improved over time through the adoption of a broader set of performance measures, such as the trend for students participating in vocational and technical education. Nevertheless, it was difficult for stakeholders to assess the extent to which the program had been successful in developing the trade training centre infrastructure which underpins the delivery of program outcomes, as there were no specific targets for the construction of trade training centres. In this context, there was an opportunity to heighten transparency for the Parliament and public by establishing expectations for overall program infrastructure development and subsequently reporting on progress.

Audit Report No.30 2010–11, *Digital Education Revolution Program—National Secondary Schools Computer Fund*, found that, overall, the administration of the Digital Education Revolution (DER) program had been effective in supporting progress through a partnership approach towards the National Secondary Schools Computer Fund's objective of increasing the computer-to-student ratio for students in years 9 to 12.

The audit identified limitations in the program's progress measures, including annual reporting to the Parliament. Administering agencies need to strike an appropriate balance between accountability and devolved responsibility, and remain accountable to responsible ministers and the Parliament for the use of Australian Government funding. Opportunities for enhancement identified by the audit, and reflected in its recommendations, build on the DER program's partnership approach by seeking well-timed assurance over aspects of the program's delivery by education authorities, and strengthening of reporting on performance to stakeholders.

## Indigenous programs

During 2010–11, the ANAO increased its focus on the administration of Australian Government Indigenous programs, tabling six reports. The performance of government programs in addressing disadvantage experienced by Aboriginal and Torres Strait Islander people is an important and topical aspect of public administration. Program delivery arrangements are relatively decentralised and characterised by 'whole-of-government' approaches to policy coordination, program administration and service delivery. Further, there are a large number of Indigenous-specific programs administered by Australian Government bodies, most of which are of a relatively small annual value. In these circumstances, effective coordination of services and programs is important. Audit Report No.18 2010–11, *Government Business Managers in Aboriginal Communities under the Northern Territory Emergency Response*, highlighted the importance of maintaining a clear understanding between departments of the government coordination arrangements that had been put in place in communities under the Northern Territory Emergency Response and of maintaining a stable presence in those communities.

Grant funding provided to not-for-profit, local government and community-based organisations is a key model of service delivery; the amount of funding delivered this way indicates a strong reliance on these organisations to contribute to the broader outcomes sought by government. With respect to the often limited capacity of these funded organisations, purchasing agencies have traditionally adopted a cautious approach to funding in order to minimise risks, characterised by short-term grant funding and an annual funding cycle. In some circumstances this may be an appropriate approach but audits have highlighted that despite the recognition of the long-term nature of the investment needed to address Indigenous disadvantage, many programs continue to operate on the basis of small, short-term investments leading to multiple transactions, creating in the process a high level of administrative burden for both grantees and agencies. These issues were identified in, for example, Audit Report No.8 2010–11, *Multifunctional Aboriginal Children's Services (MACS) and Crèches* and Audit Report No.32 2010–11, *Northern Territory Night Patrols*.



Indigenous programs auditor Michael DeMamiel.

### Audits undertaken by formal request of Parliament, ministers or parliamentarians

Three audits were tabled during 2010–11 as a result of formal requests from Parliament:

- Audit Report No.9 2010–11, *Green Loans Program*. This work was undertaken in response to a request from Senator Christine Milne, dated 3 February 2010, and other concerns in relation to the administration of the program.
- Audit Report No.12 2010–11, Home Insulation Program. Following the commencement of
  the Home Insulation Program in February 2009, the Auditor-General received representations
  from various stakeholders raising concerns about the program's delivery. On 3 March 2010,
  the then Minister Assisting the Minister for Climate Change and Energy Efficiency, the Hon.
  Greg Combet AM, MP, requested that the Auditor-General conduct an audit of the Home
  Insulation Program. This followed a number of requests from the Shadow Minister for Climate
  Action, Environment and Heritage, the Hon. Greg Hunt MP, to conduct an audit of the program
  in response to safety concerns and allegations of rorting and noncompliance by installers.
- Audit Report No.13 2010–11, Implementation and Administration of the Civil Aviation Safety
  Authority's Safety Management System Approach for Aircraft Operators. This resulted from
  a recommendation in the Senate Standing Committee on Rural and Regional Affairs and
  Transport's report Administration of the Civil Aviation Safety Authority and Related Matters,
  which requested that the ANAO review the Civil Aviation Safety Authority's implementation
  and administration of the regulation of aircraft operators' safety management systems.

# **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.

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. 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 2010–11, 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, and our better practice guides continued to be well received by public sector entities, other audit offices and professional organisations.

The better practice guides published in 2010–11 are described in Table 6.

Table 6 Better practice guides published in 2010–11

Title	Description
Strategic and Operational Management of Assets by Public Sector Entities 13 September 2010	In both the public and the private sectors, asset management is an essential component of good governance, and should be aligned to, and integrated with, an entity's strategic, corporate and financial planning. Entities should have a disciplined approach to match their investment in assets to program requirements, and to plan for asset replacement in a strategic way that accords with the Government's capital budgeting framework where applicable.
	The aim of this guide was to update the previous publication <i>Better Practice Guide on Asset Management</i> , June 1996, and to provide a practical asset management framework that can be adopted by Australian Government entities to assist in the effective management, maintenance, and use of assets to achieve their goals and agreed program delivery outcomes.
Fraud Control in Government Entities 28 March 2011	Fraud is an ever-present threat to the Australian community, and its prevention and detection pose significant challenges, to which government programs are not immune. This better practice guide explains measures entities can take in establishing an effective fraud control environment. It updates the publication <i>Fraud Control in Australian Government Agencies</i> (2004), and reflects the changing fraud risk landscape.
	The release of this better practice guide coincides with the issue of an updated version of the <i>Commonwealth Fraud Control Guidelines</i> . These new guidelines establish the fraud control policy framework within which entities determine their own specific practices, plans and procedures to manage the prevention and detection of fraudulent activities.
	The better practice guide is an important tool for senior management and those who have direct responsibilities for fraud control. Elements of the guide will be useful to a wider audience, including employees, contractors, service providers and others with an interest in sound public administration.
Human Resource Information Management Systems 4 April 2011	The better practice guide provides an overview of significant risks and controls that are relevant to key human resource (HR) functions.
	The guide discusses risks and controls associated with the design, implementation and maintenance of the Human Resource Information System. It will assist HR system managers and practitioners to implement better practices to improve the effectiveness and efficiency of HR and payroll processes; strengthen system controls; and appropriately manage and segregate user access to key system functions. It will also increase awareness of system controls within the Peoplesoft and SAP HR systems that are used by a large number of Australian Government entities.

5

4
3
2
1
0
2007-08
2008-09
2009-10
2010-11

Figure 8 shows the numbers of better practice guides published over the past five financial years.

Figure 8 Publication of better practice guides, 2006-07 to 2010-11

# Other audit and related services

In 2010–11, we tabled our annual review of Defence Materiel Organisation major projects. We also published our annual Audit Work Program in July 2010.

## **Defence Materiel Organisation major projects report**

The ANAO's third 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 *2009–10 Major Projects Report* builds on the longitudinal analysis of project performance that began in the previous major projects reports. To meet stakeholder requirements, the report provides additional information in the project data summary sheets, including enhancements proposed by the JCPAA.

The review covered the cost, schedule and capability progress achieved by 22 DMO projects, which had an approved budget totalling \$40.8 billion as at 30 June 2010. The ANAO reviewed the project data provided in the DMO project data summary sheets and provided an independent review report to Parliament in 2010–11. The non-inclusion of base date figures for expenditure and contract price for a number of projects represented a departure from the project data summary sheet guidelines, and was the basis for the Auditor-General's qualified conclusion. The DMO advised that it had not included this information because, in its view, the provision of figures was a time-consuming and costly exercise, offering limited value for project management outcomes. Project information on risks, issues and other future events, such as capability performance, was considered by the ANAO to be outside the scope of the review.

The ANAO's analysis again indicated that keeping major acquisition projects on schedule remains the major challenge for the DMO and industry contractors, and affects the availability of capability for the end user, the Australian Defence Force. Across the 22 projects reviewed, on average there was a schedule slippage of slightly under three years against the 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, a review does not provide the level of assurance of an audit.

## **Audit Work Program July 2010**

We publish a comprehensive guide to our performance audit work program in July each year. It provides a portfolio-level view of our audit strategies and audits in progress as at 1 July 2010, 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.

The Audit Work Program July 2010 was developed during the second half of 200910 and is widely distributed, including to all parliamentarians, the JCPAA and agency heads.

### **Performance measures**

The following sections describe in more detail the ANAO's performance in providing performance audit services during 2009–10. Our primary performance measures relate to the number of reports and guides produced (see figures 7 and 8), and the level of satisfaction the Parliament, the JCPAA and audited entities have with our reports and services. We also participate in regular quality assurance (QA) and peer review processes to monitor our performance and identify areas for improvement.

### 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 entities an impetus to implement audit recommendations and contribute to the overall improvement of public administration. In 2010–11, parliamentary committees continued to support audit conclusions and recommendations.

We also formally survey our parliamentary stakeholders every two years, to assess how well we are meeting their expectations. The next survey will be conducted in the second half of 2011.

The most recent survey, conducted in 2009, 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. We received positive feedback on our reports and publications, 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 centred on four key areas applicable to performance auditing:

• Focus of our audits—The ANAO endeavours to maintain a balance in its performance reporting. We seek a balance between reporting on issues that address the key risks and challenges

facing the Australian Government public sector and individual entitles and being responsive to a changing environment and stakeholder requests that cover matters of public interest.

- Accessibility of our reports—In 2010–11 we launched our new website, which features a new look and feel, and provides more options for searching and browsing our reports.
- Format of our reports—The new website also allows us to progressively publish our reports in both HTML and PDF formats, providing greater flexibility for users to select sections of reports appropriate to their needs. We have also provided additional training for staff to provide them with skills in clear and effective writing.
- Engagement with members of parliament—In 2010–11 we engaged extensively with various committees and parliamentarians. This included briefing individual parliamentarians and committees on specific performance audit topics.

# 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 418, *Review of Auditor-General's Reports tabled between September 2009 and May 2010*, was tabled on 22 December 2010, and commented on nine performance audit reports:

- Audit Report No.7 2009–10, Administration of Grants by the National Health and Medical Research Council—The JCPAA urged the National Health and Medical Research Council to implement the ANAO recommendations aimed at strengthening accountability and transparency throughout the peer review process. Whilst commending the council's ongoing improvement in post-award grant management, the committee urged the council to implement the ANAO's recommendation on the implementation of a risk-based arrangement to ensure a better management of Commonwealth monies.
- Audit Report No.8 2009–10, The Australian Taxation Office's Implementation of the Change Program: a Strategic Overview—The JCPAA acknowledged the difficulties inherent in implementing such a diverse and complex project. The committee further recommended that the Australian Taxation Office monitor and evaluate customers' satisfaction with the new system.
- Audit Report No.10 2009–10, Processing of Incoming International Air Passengers—The
  JCPAA was concerned about the effectiveness of the primary line system to ensure the
  referral of incoming air passengers and crew who pose a risk to the Australian community.
  The committee urged the Customs and Border Protection Service to implement the ANAO's
  recommendation No. 3, relating to IT systems issues and problems, as soon as possible, to
  mitigate the risk posed to Australia's border protection.
- Audit Report No.15 2009–10, AusAID's Management of the Expanding Australian Aid Program—The JCPAA stressed the importance of regular public reporting on performance to build public and parliamentary confidence in AusAID. The committee made further recommendations to AusAID, in particular supporting the ANAO's recommendation regarding the classification of administered and departmental expenses.
- Audit Report No.20 2009–10, The National Broadband Network Request for Proposal Process—The JCPAA shared the ANAO's concerns regarding risk management for the project

and further encouraged all agencies and departments to identify risks early in the tender process and, where possible, quantify them.

- Audit Report No.26 2009–10, Administration of Climate Change Programs—The JCPAA found
  that there will be an ongoing need for climate change programs to combat the potential effects
  of climate change on the Australian people and economy. It noted that the department had
  implemented the ANAO's recommendation regarding establishing a grants policy unit, but
  was concerned that the programs implemented by successive governments have experienced
  a range of risk management and reporting problems and that relevant departments have not
  been able to successfully address these issues.
- Audit Report No.27 2009–10, Coordination and Reporting of Australia's Climate Change
  Measures—The JCPAA was satisfied that Australia's Greenhouse Gas Emissions Inventory
  meets internal requirements and acknowledged the steps being taken by the Department of
  Climate Change and Energy Efficiency to improve the implementation of the United Nations
  Framework on Climate Change recommendations with regard to inventory. It urged the
  department to fully implement the ANAO's recommendations to address inconsistencies in the
  reporting of abatement measures across agencies.
- Audit Report No.31 2009–10, Management of the AusLink Roads to Recovery Program—The
  JCPAA was concerned about the inconsistencies the audit identified in the quality of data used
  to measure the efficiency and effectiveness of the program. The committee noted that the
  Department of Infrastructure, Transport, Regional Development and Local Government had
  agreed to implement all of the ANAO's recommendations.
- Audit Report No.33 2009–10, *Building the Education Revolution—Primary Schools for the 21st Century*—The JCPAA was concerned about the data integrity issues identified by the ANAO; it urged DEEWR to ensure that they are addressed and that the relevant data is collected to enable the program to be monitored and evaluated.

In addition, the JCPAA tabled Report 422, *Review of the 2009–10 Defence Materiel Organisation Major Projects Report*, in April 2011. The report incorporated ongoing issues that were raised as part of the review of the pilot major projects report in 2007–08, but also provided discussion on the Auditor-General's major findings in relation to the 2008–09 and 2009–10 major projects reports. The committee requested the DMO to address the base-date dollar issue associated with the qualified audit opinions given in the ANAO's reports, with the matter expected to be resolved for the 2011–12 major projects report.

The JCPAA also held hearings into a further five ANAO performance audits during the year. The reports relating to these reviews had not been released by 30 June 2011.

## Responses from audited entities

Entities are not required to implement the recommendations made in audit reports, and may 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 accepted by the audited entity at the time of the audit, and we make genuine efforts to achieve that result. However, disagreement sometimes occurs. Entity comments are included in full in the final audit report.

In 2010–11, we made 143 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 143 recommendations, 136 (95 per cent) were fully agreed in all parts. Six recommendations (4 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 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 2010–11 reporting period was 87 per cent, an increase compared to 70 per cent in 2009–10. Auditees' acknowledgement of the value added by ANAO products and services was consistent with 2009–10, at 86 per cent. The percentage of auditees who considered that the auditors had demonstrated they had the professional knowledge and audit skills required to conduct the audit remained stable during 2010–11 at 91 per cent (from 90 per cent for 2009–10).

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 services.

## **Quality assurance**

The 2010–11 QA program comprised a review of five performance audits. The reviews identified that audits were substantially compliant with the auditing standards and ANAO policies. Areas identified that warrant improvement include the presentation of audit objectives and audit criteria in audit reports, and the completion documentation in the audit working papers relating to independence and quality control requirements.



Professional Services Branch Executive Director Brandon Jarrett with branch member Michelle Apoderado.

The results of the QA reviews were reported to the ANAO 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.

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 2010–11, the ANAO reviewed two new Zealand Audit Office audits and provided a report to the New Zealand Auditor-General.

# COMPONENTS COMMON TO PROGRAMS 1.1 AND 2.1

This section reports on performance in relation to two components that contribute to both of the ANAO's outcomes and are shared by programs 1.1 and 2.1:

- Assistance to Parliament—The ANAO provides ministers, shadow ministers, other
  parliamentarians and parliamentary committees, and their staff, with briefings on 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—The ANAO shares its auditing expertise in order 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 demand for our services.

Another component common to both programs is the 'special appropriation' received to fund the remuneration of the Auditor-General, including for any short-term acting arrangements for periods when the Auditor-General is absent. The special appropriation is reported on in the ANAO financial statements (see Appendix 1).

Table 7 provides a summary of the performance of the shared program components in 2010–11. The delivery of the components is described in more detail in the following sections.

Table 7 Performance against indicators and targets common to outcomes 1 and 2

Performance indicators	2010–11 target	2010-11 result
Parliament acknowledges the value of the ANAO contribution	90% value role of ANAO	Not assessed in 2010–11. Survey conducted every two years. <sup>a</sup>
Public sector entities acknowledge the value added by ANAO products and services	90% value role of ANAO	Assurance Audit Services: 88% <sup>b</sup> Performance Audit Services: 86% <sup>c</sup>
JCPAA's general satisfaction with the overall quality, timeliness and coverage of the ANAO's products and services	High standard of satisfaction	Not assessed in 2010–11. Survey conducted every two years. <sup>a</sup>

JCPAA = Joint Committee of Public Accounts and Audit

- a The parliamentary survey from January 2009 found that 94% of parliamentarians surveyed expressed satisfaction with ANAO products and services and the JCPAA reported a high level of satisfaction with the overall quality, timeliness and coverage of ANAO products and services. The next parliamentary survey will be conducted in 2011–12 under a two year cycle.
- b Assurance Audit Services Group Client Survey, March 2011.
- c Performance Audit Services Group Client Survey, August 2011.

In 2010–11, the distribution of costs of the 'assistance to Parliament' and 'national and international representation' program components was 26 per cent to Program 1.1 and 74 per cent to Program 2.1.

## **Assistance to Parliament**

The Parliament is the ANAO's key client. In 2010–11, we continued to actively support the work of the Parliament by providing briefings and information to ministers, shadow ministers and other parliamentarians; parliamentary committees; and parliamentary staff.

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 2010–11, officers of the ANAO attended private briefings and public hearings as part of the JCPAA's review of audit reports.

In addition to our work with the JCPAA, we assisted other committees during 2010–11, appearing before or providing other assistance to:

- the Joint Standing Committee on Electoral Matters inquiry into the conduct of the 2010 federal election and matters relating thereto, in February 2011
- the Joint Select Committee on the Parliamentary Budget Office inquiry into the proposed parliamentary budget office, in February 2011
- the Joint Committee on the Australian Commission for Law Enforcement Integrity hearing into the Law Enforcement Integrity Commissioner Act 2006, in February 2011
- the Senate Foreign Affairs, Defence and Trade References Committee inquiry into procurement procedures for Defence capital projects, in April 2011
- the Senate Standing Committee on Finance and Public Administration's budget estimates hearings, in October 2010, February 2011, and May 2011.

### Feedback on provision of services to Parliament

We conducted a parliamentary survey in 2009 to obtain feedback on the extent to which the ANAO's services meet the needs of parliamentarians. A new survey was planned for the first half of 2011. However, because of the changes resulting from the 2010 election, including significant changes to the membership of the JCPAA, the ANAO has delayed the survey until later in the calendar year.

The 2009 survey found that senators, members of parliament and parliamentary committee secretaries had overall positive perceptions of the ANAO and highly valued our work.

# 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**

The ANAO is a member of the Australasian Council of Auditors-General (ACAG), 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 discussion papers, participating in information exchanges, undertaking an annual benchmarking survey, and conducting peer reviews and training courses. In April 2011, the Auditor-General attended the ACAG Biennial Conference in Perth as well as the biennial Australasian Council of Public Accounts Committees (ACPAC) Conference, which was held at the same time.

## 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 Twentieth International Congress of Supreme Audit Institutions (XX INCOSAI) was held in South Africa in October 2010. The Auditor-General presented a paper on environmental auditing and sustainable development, and attended the Knowledge Sharing Committee meeting.

The ANAO participated in several working groups of the International Organization of Supreme Audit Institutions (INTOSAI) during 2010–11, as described in Table 8.

Table 8 Participation in International Organization of Supreme Audit Institutions working groups, 2010–11

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 Auditor-General attended the Knowledge Sharing committee meeting at XX INCOSAI in November 2010, which discussed the work of this group.
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 hosted a workshop on environmental auditing in Turkey in November 2010, but the ANAO was unable to attend due to other work priorities. The Auditor-General attended the Knowledge Sharing Committee meeting at XX INCOSAI in November 2010, which discussed the work of this group.
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.	The Auditor-General attended the Knowledge Sharing Committee meeting at XX INCOSAI in November 2010, which discussed the work of this group. The working group met in South Africa in March 2011, but the ANAO was unable to attend due to other work priorities.
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 Auditor-General attended the Knowledge Sharing Committee meeting at XX INCOSAI in November 2010, which discussed the work of this group.
Working Group on Value and Benefits of SAIs	To develop a framework and measurement tools for defining the value and benefits of SAIs. Value and benefits are recognised from two perspectives: to be recognised as an institution that makes a difference in the lives of citizens, and to be recognised as an independent model organisation.	The ANAO reviewed and commented on papers.

## Asian Organization of Supreme Audit Institutions

The ANAO provided articles and shared information with Asian Organization of Supreme Audit Institutions (ASOSAI) counterparts during 2010–11. The ANAO supported ASOSAI research projects on environmental auditing and internal audit by responding to questionnaires, and contributed to the finalisation of the ASOSAI strategic plan for 2011–15.

### Pacific Organisation of Supreme Audit Institutions

The ANAO is a member of the Pacific Organisation of Supreme Audit Institutions (PASAI), and attended the Thirteenth PASAI Congress which was held in Kiribati in July 2010. The ANAO assisted the PASAI Secretariat with a range of training materials to help build the capacity of PASAI members.



External Relations staff Tamie Plant and Rani Austin.

## Auditors-General Global Working Group

The Auditors-General Global Working Group is an international forum of Auditors-General who meet annually 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.

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.

The Deputy Auditor-General attended the twelfth meeting of the group, held in India in March 2011, and presented a paper on the fallout from the global financial crisis and lessons arising for government agencies and supreme audit institutions.

### Conference of Commonwealth Auditors-General

The Auditor-General presented a keynote paper on aligning institutional capacity and the performance of supreme audit institutions to the Twenty-first Conference of Commonwealth Auditors-General, held in Namibia in April 2011.

#### 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 2010–11, we hosted three visits by BPK officials and four seconded auditors from BPK. In October 2010 the Chair of BPK, Dr Hadi Poernomo, and his senior officials visited the ANAO. This was a milestone in establishing a strong relationship with the new chair of BPK and a sound basis for continuing cooperation between the two offices.

In 2010–11 the ANAO continued to deploy a Senior Executive Service officer to Jakarta, to support the program and to provide technical and advisory support to BPK. In 2011 two senior staff visited BPK to facilitate a workshop on quality assurance.



Indonesian secondees Amin Bangun, Wiwid Mulwadi, Prima Ginting and Rahmi Istani.

The ANAO's contribution to BPK has received strong support from AusAID and the Department of Foreign Affairs and Trade as an important element of Australian Government assistance programs.

### Papua New Guinea Auditor-General's Office

Under the AusAID-funded Strongim Gavman Program, two senior ANAO officers undertook postings to the PNG Auditor-General's Office (PNG AGO). 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 AGO. Under this AusAID-funded scheme, two staff of the PNG AGO 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 people seconded from and funded by the PNG AGO.

Arrangements were also made for one director of audit from the PNG AGO to spend one month finalising his four-month development program at the Queensland Audit Office, and one audit manager spent four months working with audit teams in the Queensland Audit Office in Brisbane.

During 2010–11 two ANAO officers undertook short-term assignments to the PNG AGO to assist with its financial audit work program.

The ANAO's Chief Information Officer made two return visits to the PNG AGO to provide advice and guidance on improving the performance of the office's wireless network, including advice on developing IT policies. Senior ANAO representatives also visited the PNG AGO to provide advice on improving human resources systems and performance management.

#### International visitors

During 2010–11, we hosted 17 short-term visits for a total of 100 delegates from a number of countries, including Bangladesh, Brazil, Canada, China, New Zealand, Russia, the United States and Vietnam. ANAO staff also met with representatives of the Norwegian Parliament, the Indonesian Ministry of Finance, the Iraqi Ministry of Finance, the Papua New Guinean Ombudsman's Office and the United Nations Population Fund. Delegates provided very positive feedback on their visits.

Two representatives of the Samoan Audit Office took part in the ANAO's performance audit learning and development course. An ANAO performance analyst was seconded to the Office of the Auditor-General of New Zealand for 11 months, and a manager from Audit New Zealand was seconded to the ANAO for four weeks.

# Responding to external inquiries

The ANAO had extensive interactions with other supreme audit institutions during 2010–11. We also responded to over 350 external inquiries and provided information and responses to requests for input on a range of governance and audit-related matters.

## Other information services

In addition to our primary role of providing independent assurance and advice to the Parliament, we 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 conduct seminars to advise on topical and emerging issues, with a focus on improved financial reporting. More specifically, our client seminars cover changes to the Accounting Standards, the *Corporations Act 2001*, the *Financial Management and Accountability Act 1997*, and the *Commonwealth Authorities and Companies Act 1997*. The seminars, which continue to generate a great deal of interest, were well received by attendees in 2010–11.

The five client seminars that we conducted in 2010–11, in Canberra, Melbourne and Sydney, attracted a total attendance of more than 460 representatives of government entities. Over 97 per cent of attendees who provided feedback indicated that the seminars met course objectives; 95 per cent indicated that the content was useful.

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 2010–11 included articles on a range of
  issues, including direct source procurement, program implementation, project planning and
  approval, fraud control in agencies, and effective cross-agency agreements.
- Opinions gives audit clients information on developments in financial reporting and disclosure, together with details of performance audit activity and our better practice guides. Four editions were published in 2010–11.

Both newsletters are available from our website.



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, oversighting key business opportunities and risks, and managing our budget.

The board meets each month. At 30 June 2011, the board comprised:

- Ian McPhee (Chair), Auditor-General
- Steve Chapman, Deputy Auditor-General
- Matt Cahill, Group Executive Director, Performance Audit Services
- Barbara Cass, Group Executive Director (acting), Performance Audit Services
- Andrew Pope, Group Executive Director, Performance Audit Services
- Warren Cochrane, Group Executive Director, Assurance Audit Services
- Michael Watson, Group Executive Director, Assurance Audit Services
- Ian Goodwin, Group Executive Director, Assurance Audit Services
- Anya Moore, Executive Director, Corporate Management Branch
- Anthony Howatson, Chief Finance Officer.

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



The Executive Board of Management. Front, left to right: Barbara Cass, lan McPhee, Steve Chapman, Matt Cahill. Back, left to right: Andrew Pope, Michael Watson, Anthony Howatson, Warren Cochrane and Anya Moore. Absent: lan Goodwin.

# **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 is sponsored by the Deputy Auditor-General and met 11 times in 2010–11. At 30 June 2011, its membership comprised:

- Matt Cahill (Chair), Group Executive Director, Performance Audit Services
- Ian Goodwin, Group Executive Director, Assurance Audit Services
- Keith Allen, Executive Director (acting), Assurance Audit Services
- Tom Clarke, Executive Director, Performance 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 2010–11 report, dated June 2011, presented advances in our IT platform and support to clients, staff, systems and operations, and outlined planning for 2011–12.

# **People and Remuneration Committee**

The People and Remuneration Committee is an advisory body to the Executive Board of Management in relation to remuneration policy and human resource management policies and practice, including the ANAO Strategic Workforce Plan and the staff survey. The committee also makes decisions about salary advancement and performance pay recommendations. The committee met six times in 2010–11.

At 30 June 2011, the committee's membership comprised:

- Steve Chapman (Chair), Deputy Auditor-General
- Ian Goodwin, Group Executive Director, Assurance Audit Services
- Barbara Cass, Group Executive Director (acting), Performance Audit Services
- Anya Moore (Secretariat), Executive Director, Corporate Management Branch.

Other Group Executive Directors attended the annual meeting to determine staff salary advancement and performance pay ratings.

# **International Programs Committee**

The International Programs Committee assists the Executive Board of Management to provide strategic oversight and coordination of our AusAID-funded capacity-building activities relating to Indonesia and PNG. These activities are part of the Australian Government's broader efforts to strengthen the public sector in these two countries. The committee is sponsored by the Deputy Auditor-General and met five times in 2010–11.

At 30 June 2011, the committee's membership comprised:

- Andrew Pope (Chair), Group Executive Director, Performance Audit Services
- Anya Moore, Executive Director, Corporate Management Branch
- Anthony Howatson, Chief Finance Officer, Corporate Management Branch

- Ben Sladic, Senior Director, Corporate Management Branch
- Rani Austin (Secretariat), Adviser, Corporate Management Branch.

## **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 2010–11. At 30 June 2011, its membership comprised:

- Bruce Jones (Chair), external independent member
- Steve Chapman, Deputy Auditor-General
- Warren Cochrane, Group 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

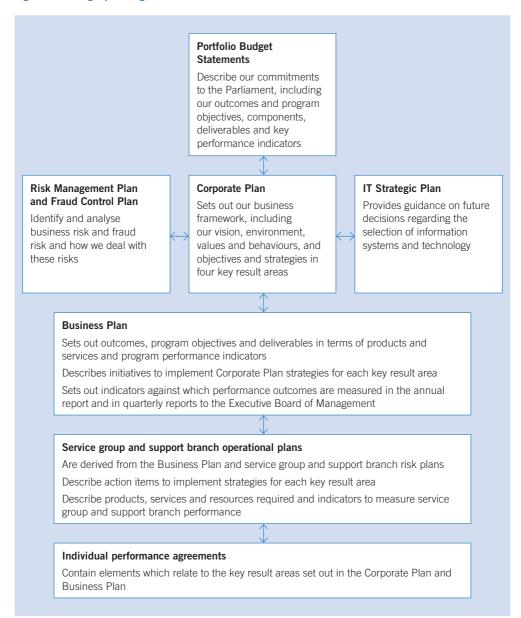
# **Specific-purpose committees**

In addition to the subcommittees mentioned above, specific-purpose committees are established from time to time. For example, the Website Renewal Project Board provides oversight for the implementation and management of the revised website and reports to the Information Strategy Committee.

# Strategic planning framework

Key elements of our strategic planning framework are presented in Figure 9.

Figure 9 Strategic planning framework



### **Corporate Plan**

Our Corporate Plan is a three-year rolling plan that is reviewed annually. The plan is the overarching document for all planning and other strategic and operational activities for the three years from 2010 to 2013. 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 2010–11 Business Plan projects either were completed or are ongoing activities. The enhancement of key business process IT systems was a particular highlight of 2010–11.

### 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 international standard ISO 31000:2009. All our risk plans are updated 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 agenda 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 2010–11, and all risks with controls in place were assessed as 'medium'.

We take part in the annual Comcover Risk Management Benchmarking Survey to independently assess our risk management arrangements. In the 2011 survey our score was 7.9 against a peer group survey average of 5.5. While the score is slightly down on our score of 8.1 in 2010, it is not a directly comparably result as we opted to be compared with a more select group this year (rather than being compared across the board). The status of our risk management regime remains the same, having been assessed as 'Structured', and this year we received a 7.3 per cent discount on our Comcover premium based on the quality of our risk management; this compares with a 6.7 per cent discount in 2009–10.

### 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 linked to our risk management framework and draws all our fraud prevention and detection initiatives together into one consolidated document.

Having particular regard to the risk to our reputation should fraudulent activity occur, 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. We revised our Fraud Control Plan to take account of changes brought in by two documents released in March 2011: revised *Commonwealth Fraud Control Guidelines* and an ANAO better practice guide entitled *Fraud Control in Australian Government Entities*.

There were no known incidents of fraud in 2010–11. All fraud risks were assessed and appropriate controls are in place.

The Auditor-General's fraud control certification follows.



### Auditor-General for Australia



14 June 2011

# Annual Report 2010-11 - Fraud Control Certification

I, Ian McPhee, Auditor-General for Australia, certify that I am satisfied that the Australian National Audit Office (ANAO) has:

- · prepared fraud risk assessments and a fraud control plan;
- put in place appropriate fraud prevention, detection, investigation, reporting and data collection procedures and processes that meet the specific needs of the ANAO; and
- · taken all reasonable measures to minimise the incidence of fraud.

Ian McPhee

GPO Box 707 CANBERRA ACT 2601 19 National Circuit BARTON ACT Phone (02) 6203 7500 Fax (02) 6273 5355 Email ian.mcphee@anao.gov.au

### 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.

### **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 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 and is based on the key elements of 'respect, integrity and excellence'. The guide also recognises the importance of auditing and accounting standards developed by Australian auditing and accounting professional bodies.

## 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 in-house conferences were conducted for our SES officers during 2010–11, in November 2010 and May 2011.

The November conference provided an opportunity for senior staff to meet the Hon. Gary Gray AO, MP, Special Minister of State and Special Minister of State for the Public Service and Integrity, who has administrative responsibility for the ANAO within the Prime Minister's portfolio. He presented his perspective on a range of matters of relevance to the ANAO. Mr John Lawler APM, Chief Executive Officer of the Australian Crime Commission, also addressed the conference. Mr Lawler discussed corporate crime and its relevance to the work of the ANAO.

The May conference focused on business planning. Presentations on the work of key ANAO committees informed conference discussions on business planning. The ANAO Risk Management Plan was reviewed, with a focus on emerging issues that affect our business and influence our risk management. The draft 2011–12 Business Plan was also reviewed, in the context of our business circumstances, risk environment and the 2010–13 Corporate Plan. The 2011–12 Business Plan was promulgated to all staff in June 2011.

# **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. The independent auditor position is a part-time statutory appointment, and holds the same powers as the Auditor-General.

Geoff Wilson was reappointed as our independent auditor in 2009. Mr Wilson is the 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 2011.

The independent auditor completed a performance audit entitled *Planning and Scoping of Performance Audits by the Australian National Audit Office*, in June 2011. The objective of the audit was to consider, at the annual performance audit program level and individual performance audit level, the process for planning and scoping performance audits within the ANAO. Mr Wilson reported that our planning and scoping of the annual performance audit program and individual performance audits is being undertaken in an efficient and effective manner. No formal recommendations were raised as part of this review; however, four improvement opportunities were identified at the individual audit planning and scoping level to further enhance the control framework and add to the effectiveness of the planning and scoping of individual performance audits. The four improvement opportunities were accepted by the ANAO, and three have since been implemented. Steps are being taken to ensure that our forward program of support system training addresses the fourth suggestion.

### Internal audit

The ANAO has engaged Ernst & Young to perform its internal audit function. This activity is overseen by the ANAO Audit Committee, providing assurance about the integrity of our systems and processes and identifying opportunities for improvement.

In 2010–11, the ANAO's internal audit program included audits of:

- stakeholder management
- assessment of professional training regimes
- financial data analytical review
- review of management and reporting frameworks
- · overtime and time off in lieu processes
- financial controls and compliance
- management and delegations.

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 to the satisfaction of the internal auditor.

## **Benchmarking**

The Australasian Council of Auditors-General (ACAG) 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 Australia on quantitative and qualitative benchmarks of audit office operations and on specific characteristics of each jurisdiction.

In 2009 ACAG finalised a Governance and Audit Framework for Self Assessment and External Review. The framework includes checklists for four areas of management: office governance, audit practice management, financial audit assessment and performance audit assessment.

An initial compliance evaluation of the ANAO quality framework using the ACAG-developed framework was conducted in 2010–11. Our evaluation considered office governance and audit practice management. The remaining two sections are comprehensively dealt with as part of our annual quality assurance program.

For all office governance and audit practice management criteria, the ANAO was assessed as having appropriate policies, procedures and guidance in place, and having systems to assess and monitor their effectiveness and compliance.

### **Parliamentary committees**

The Joint Committee of Public Accounts and Audit (JCPAA) tabled Report 419, *Inquiry into the* Auditor-General Act 1997, in December 2010. The report presented the findings of an inquiry to review whether the provisions of the *Auditor-General Act 1997* remain adequate in the modern public sector environment.

The JCPAA made a number of recommendations to enhance the mandate of the Auditor-General. These include providing the authority for the Auditor-General to audit, in certain circumstances, the performance of the recipients of Commonwealth funding, including agencies of other government jurisdictions and contractors engaged by the Australian Government. The committee also recommended that the Auditor-General have the authority to audit the appropriateness of key performance indicators and of entities' reporting against them.

A private member's Bill to amend the *Auditor-General Act 1997* to give effect to the majority of the committee's recommendations was introduced in the Parliament in February 2011 by the Chair of the JCPAA, Mr Robert Oakeshott MP. At 30 June 2011, the Bill had passed the second reading stage in the House of Representatives.

### **Decisions by courts and tribunals**

No decisions by courts or tribunals affected the ANAO during 2010–11.

#### Commonwealth Ombudsman

The Commonwealth Ombudsman made no reports to the ANAO under sections 15, 16 or 19 of the *Ombudsman Act 1976* during 2010–11.

# MANAGEMENT OF HUMAN RESOURCES

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

# Staff surveys

Our assessment of our performance against our Business Plan targets is set out in Table 9.

Table 9 Measures of staff satisfaction and performance

Key performance indicators	2010-11 target	2010-11 result
Staff satisfaction is at an acceptable level.	>70% (measured by staff surveys)	62%ª
Staff turnover is at an agreed level.	<25% turnover	21.8%
Public sector organisations acknowledge understanding and skills of ANAO staff through	90% of agencies agree that ANAO staff have the necessary skills to carry out the audit work	Assurance Audit Services: 88% <sup>b</sup> Performance Audit Services: 86% <sup>c</sup>
client satisfaction surveys.	Skills to early out the dualt work	
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)	67%
Staff acknowledge ANAO values and behaviours are exhibited in the workplace.	85% (measured by staff surveys)	72% <sup>d</sup>

a The staff satisfaction rating has reduced from 65% in 2009–10. Follow-up research is being undertaken to better analyse this change.

# **Workforce planning**

## Planning approach

Workforce planning is integrated into our business planning framework; we establish strategic workforce planning priorities when developing our annual business plan. Service groups and branches also develop operational workforce plans to meet their particular requirements.

To inform the development of strategic priorities, the ANAO relies on a detailed analysis of qualitative and quantitative information from a range of sources, such as human resource metrics, exit surveys, staff surveys and staff focus groups. Assessment of 'people risks' with the potential to affect our ability to attract and retain skilled staff is an important element of our approach.

b Assurance Audit Services Group Client Survey, March 2011.

c Performance Audit Services Group Client Survey, August 2011.

d The ANAO has an aspirational target of 85% of staff agreeing that the ANAO values and behaviours are exhibited in the workplace. Our results in 2010–11 were broadly consistent with the previous year's results (75%). Assessments of behaviours form part of our performance management regime and are integral to our client management.

The Executive Board of Management receives regular reports on workforce planning which include an in-depth analysis of the state of our workforce capability. The People and Remuneration Committee monitors and evaluates the implementation of strategic priorities and the progress of service groups and branches in addressing their workforce planning priorities.

#### Staff turnover

Staff turnover in the ANAO for 2010–11 was around 22 per cent (ongoing staff only), and the average length of tenure for staff was 5.3 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 2011

Classification	Average length of tenure (years)
Australian Public Service 1–3	5.2
Australian Public Service 4–6	3.2
Executive Level 1–2	6.6
SES	12.2

#### Staff recruitment and retention

Competition for qualified and experienced staff remains one of the ANAO's key challenges, and we are facing an increase in turnover as our staff are highly attractive to employers in both the public and private sectors.

The ANAO also relies on a cadre of mature-aged staff at the management and senior management level who have a depth of experience and skills. This grouping will have the option of retirement over the next five years.

During 2010–11, we focused on these challenges and adopted a range of strategies to recruit and retain skilled employees. Those strategies included:

- greater investment in graduate recruitment and development
- revitalising our learning and development three-year rolling strategy, including by identifying
  priorities for each year. This includes our continual refinement of technical training and the
  provision of non-technical activities to broaden the capabilities of our staff. Staff are also
  supported through a formal mentoring program.
- establishing a taskforce to identify innovative approaches to attracting and recruiting highcalibre applicants and increasing our retention of staff
- · building relationships with Australian universities to encourage potential graduate applicants
- providing overseas secondment and international professional engagement opportunities for staff

Our workforce is supplemented by contracting private sector auditing firms through competitive tendering processes.

### Staff induction

While we have continued to provide a structured induction process, a comprehensive review of the ANAO's induction practices and procedures, which began in 2009–10, has continued with

the aim of further enhancing our processes. We have plans to introduce 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**

The ANAO's Enterprise Agreement 2009–10 came into effect on 13 January 2010 and notionally expired on 30 June 2011. Work to develop a new three-year agreement commenced in November 2010.

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

- 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 time frames for the completion of audits.

## **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 2010–11, the forum met formally three times and informally on two other occasions to discuss and consider a range of employment-related issues, including a review of the remuneration model and pay parking arrangements for ANAO staff.

### Performance assessment and performance pay

Our Performance Assessment Scheme provided for two levels of performance pay in 2010–11. Staff rated as 'more than fully effective' were eligible to receive a 3 per cent performance bonus and staff rated as 'outstanding' were eligible for a 7 per cent performance bonus.

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 2010

Rating	Outstanding	More than fully effective	Fully effective	Unsatisfactory	Total
ANAO Bands 3 and 4 (EL 1 and 2)	7	55	76	0	138
ANAO Bands 1 and 2 (APS 1–6)	4	46	96	2	148
Total	11	101	172	2	286
Percentage of total	(4%)	(35%)	(60%)	(1%)	(100%)

APS = Australian Public Service, EL = Executive Level

In 2010–11, a total of \$0.553 million in performance bonuses was paid to eligible staff (\$0.546 million in 2009–10). Aggregated information on performance pay is set out in Appendix 2, Table A2.8.

### Senior executive remuneration

The salary ranges 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 individual SES salaries. SES remuneration payments are set out under Note 10 of our financial statements, which are presented in Appendix 1. Our SES officers are covered by common law contracts.

## **Professional development**

## Learning and development

The ANAO continued to commit considerable resources to training staff and enhancing key in-house capabilities. In 2010–11, with strategic guidance provided by our Learning and Development Committee, we undertook a review of our learning and development activities. A rolling three-year strategic plan is now in place, having been endorsed by the Executive Board of Management in December 2010.

The development of our staff remains one of our key workforce planning priorities. A rich learning environment assists us in delivering our services, providing staff with both technical proficiency and a range of skills in client management and stakeholder engagement.

As part of this approach to professional development, a number of new developments are in progress. They include developing a workbook for the graduate cohort to facilitate and assess learning on the job. We are exploring the benefits of introducing alternative approaches to professional development, including computer-based e-learning options for technical and corporate training.

During 2010–11, the ANAO also instigated a senior executive leadership forum. The forum meets on a regular basis to discuss contemporary approaches to human resource management and leadership. The agenda for forum meetings takes into account our workforce planning strategic priorities.

## 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, bring many benefits to the ANAO.

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

Table 12 Secondment and exchange program participants in 2010-11

Exchange type	Organisation	Participant
ANAO staff visiting other organisations	Papua New Guinea	Ray The
	Auditor-General's Office	Paul Howe
	Audit Office of New Zealand	Peta Martyn
Staff from other organisations visiting	Papua New Guinea	Ellina lamu
the ANAO	Auditor-General's Office <sup>a</sup>	Mesuke Warigi
	Indonesian Board of Audit	Wiwid Mulyadi
		Amin Bangun
		Prima Ginting
		Rahmi Istanti
	Board of Audit and Inspection, Korea	Jae Hyuk Choi

a In addition to the staff based at the ANAO, Lucas Poiya and Benley Micah were based at the Audit Office of New South Wales in Sydney, and Michael Wek and Cedric Oaeke were based at the Queensland Audit Office in Brisbane.

## 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.
- Peter Kerr was appointed to the CPA Australia ACT Divisional Council, effective from 1 January 2011.
- The Deputy Auditor-General, Steve Chapman, completed a three-year term as a director of the CPA Australia National Board and is past president and a member of the CPA Australia ACT Divisional Council.
- Michael Watson completed a three-year term as a director of the National Board of the Institute
  of Chartered Accountants in Australia and is a past member of the institute's ACT Council.

- Brian Boyd was a member of the International Organization of Supreme Audit Institutions (INTOSAI) Working Group on the Audit of Privatisation, Economic Regulation and Public—Private Partnerships.
- Keith Allen 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 in Australia 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.

## Professional qualifications and studies assistance

During 2010–11, the ANAO supported 64 staff members in undertaking study programs: 45 who are participating in Institute of Chartered Accountants in Australia or CPA Australia programs, and 19 who are undertaking 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 2010-11

Qualification	Staff member
Australian and New Zealand School of Government— Executive Masters of Public Administration	Kristian Gage
Certified Public Accountant (CPA) Australia—CPA Program	Racheal Kris and Vandana Singh
Institute of Chartered Accountants in Australia—Chartered Accountants Program	Connie Liu
Bachelor of Commerce	Connal McInnes
Masters of Business Administration	Michael Probets
Masters of Management	Matt Tolley
Masters of Professional Accountancy	Alicia Hall

## **Graduate and undergraduate programs**

The ANAO recruited 18 graduates who commenced employment in the agency on 31 January 2011. Following a one-week orientation program, the graduate recruits were placed in roles in:

- the Assurance Audit Services Group—Annette Ewart, Joanna He, Rubana Huda, Ellina lamu (PNG graduate), Jennifer Lenard, Bradley Medina, Peter Nguyen, Natasha de Noskowski, Colin Oke, Susan Su, Mesuke Warigi (PNG graduate), Wen Zhang and Tanja Zivkovic
- the Performance Audit Services Group—Nathan Callaway, Eloise Lovegrove, Anna Peterson, Philip Rebula and Benjamin Siddans.

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 skills, 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.

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

During 2010–11, we continued to foster a productive relationship with the Australian National University, the University of Canberra and the Institute of Chartered Accountants in Australia to recruit students for the ANAO undergraduate program. The 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; two undergraduates were advanced into the 2011 graduate intake.



The Auditor-General, Ian McPhee, with some of the 2011 graduates and secondees from Indonesia and Papua New Guinea.

## 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.



Auditor-General's Annual Awards for Outstanding Achievement recipients with the Auditor-General. Left to right: Nathan Williamson, Laura Campbell, Niki Strachan and Ian McPhee.

Table 14 lists the recipients of achievement awards and medallions in 2010–11.

Table 14 Recipients of awards in 2010-11

Award	Recipient	Reason
Auditor-General's Annual Awards	Laura Campbell	For consistently producing high-quality work under very tight deadlines on graduate and non-graduate recruitment.
for Outstanding Achievement	Niki Strachan	For her consistently demonstrated high level of energy and commitment to improving the business of the Assurance Audit Services Group.
	Nathan Williamson	For his leadership of audits and the delivery of the annual audit work program as well as his support to the ANAO's representations to parliamentary inquiries.
Australia Day Achievement Medallions	Barbara Cass	For her valuable contribution to the professional standing of the ANAO through her leadership, high-quality audit reports, strong support and mentoring of junior staff, and work as graduate coordinator over many years.
	Mary-Ann Kava	For her valuable contribution as ANAO Records Manager in building effective working relationships with staff across the ANAO by providing support and assistance in a courteous, helpful and professional manner and in contributing to the implementation of our electronic records management system.
	Mary Murphy	For her valued contribution to the ANAO Records Management Unit in providing a friendly and professional service to staff in the areas of records management and mail services.
	Mark Vial	For his major contribution to the Software Methodology and Support project and the upgrade of the Teammate software platform.
	Peter White	For his significant contribution to the professional standing of the ANAO through his leadership, delivery of high-quality audit reports, mentoring and empathy with staff, and contribution to the social fabric of the ANAO through his involvement in the ANAO Social Club.



National Australia Day Council medallion recipients with the Auditor-General. Left to right: Mark Vial, Mary Murphy, lan McPhee, Mary-Ann Kava, Barbara Cass and Peter White.

## Occupational health and safety

## Commitment to the safety and welfare of staff

The ANAO is committed to uphold the agency'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 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 2010–11.

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**

OH&S was promoted widely throughout the office. A dedicated site on our intranet includes the minutes of the meetings of the Occupational Health and Safety Committee.

All new staff attended induction courses which included information on OH&S. We contracted a Comcare-accredited registered training organisation to provide our OH&S officers with training on their responsibilities.

During 2010–11, the ANAO offered ergonomic work station assessments to all staff and new starters, and completed 36 ergonomic work station assessments. We provided staff with access to influenza vaccinations, and offered health assessments to all staff.

## **Incidents**

Two incidents were reported in 2010–11 under the *Occupational Health and Safety Act 1991* (a decrease compared to the nine incidents reported in 2009–10). Both incidents occurred on ANAO premises. Neither resulted in an ongoing compensation claim.

In 2010-11, 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 1991
- 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 2010–11, 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.

## 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.

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 in 2010–11, to share information and keep informed about latest developments.

Awareness of workplace diversity is an important part of our induction training and our graduates are provided with more in-depth training on workplace diversity and, in particular, working in a harassment-free environment. Courses on ethics and conduct are also provided to staff and managers.

# 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 are associated with environmental issues. In 2010–11, we produced a number of reports on the administration of programs that have a direct influence on environmental outcomes:

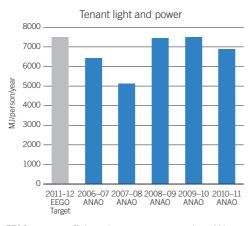
- Audit Report No.9 2010–11, Green Loans Program
- Audit Report No.12 2010–11, Home Insulation Program
- Audit Report No.27 2010–11, Restoring the Balance in the Murray–Darling Basin.

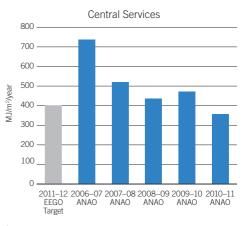
## Effect of our activities on the environment

Our activities affect the environment by consuming resources such as energy, water, paper, office supplies and equipment. Other than seven staff outposted to Sydney, our staff are located in Canberra. 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.

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.







EEGO = energy efficiency in government operations; MJ = megajoules

## **Energy**

The Australian Government's EEGO 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. During 2010–11 we maintained our 4.5-star rating for the whole building, and improved our overall energy consumption. Our tenant light and power use fell by 615 megajoules to 6,880 megajoules per person and our central services energy usage improved by 115 megajoules to 357 megajoules per square metre (well below the energy intensity target for the year).

### Water

Based on our occupied building floor area, our building water use intensity was 0.32 kilolitres per square metre in 2010–11, which equates to a 4-star National Australian Built Environment Rating System (NABERS) water rating, compared with 0.29 kilolitres per square metre in 2009–10.

## Waste

The waste collection provider measures the weight of paper sent for recycling, the volume of co-mingled waste sent for recycling and the volume of general waste sent to landfill. The volumes are calculated by annual full bin collections. In 2010–11, the ANAO:

- sent 18,205 kilograms of paper for recycling (18,664 kilograms in 2009–10)
- sent 66 cubic metres of co-mingled waste for recycling (52 cubic metres in 2009–10)
- sent 495 cubic metres of general waste to landfill (411 cubic metres in 2009–10).

Through a local organic recycler, we recycled 2.125 tonnes of organic waste in 2010–11.

## 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 and we have conducted a comprehensive revision of our Environmental Management Strategy to focus on improving our environmental performance. Work has begun on refining our recycling program. The office is scheduled to replace computers in 2011–12 under a leasing arrangement that will place a priority on environmental considerations.

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.

## 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).

During 2010–11, 34 new consultancy contracts were entered into involving total actual expenditure of \$0.830 million (including GST). In addition, 27 ongoing consultancy contracts were active, involving a total actual expenditure of \$0.705 million (including GST).

More detailed information on consultancy services is set out in Appendix 6.

Major competitive tendering and contracting activities in 2010–11 included the following.

- Major financial statement audits—We contracted firms to assist with a number of financial statement audits. The major financial statement audits included in this period were for NBN Co (PricewaterhouseCoopers), Comcare (Ernst & Young), Australian Federal Police (Moore Stephens) and CSIRO (KPMG).
- Information Technology—The main contracts let for the period were for the redevelopment of the website (Reading Room), the test server environment (Unisys) and the finance system upgrade (Technology One).

## Freedom of information

The Auditor-General Act 1997 provides the Auditor-General with an exemption from the provisions of the *Freedom of Information Act 2010*. Performance audits, assurance reviews and audit opinions are tabled in the Parliament and/or published on our website.

## 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.

## **Disability reporting**

Since 1994, Commonwealth departments and agencies have reported on their performance as policy adviser, purchaser, employer, regulator and provider under the Commonwealth Disability Strategy. In 2007–08, reporting on the employer role was transferred to the Australian Public Service Commission's State of the Service Report and the APS Statistical Bulletin. Those reports are available at www.apsc.gov.au. From 2010–11, departments and agencies are no longer required to report on those functions.

## **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 assets management practices are designed to protect the interests of the Australian Government.

## **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 April 2011. The arrangements in the Business Continuity Plan were assessed in the 2011 Comcover Risk Management Benchmarking Survey and were awarded an above-average score of 7.9 against an average of 6.3 for the 134 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 (inclusive of 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.



## APPENDIX 1—FINANCIAL RESULTS

## Financial results commentary

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

Our operating surplus of \$4.699 million for the year ending 30 June 2011 (compared to the surplus of \$4.353 million in 2009–10) is the result of a 2 per cent increase in revenues and a 1 per cent increase in expenses. The ANAO has continued to strengthen its balance sheet through active management of expenses. The office continues to have sufficient assets to meet ongoing liabilities and commitments.

Table A1.1 summarises our financial position.

Table A1.1 Summary of financial performance

	2010–11	2009–10	Variance	Variance
	\$'000	\$'000	\$'000	%
Statement of comprehensive income				
Total own source revenue	3,241	3,528	(287)	(8)
Gains	-	117	(117)	(100)
Total revenue from Government	72,809	71,022	1,787	3
Total expenses	71,351	70,322	1,029	1
Net surplus/(deficit)	4,699	4,345	354	8
Balance sheet				
Total assets	34,024	25,733	8,291	32
Total liabilities	16,799	15,113	1,686	11
Net assets	17,225	10,620	6,605	62
Equity	17,225	10,620	6,605	62

## 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 2010–11.

Table A1.2 Agency resource statement, 2010–11

	Actual available appropriations for 2010–11 \$'000	Payments made 2010–11 \$'000	Balance remaining \$'000
Ordinary annual services			
Departmental appropriation <sup>1</sup>	76,668	68,282	8,386
Previous years outputs	13,040	-	13,040
Total ordinary annual services	89,708	68,282	21,426
Other services <sup>2</sup>			
Departmental non-operating			
Equity injections	650	252	398
Total			
Total other services	650	252	398
Special appropriations			
Auditor-General remuneration and expense— <i>Auditor-General Act 1997</i> , Schedule 1, sections 3 and 7		470	
Total special appropriations		470	
Total resourcing and payments	90,358	69,004	21,824

<sup>1</sup> Appropriation Bill (No. 1) 2010–11, prior year departmental appropriation, section 31 receipts and section 32 transfers.

<sup>2</sup> Appropriation Bill (No. 2) 2010–11.

## **Resources for outcomes**

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

Table A1.3 Resources for outcomes, 2010–11

Outcome 1: To provide assurance on the fair presentation of financial statements of Australian Government entities	Budget	Actual expenses	
by providing independent audit opinions and related reports for the information of Parliament and the executive	2010–11 '000	2010–11 '000	Variation '000
Program 1.1: Assurance Audit Services			
Departmental expenses			
Ordinary annual services (Appropriation Bill No. 1)	39,569	37,392	2,177
Revenue from independent sources (section 31)	2,659	2,568	91
Special appropriation	235	235	-
Expenses not requiring appropriation in the Budget year	1,045	866	179
Total for program 1.1	43,508	41,061	2,447
Total expenses for Outcome 1	43,508	41,061	2,447
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 2010–11	Actual expenses 2010–11	Variation
Program 2.1: Performance Audit Services			
Departmental expenses			
Ordinary annual services (Appropriation Bill No. 1)	28,554	28,648	(94)
Revenue from independent sources (section 31)	665	673	(8)
Special appropriation	235	235	-
Expenses not requiring appropriation in the Budget year	641	734	(93)
Total for program 2.1	30,095	30,290	(195)
Total expenses for Outcome 2	30,095	30,290	(195)
Total Outcomes 1 and 2	73,603	71,351	2,252

## 2010-11 FINANCIAL STATEMENTS

**INDEPENDENT AUDITOR'S REPORT** 

STATEMENT BY THE 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

## Report on the Financial Statements

I have audited the accompanying financial statements of Australian National Audit Office for the year ended 30 June 2011, 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 comprising a Summary of Significant Accounting Policies and other explanatory information.

### Auditor General's Responsibility for the Financial Statements

The Auditor General is responsible for the preparation of financial statements that give a true and fair view in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, including the Australian Accounting Standards, and for such internal control as the Auditor General determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I 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 about 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 of the financial statements that give a true and fair view 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 the 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.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (\*KPMG International\*), a Swiss entity.

## Independence

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

## 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's financial position as at 30 June 2011 and of its financial performance and cash flows for the year then ended.

Geoff Wilson Independent Auditor

Geoff Lisa

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

Sydney,

18 August 2011

## 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 2011 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

1 & August 2011

Anthony Howatson Chief Finance Officer

/8 August 2011

## STATEMENT OF COMPREHENSIVE INCOME

for the period ended 30 June 2011

	Notes	2011	2010
EXPENSES		\$'000	\$'000
Employee benefits	3A	39,341	38,398
Suppliers	3B	30,274	30,393
Depreciation and amortisation	3C	1,601	1,404
Write-down and impairment of assets	3D	135	124
Losses from asset sales	3E	-	3
Total expenses	_	71,351	70,322
•	_		
LESS			
OWN-SOURCE INCOME			
Own-source revenue			
Sale of goods and rendering of services	4A	3,097	3,528
Rental income	4B	144	
Total own-source revenue	_	3,241	3,528
Gains			
Other	4C		117
Total gains	<b>-</b>		117
Total own-source income	_	3,241	3,645
Net cost of services	_	68,110	66,677
100 0000 01 001 1000		00,110	00,077
Revenue from Government	4D	72,809	71,022
Surplus attributable to the Australian Government	_	4,699	4,345
Surprus actinucable to the Austranan Government	_	7,077	7,575
OTHER COMPREHENSIVE INCOME			
Changes in asset revaluation reserve		341	6
Total other comprehensive income		341	6
Total comprehensive income attributable to the Australian Government	_	5,040	4,351

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

BALANCE SHEET for Australian National Audit Office as at 30 June 2011

ASSETS	Notes	2011 \$'000	2010 \$'000
		3 000	\$ 000
Financial Assets			
Cash and cash equivalents	5A	1,187	698
Trade and other receivables	5B	22,898	14,750
Other	5C	218	123
Total financial assets	_	24,303	15,571
Non-Financial Assets			
Land and buildings	6A	6,038	6,506
Plant and equipment	6B	853	844
Intangibles	6D	1,820	1,892
Other	6F	1,010	920
Total non-financial assets	_	9,721	10,162
Total assets	_	34,024	25,733
LIABILITIES			
Payables			
Suppliers	7A	3,402	2,593
Operating lease	7B	1,472	1,637
Other	7C	1,640	1,543
Total payables	_	6,514	5,773
Provisions			
Employee provisions	8A	10,245	9,300
Other	8B	40	40
Total provisions		10,285	9,340
Total liabilities		16,799	15,113
Net assets	<u> </u>	17,225	10,620
EQUITY			
Parent Entity Interest			
Contributed equity		6,602	5,037
Reserves		490	149
Retained surpluses		10,133	5,434
Total parent entity interest		17,225	10,620
Total equity	_	17,225	10,620

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 2011

	Ketained earnings 2011	0	Asset revaluat 2011	non reserve 2010	Asset revaluation reserve Contributed equity/capital 2011 2010 2011 2010	uity/capital 2010	Total equity 2011	<b>puity</b> 2010
	8,000	\$,000	8.000	\$.000	8.000	\$,000	8,000	\$,000
Opening balance	5,434	1,089	149	143	5,037	4,829	10,620	6,061
Comprehensive income								
Other comprehensive income		•	341	9	•	•	341	9
Surplus for the period	4,699	4,345	•	•	•	٠	4,699	4,345
Total comprehensive income	4,699	4,345	341	9			5,040	4,351
of which: Attributable to the Australian Government	4,699	4,345	341	9	,		5,040	4,351
Transactions with owners								
Contributions by owners								
Equity injection - Appropriation	٠	,	•	•	650	208	029	208
Departmental capital budget		•	•	•	915	•	915	•
Sub-total transactions with owners					1,565	208	1,565	208
Closing balance as at 30 June	10,133	5,434	490	149	6,602	5,037	17,225	10,620
Closing balance attributable to the Australian								
Government	10.133	5 434	490	149	6.602	5 037	17,225	10.620

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 2011

OPERATING ACTIVITIES	Notes	2011 \$'000	2010 \$'000
Cash received		\$ 000	\$ 000
Appropriations		68,116	72,002
Goods and services		3,330	3,342
Net GST received		96	-
Total cash received	_	71,542	75,344
Cash used			
Employees		37,979	37,611
Suppliers		29,684	30,500
Section 31 receipts transferred to OPA		3,330	3,342
Net GST paid		-	81
Total cash used	_	70,993	71,534
Net cash from operating activities	9	549	3,810
INVESTING ACTIVITIES			
Cash received			
Proceeds from sale of property, plant and equipment		-	-
Total cash received	_	-	-
Cash Used			
Purchase of buildings - leasehold improvements		12	2,344
Purchase of plant and equipment		300	213
Purchase of intangibles		552	1,575
Total cash used	_	864	4,132
Net cash used by investing activities	_	(864)	(4,132)
FINANCING ACTIVITIES			
Cash received			
Contributed equity		804	208
Total cash received	_	804	208
Cash used	_	-	-
Net cash from / (used by) financing activities		804	208
Net increase (decrease) in cash held		489	(114)
Cash and cash equivalents at the beginning of the reporting period		698	812
Cash and cash equivalents at the end of the reporting period	5A	1,187	698

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

## SCHEDULE OF COMMITMENTS for Australian National Audit Office as at 30 June 2011

us iii 30 June 2011		
	2011	2010
	\$'000	\$'000
BY TYPE		
Commitments receivable		
Sublease rental income	198	-
GST recoverable on commitments	4,772	5,175
Total commitments receivable	4,970	5,175
Commitments payable		
Capital commitments		
Property, plant and equipment 3	160	273
Total capital commitments	160	273
Other commitments		
Operating leases 1	28,670	33,051
Other <sup>2</sup>	23,865	23,606
Total other commitments	52,535	56,657
Net commitments by type	47,725	51,755
BY MATURITY		
Commitments receivable		
Operating lease commitment		
One year or less	183	-
From one to five years	15	-
Over five years		-
Total operating lease commitments	198	-
Other commitments receivable		
One year or less	1,605	1,738
From one to five years	2,371	2,205
Over five years	796	1,232
Total other commitments receivable	4,772	5,175
Commitments payable		
Capital commitments		
One year or less	99	153
From one to five years	61	120
Over five years		-
Total capital commitments	160	273
Operating lease commitments		
One year or less	4,085	3,967
From one to five years	15,827	15,522
Over five years	8,758	13,562
Total operating lease commitments	28,670	33,051
Other commitments		
One year or less	13,652	14,994
From one to five years	10,213	8,612
Over five years		-
Total other commitments	23,865	23,606
Net commitments by maturity	47,725	51,755

Note: Commitments are GST inclusive where relevant

1. Operating leases included for 2010-11 are effectively non-cancellable and comprise:

Nature of lease	General description of leasing arrangements
Leases for office accommodation	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.  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 2012.
Leases of computer equipment	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. 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.

- 2. Other commitments comprise: contract audit services \$13,712,942 (2009-10: \$10,761,162) Provision of IT Services \$4,597,364 (2009-10: \$3,768,112) and other corporate contracts totalling \$5,554,694 (2009-10: \$9,077,338).
- 3. Property, plant and equipment commitments are primarily software purchases (2009-10: 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 2011

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THE TOHOWING HOH-HINANCIAL HOH-CHITCH ASSECTS WELL AUGED IN 2010-111.	•			
	Leasehold	Other plant &		
	improvements	equipment	equipment Intangibles	Total
	8,000	\$,000	8,000	8,000
Additions funded in the current year				
By purchase - appropriation ordinary annual services				
Departmental capital budget	12	136	404	552
Ordinary operating costs	•	164	82	246
By purchase - appropriation other services				
Equity injection	•	•	99	99
By Contribution	1	1	,	•
Total additions	12	300	552	864
The following non-financial non-current assets were added in 2009-10:				
	Leasehold	Other plant &		
	improvements	equipment Intangibles	Intangibles	Total
	\$,000	\$,000	\$,000	\$,000
Additions funded in the current year				
By purchase - appropriation ordinary annual services				
Departmental capital budget	1	1	1	•
Ordinary operating costs	2,344	S	1,575	3,924
By purchase - appropriation other services				
Equity injection	•	208	1	208
By Contribution	•	117	1	117
Total additions	2,344	330	1,575	4,249

SCHEDULE OF ADMINISTERED ITEMS			
		2011	2010
	Notes	\$'000	\$'000
Income administered on behalf of Government			
for the year ended 30 June 2011			
Revenue			
Non-Taxation Revenue			
Rendering of services (audit fees)	13	8,282	7,956
Total revenue administered on behalf of Government		8,282	7,956
Assets administered on behalf of Government			
as at 30 June 2011			
Financial Assets			
Cash and cash equivalents	14	-	-
Receivables (audit fees)	14	3,260	1,549
Work in progress	14	1,011	1,602
Total assets administered on behalf of Government	<u> </u>	4,271	3,151
Liabilities administered on behalf of Government			
as at 30 June 2011			
Payables			
GST payable	15	268	175
Total liabilities administered on behalf of Government		268	175
This schedule should be read in conjunction wi	th the accompanying note	S.	

SCHEDULE OF ADMINISTERED ITEMS (cont'd)			
		2011	2010
	Notes	\$'000	\$'000
Administered Cash Flows			
for the year ended 30 June 2011			
OPERATING ACTIVITIES			
Cash received			
Rendering of services (audit fees)		7,162	8,756
Net GST received		93	-
Total cash received		7,255	8,756
Cash used			
Net GST paid		-	73
Total cash used	_	-	73
Net cash flows from operating activities	16	7,255	8,683
. 0			
Net increase in cash held		7,255	8,683
Cash and cash equivalents at the beginning of the reporting period		_	
Cash to the Official Public Account for:			
- Appropriations		7,255	8,683
Cash and cash equivalents at the end of the reporting period	<del>-</del>	7,255	8,683
1 01		,	,
Administered Commitments			
as at 30 June 2011			
Net Administered Commitments		-	-

## Statement of Activities Administered on Behalf of Government

The Australian National Audit Office undertakes audits of Australian Government agencies, authorities and companies. Auditing expenses are departmental expenses of the ANAO. Those expenses are met from Parliamentary appropriations. Fees are charged for the provision of audit services to certain Commonwealth authorities and companies. Recovered fees are credited to the Official Public Account. 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 2010-11, which was tabled in the Parliament.

The ANAO has no administered contingencies.

 ${\it This schedule should be read in conjunction with the accompanying notes}.$ 

Note	Description
1	Summary of Significant Accounting Policies
2	Events after the Reporting Period
3	Expenses
4	Income
5	Financial Assets
6	Non-Financial Assets
7	Payables
8	Provisions
9	Cash Flow Reconciliation
10	Senior Executive Remuneration
11	Remuneration of Auditors
12	Financial Instruments
13	Income Administered on Behalf of Government
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17	Administered Contingent Assets and Liabilities
18	Administered Financial Instruments
19	Appropriations
20	Special Accounts
21	Compensation and Debt Relief
22	Reporting of Outcomes
23	Comprehensive Income attributable to the ANAO

## Note 1 - Summary of Significant Accounting Policies

## 1.1 Objectives of the ANAO

The Australian National Audit Office (ANAO) is an Australian Government controlled entity. The objective of the entity is to assist the Auditor-General to carry out his duties and responsibilities under the *Auditor-General Act 1997* and other relevant legislation.

The ANAO is structured to meet the following outcomes:

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.

The continued existence of the ANAO in its present form and with its present programs is dependent on Government policy and on continuing funding by Parliament for the entity's administration and programs.

ANAO activities contributing toward these outcomes are classified as either departmental or administered. Departmental activities involve the use of assets, liabilities, income and expenses controlled or incurred by the entity in its own right. Administered activities involve the management or oversight by the ANAO, on behalf of the Government, of items controlled or incurred by the Government.

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 entity conducts the following administered activities on behalf of the Government: financial statement audits of entities that operate under the *Commonwealth Authorities and Companies Act 1997* (CAC Act.)

## 1.2 Basis of Preparation of the Financial Statements

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

The financial statements have been prepared in accordance with:

- a) Finance Minister's Orders (FMOs) for reporting periods ending on or after 1 July 2010; and
- b) 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 FMOs, assets and liabilities are recognised in the balance sheet when and only when it is probable that future economic benefits will flow to the 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 executor contracts are not recognised unless required by an accounting standard. Liabilities and assets that are unrecognised are reported in the schedule of commitments or the schedule of contingencies.

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 assumptions or estimates in the following areas that have the most significant impact on the amounts recorded in the financial statements.

The fair value of leasehold improvements and property, plant and equipment has been taken to be market value as determined by an independent valuer.

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 judgements have been identified that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next reporting 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 2010 (Compilation), AASB 118 Revenue – May 2009 (Compilation), AASB 132 Financial Instruments: Presentation – June 2010 (Compilation), AASB 139 Financial Instruments: Recognition and Measurement – December 2009 (Compilation).

### Future Australian Accounting Standard Requirements

The following new standards/revised standards/interpretations/amending standards were issued by the Australian Accounting Standards Board prior to the sign-off date, which are expected to have a financial impact on the entity for future reporting periods:

AASB 5 Non-current Assets Held for Sale and Discontinued Operations - October 2010 (Compilation), AASB 9 Financial Instruments - December 2010 (Compilation), AASB 101 Presentation of Financial Statements - October 2010 (Compilation), AASB 107 Statement of Cash Flows - October 2010 (Compilation), 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 - October 2010 (Compilation), AASB 119 Employee Benefits - October 2010 (Compilation), AASB 132 Financial Instruments: Presentation - October 2010 (Compilation), AASB 137 Provisions, Contingent Liabilities and Contingent Assets - October 2010 (Compilation), AASB 139 Financial Instruments: Recognition and Measurement - October 2010 (Compilation), AASB 1031 Materiality - December 2009 (Compilation), AASB 1054 Australian Additional Disclosures - May 2011 (Principal), AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] - December 2010, AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project [AASB 1, AASB 5, AASB 101, AASB 107, AASB 108, AASB 121, AASB 128, AASB 132 & AASB 134 and Interpretations 2, 112 & 113] -May 2011, Interp. 4 Determining whether an Arrangement contains a Lease - December 2009 (Compilation), Interp. 115 Operating Leases - Incentives - October 2010 (Compilation), Interp. 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease - October 2010 (Compilation), Interp. 132 Intangible Assets - Web Site Costs -October 2010 (Compilation).

### 1.5 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 the end of the reporting period. Allowances are made when collectability of the debt is no longer probable.

### Revenue from Government

Amounts appropriated for departmental outputs for the year (adjusted for any formal additions and reductions) are recognised as Revenue from Government 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. Appropriation receivable are recognised at their nominal amounts.

### 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) and Departmental Capital Budgets (DCBs) are recognised directly in contributed equity.

### Restructuring of Administrative Arrangements

Net assets received from or relinquished to another Government entity 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.

### **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 FMO 43.3 using the shorthand method. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

### Superannuation

The ANAO's staff 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 entity makes employer contributions to the employees' superannuation scheme at rates determined by an actuary to be sufficient to meet the current cost to the Government. The entity 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 2011.

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 is recognised at its nominal amount. Cash and cash equivalents includes:

- a) cash on hand
- b) 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; and
- c) cash in special accounts.

## 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.

The effective interest rate method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

### Impairment of Financial Assets

Financial assets are assessed for impairment at the end of each reporting period.

Financial assets held at amortised cost - if there is objective evidence that an impairment loss has been incurred for loans and receivables held at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount is reduced by way of an allowance account. The loss is recognised in the Statement 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 2011, 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.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and income at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor's accounts immediately prior to the restructuring.

## 1.16 Property, Plant and Equipment

### Asset Recognition Threshold

Purchases of 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
Plant and equipment	Market selling price

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

Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reverses a previous revaluation decrement of the same asset class that was previously recognised 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 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

Purchases of intangibles 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 ANAO's intangibles are comprised of off-the-shelf software and associated enhancement costs. 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 (2009-10: 3 to 5 years).

All software assets were assessed for indications of impairment as at 30 June 2011. 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:

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

#### 1.19 Work in Progress

Work in progress includes the total costs incurred on audit work yet to be completed less interim billings. It is valued at the amount expected to be recovered.

#### 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 16.

#### 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.

for the year ended 30 June 2011		
Note 2 - Events after the Reporting Period		
No events have occurred after balance date that should be brought to account or noted in the	2010-11 financial statements.	
	2011	2010
Note 3 - Expenses	\$'000	\$'000
Note 5 - Expenses		
Note 3A: Employee Benefits		
Wages and salaries	29,146	29,250
Superannuation:  Defined contribution plan	1,635	1,707
Defined benefits plan	3,474	3,528
Leave and other entitlements	4,882	3,744
Other employee expenses  Total employee benefits	204 39,341	169 38,398
Total employee benefits	37,541	30,370
Note 3B: Suppliers		
Goods and services	15.042	15.727
Contractors Information and communication technology	15,943 2,824	15,736 2,846
Consultants	1,395	1,468
Travel	1,352	1,219
Professional development	1,028	1,111
Printing	854	825
Stationary Other	355 2,905	170 3,386
Total goods and services	26,656	26,761
		-,,
Goods and services are made up of:		
Provision of goods - external entities	356 25,498	236 25,717
Rendering of services - external entities Rendering of services - related entities	25,498 802	808
Total goods and services	26,656	26,761
Other supplier expenses		
Operating lease rentals - external entities:  Minimum lease payments	3,489	3,408
Worker's compensation premiums	129	224
Total other supplier expenses	3,618	3,632
Total supplier expenses	30,274	30,393
Note 3C: Depreciation and amortisation		
Depreciation:		
Plant and equipment	184	239
Buildings (Leasehold improvements)	807	791
Total depreciation	991	1,030
Amortisation:		
Intangibles:		
Computer software	610	374
Total amortisation	610	374
Total depreciation and amortisation	1,601	1,404
Note 3D: Write down and Impairment of Assets		
Asset write downs and impairments from:		
Asset write-offs	22	121
Impairment - property, plant and equipment  Total write down and impairment of assets	113 135	121 124
Total write down and impairment of assets		124
Note 3E: Losses from asset sales		
Property, plant and equipment:		
Proceeds from sales Carrying value of assets sold	<u>-</u>	- 3
Net losses from asset sales		3

Note 4 - Income		
	2011	2010
REVENUE	\$'000	\$'000
Note 4A: Sale of Goods and Rendering of Services		
Rendering of services - related entities	1,517	1,529
Rendering of services - external parties	1,579	1,995
Provision of goods - related entities	1	4
Provision of goods - external parties		
Total sale of goods and rendering of services	3,097	3,528
V		
Note 4B: Rental income		
Operating lease	144	
Total rental income	144	
Note 4C: Other Gains		
Property, plant and equipment:		
Fair value of contributed assets	_	117
Total other gains		117
REVENUE FROM GOVERNMENT		
Note 4D: Revenue from Government		
Appropriations:		
Departmental appropriations	72,339	70,545
Departmental special appropriations	470	477
Total revenue from Government	72,809	71,022

	2011 \$'000	201 \$'00
Note 5 - Financial Assets	3 000	\$ 00
Note 5A: Cash and Cash Equivalents		
Cash on hand or on deposit	1,187	698
Total cash and cash equivalents	1,187	698
Note 5B: Trade and Other Receivables		
Goods and services:	400	2.71
Goods and services - related entities	190	371
Total receivables for goods and services	190	371
Appropriation receivable:		
For existing outputs	21,824	13,040
Total appropriation receivable	21,824	13,040
Other receivables:		
GST receivable from the Australian Taxation Office	449	569
Employee related receivables	435	770
Total other receivables	884	1,339
Total trade and other receivables (gross)	22,898	14,750
Less impairment allowance account:		
Goods and services		
Total impairment allowance account		
Total trade and other receivables (net)	22,898	14,750
Receivables are expected to be recovered in:		
No more than 12 months	22,898	14,750
More than 12 months		· .
Total trade and other receivables (net)	22,898	14,750
All receivables have credit terms of net 30 days (2010: 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 22,884	14,664
Overdue by:	
Less than 30 days	-
31 to 60 days	-
61 to 90 days	-
More than 90 days	86
14	86
Total trade and other receivables (gross) 22,898	14,750
Note 5C: Other	
Work in progress - audit related services 218	123

Work in progress is expected to be recovered over the next 12 months.

	2011	2010
	\$'000	\$'000
Note 6 - Non-Financial Assets		
Note 6A: Land and Buildings		
Leasehold improvements:		
Fair value	6,072	6,539
Accumulated depreciation	(34)	(33)
Total leasehold improvements	6,038	6,506
Total land and buildings	6,038	6.506

All revaluations are independent and are conducted in accordance with the revaluations policy stated at Note 1. In 2010-11, the revaluations were conducted by an independent valuer - Australian Valuation Office on 29 June 2011.

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: Plant and Equipment

Property, plant and equipment:
Fair value
Accumulated depreciation
Total property, plant and equipment

853 844 - - -853 844

All revaluations are independent and are conducted in accordance with the revaluations policy stated at Note 1. In 2010-11, the revaluations were conducted by an independent valuer - Australian Valuation Office on 29 June 2011.

No indicators of impairment were found for plant and equipment. No 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 Plant and Equipment (2010-11)

	Leasehold Improvements \$'000	Plant & Equipment \$'000	TOTAL \$'000
As at 1 July 2010			
Gross book value	6,539	844	7,383
Accumulated depreciation and impairment	(33)	-	(33)
Net book value 1 July 2010	6,506	844	7,350
Additions*	12	300	312
Revaluations and impairments recognised in other comprehensive income	327	14	341
Impairments recognised in the operating result	-	(113)	(113)
Reversal of impairments recognised in the operating result	-	-	-
Depreciation expense	(807)	(184)	(991)
Disposals	-	(8)	(8)
Net book value 30 June 2011	6,038	853	6,891
Net book value as of 30 June 2011 represented by:			
Gross book value	6,072	853	6,925
Accumulated depreciation and impairment	(34)	-	(34)
	6,038	853	6,891

<sup>\*</sup> Disaggregated additions information are disclosed in the Schedule of Asset Additions

#### Note 6C (Cont'd): Reconciliation of the Opening and Closing Balances of Plant and Equipment (2009-10)

	Leasehold Improvements \$'000	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*	2,344	330	2,674
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	-	-	-
Depreciation expense	(791)	(239)	(1,030)
Disposals			-
Other	-	(6)	(6)
Net book value 30 June 2010	6,506	844	7,350
Net book value as of 30 June 2010 represented by:			
Gross book value	6,539	844	7,383
Accumulated depreciation and impairment	(33)	-	(33)
	6,506	844	7,350

<sup>\*</sup> Disaggregated additions information are disclosed in the Schedule of Asset Additions

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

	2011	2010
Note 6D: Intangibles	\$'000	\$'000
Computer software :		
Purchase	3,864	3,475
Accumulated amortisation	(2,044)	(1,583)
Total computer software	1,820	1,892
Total intangibles	1,820	1,892

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 (2010-11)

	Computer Software
	\$'000
As at 1 July 2010	
Gross book value	3,475
Accumulated amortisation and impairment	(1,583)
Net book value 1 July 2010	1,892
Additions by purchase	552
Amortisation	(610)
Disposals:	
Asset	(14)
Net book value 30 June 2011	1,820
Net book value as of 30 June 2011 represented by:	
Gross book value	3,864
Accumulated amortisation and impairment	(2,044)
Net book value 30 June 2011	1,820

# Note 6E (Cont'd) - Reconciliation of Opening and Closing Balances of Intangibles (2009-10)

Item	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
Additions by purchase	1,575
Amortisation	(374)
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 6F: Other Non-Financial Asse	ts
Duamarimaanta	

Note of . Other Non-Financial Assets		
Prepayments	1,010	920
Total other non-financial assets	1,010	920
Total other non-financial assets - are expected to be recovered in:		
No more than 12 months	1,010	884
More than 12 months	-	36
Total other non-financial assets	1,010	920

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

	2011	2010
Note 7 - Payables	\$'000	\$'000
Note 7A: Suppliers		
Trade creditors and accruals	3,402	2,593
Total supplier payables	3,402	2,593
Supplier payable expected to be settled within 12 months:		
Related entities	59	34
External entities Total	3,343	2,559 2,593
Total supplier payables	3,402	2,593
All supplier payables are current liabilities and will be settled within 30 days. Trade creditors includes supplier acc \$1,246,237 million). For the purpose of Note 12, other accruals have been presented as a supplier payable.	cruals of \$1,799,275 million (2	2009-10:
Note 7B: Operating Lease	1 450	1.625
Operating lease incentive  Total operating lease payables	1,472 1,472	1,637 1,637
Total operating rease paymons		1,007
Total operating lease payables are expected to be settled in:	106	200
No more than 12 months  More than 12 months	196 1,276	208 1,429
Total operating lease payables	1,472	1,637
W. 50 01 P. W		
Note 7C: Other Payables Salaries and wages	1,063	880
Superannuation	577	663
Total other payables	1,640	1,543
Total other payables are expected to be settled in:		
No more than 12 months	1,632	1,499
More than 12 months	1,640	1,543
Total other payables	1,640	1,543
Note 8 - Provisions		
Note 8A: Employee Provisions		
Leave Total employee provisions	10,245 10,245	9,300 9,300
Employee provisions are expected to be settled in:		
No more than 12 months	3,223	2,092
More than 12 months	7,022 10,245	7,208
Total employee provisions	10,245	9,300
Note 8B: Other Provisions  Describing for protections obligations	40	40
Provision for restoration obligations  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

	2011 \$'000	2010 \$'000
Note 9 - Cash Flow Reconciliation	\$.000	\$,000
Reconciliation of cash and cash equivalents per Balance Sheet to Cash Flow Statement		
Cash and cash equivalents as per:		
Cash flow statement	1,187	698
Balance Sheet	1,187	698
Difference		
Reconciliation of net cost of services to net cash from operating activities:		
Net cost of services	68,110	66,677
Add revenue from Government	72,809	71,022
	4,699	4,345
Adjustments for non-cash items		
Depreciation/amortisation	1,601	1,404
Net write down of non-financial assets	113	124
Loss on disposal of assets	22	3
Non cash contribution of capital	761	-
Non cash contribution of assets	-	(117)
Changes in assets / liabilities		
Increase in trade and other receivables	(8,148)	(2,944)
Decrease in other financial assets	(95)	28
Increase in prepayments	(90)	(190)
Increase in employee provisions	945	761
Increase in supplier payables	809	295
Increase in other payables	97	299
Decrease in operating lease payments	(165)	(198)
Net cash flow from operating activities	549	3,810

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS Australian National Audit Office for the year ended 30 June 2011

Note 10: Senior Executive Remuneration

Note 10A: Senior Executive Remuneration Expense for the Reporting Period

4,727,424 56,394 2010 185,786 5,034,592 777,078 156,484 793,295 (47,837) 45,100 5,275,022 2011 6,224,801 189,159 5,088,600 Motor vehicle and other allowances Fotal short-term employee benefits Total post-employment benefits Short-term employee benefits: Fotal other long-term benefits Post-employment benefits: Other long-term benefits: Annual leave accrued Performance bonuses Long-service leave Superannuation Salary 1 [otal

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

2. Note 10A was prepared on an accrual basis (so the performance bonus expenses disclosed above differ from

the cash 'Bonus paid' in Note 10B).

Note 10A excludes acting arrangements and part-year service where remuneration expensed for a senior executive was less than \$150,000. Note10B: Average Annual Remuneration Packages and Bonus Paid for Substantive Senior Executives as at the end of the Reporting Period

		as at	as at 30 June 2011		
			Fixed elements		
	Senior				
Fixed Elements and Bonus Paid1	Executives	Salary	Allowances	Total	Bonus paid <sup>2</sup>
	No.	s	s	s	S
Total remuneration (including part-time arrangements):					
\$150,000 to \$179,999	16	142,094	27,550	169,644	6,729
\$180,000 to \$209,999	4	167,530	31,304	198,834	90009
\$210,000 to \$239,999	4	186,221	30,054	216,275	11,875
\$240,000 to \$269,999					
\$270,000 to \$299,999	-	257,237	29,804	287,041	
\$360,000 to \$389,999	•				,
\$390,000 to \$419,999	T	403,938	1,804	405,742	•
Total	26				

es:	
Λo	
_	

1. This table reports substantive senior executives who were employed by the entity at the end of the reporting period. Fixed elements were based on the employment agreement of each individual. Each row represents an average amutalised figure (based on headcount) for the individuals in that remameration

2. This represents average actual bonuses paid during the reporting period in that remuneration package band. The Bonus paid was excluded from the Total calculation (if of the pupul deformation package bands). The Bonus paid which a particular band may vary between frameral years due to warrons factors such as individual determining with or perioring perioring the entity during the frameral year. package band (i.e. the Total column).

		Fixed elements		
Senior Executives	Salary	Allowances	Total	Bonus paid <sup>2</sup>
No.	s	s	S	S
17	134,615	24,827	159,442	7,458
9	169,130	25,297	194,427	7,833
1	228,711	29,297	258,008	
1	361,603	23,297	384,900	
30				

as at 30 June 2010

Note 10: Senior Executive Remuneration (cont'd)

#### Variable Elements:

With the exception of bonuses, variable elements were not included in the 'Fixed Elements and Bonus Paid' table above. The following variable elements were available as part of senior executives' remuneration package:

#### (a) Bonuses

- Bonuses were based on the performance rating of each individual. The maximum bonus that an individual can receive were 10 per cent of his/her base salary.
- (b) On average senior executives were entitled to the following leave entitlements:
  - · Annual Leave (AL): entitled to 20 days (2010: 25 days) each full year worked (pro-rata for part-time SES);
  - Personal Leave (PL): entitled to 10 days (2010: 10 days) or part-time equivalent; and
  - Long Service Leave (LSL): in accordance with Long Service Leave (Commonwealth Employees) Act 1976.
- (c) Senior executives were members of one of the following superannuation funds:
  - Australian Government Employee Superannuation Trust (AGEST): this fund is for senior executives who were employed for a defined period. Employer contributions were set at 15.4 per cent (2010: 9 per cent). More information on AGEST can be found at http://www.agest.com.au;
  - Commonwealth Superannuation Scheme (CSS): this scheme is closed to new members, and employer contributions were averaged 28.3 per cent (2010: 24 per cent) (including productivity component). More information on CSS can be found at http://www.css.gov.au;
  - Public Sector Superannuation Scheme (PSS): this scheme is closed to new members, with current employer contributions were set at 15.4 per cent (2010: 15.4 per cent) (including productivity component). More information on PSS can be found at http://www.pss.gov.au;
  - Public Sector Superannuation Accumulation Plan (PSSap): employer contributions were set at 15.4 percent (2010: 15.4 per cent), and the fund has been in operation since July 2005. More information on PSSap can be found at http://www.pssap.gov.au; and
  - Other: there were some senior executives who had their own superannuation arrangements (e.g. self-managed superannuation funds). Their employer contributions were set at 15.4 per cent (2010: 15.4 per cent).
- (d) Various salary sacrifice arrangements were available to senior executives including super, motor vehicle and expense payment fringe benefits.

#### Note 10C: Other Highly Paid Staff

During the reporting period, there were no employees whose salary plus performance bonus were \$150,000 or more.

Note 11 - Remuneration of Auditors	2011	2010
Amounts received, or due and receivable by the Independent Auditor for:	02 (50	00.025
Financial statement audit	92,650	89,925
Performance audit	93,500	92,650
	186,150	182,575

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 12 - Financial Instruments

#### Note 12A: Categories of financial instruments

	Notes	2011 \$'000	2010 \$'000
Financial Assets		J 000	3 000
Loans and Receivables:			
Cash and cash equivalents	5A	1,187	698
Receivables for goods and services	5B	190	371
Employee related receivables	5B	435	770
Total	•	1,812	1,839
Carrying amount of financial assets	•	1,812	1,839
Financial Liabilities			
At amortised cost:			
Trade creditors and accruals	7A	3,402	2,593
Total	•	3,402	2,593
Carrying amount of financial liabilities	•	3,402	2,593

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 12B: 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 2011: \$1,291,759 (2010: \$1,834,775). The ANAO has assessed the risk of the default on payment to be nil as at 30 June 2011 (2010: 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 12C: 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 12D: 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'.

	2011 \$'000	20 \$'0
Note 13 - Income Administered on Behalf of Government		
Revenue		
Non-Taxation Revenue		
services  Rendering of services - Financial statement audit fees (related entities)  Total Revenues Administered on Behalf of Government	8,282 8,282	7,95 7,95
Note 14 - Assets Administered on Behalf of Government		.,
ANANCIAL ASSETS		
Cash and cash equivalents Administered bank account - Australian National Audit Office		
Frade receivables		
Services:		
Financial statement audit fees - related entities  Fotal receivables for services	3,260 3,260	1,54
Total trade receivables	3,260	1,54
Receivables are expected to be recovered in:		
No more than 12 months More than 12 months	3,260	1,5
Fotal Receivables	3,260	1,5
Receivables were aged as follows:		
Not overdue	3,161	1,5
Overdue by: 0 to 30 days	-	
30 to 60 days	16 37	
61 to 90 days More than 90 days	46	
Total receivables	3,260	1,5
Vork in progress		
inancial statement audits - related entities	1,011	1,6
Credit terms are net 30 days (2010: 30 days)		
Note 15 - Liabilities Administered on Behalf of Government		
Other payables GST payable to Australian Taxation Office	268	1'
Total other payables	268	1
Total Liabilities Administered on Behalf of Government	268	1'
All liabilities are expected to be settled within 30 days of balance date.		
Note 16 - Administered Reconciliation Table		
Opening administered assets less administered liabilities as at 1 July	2,976	3,7
Plus: Administered income Administered transfers to/from Australian Government:	8,282	7,9
Transfers to the OPA Closing administered assets less administered liabilities as at 30 June	(7,255) 4,003	(8,6
•	4,003	2,7
Note 17 - Administered Contingent Assets and Liabilities		
Quantifiable Administered Contingencies  here were no quantifiable Administered Contingent Assets or Liabilities as at 30 June 2011 (2010: Nil).		
Inquantifiable Administered Contingencies There were no unquantifiable Administered Contingent Assets or Liabilities as at 30 June 2011 (2010: Nil).		
Remote Administered Contingencies There were no remote Administered Contingent Assets or Liabilities as at 30 June 2011 (2010: Nil).		
Note 18 - Administered Financial Instruments		
inancial Assets		
oans and receivables:		
Cash and cash equivalents Receivables (audit fees) - related entities	3,260	1,5
Total	3,260	1,5
Carrying amount of financial assets	3,260	1,5
Financial Liabilities At amortised cost:		
GST payables	268 268	1'
lotal Carrying amount of financial liabilities	268	1

Note 19 - Appropriations

# Table A: Annual Appropriations ('Recoverable GST exclusive')

		2011 Approp	riations		Appropriation	
					applied in 2011	
	Appropriation			Total		
	Act	FMA A	ct	appropriation	prior years)	Variance
	Annual					
	Appropriation	Section 31	Section 32			
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
DEPARTMENTAL						
Ordinary annual services	73,561	3,414	(307)	76,668	68,282	8,386
Other services						
Equity	650		-	650	252	398
Total departmental	74,211	3,414	(307)	77,318	68,534	8,784

#### Table A (Cont'd): Annual Appropriations ('Recoverable GST exclusive')

		2010 Approp	riations			
	Appropriation Act	FMA A		Total appropriation	Appropriation applied in 2010	
	Annual			1	(current and	
	Appropriation	Section 31	Section 32		prior years)	Variance
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
DEPARTMENTAL						
Ordinary annual services	67,989	2,874	2,839	73,702	68,740	4,962
Other services						
Equity	208		-	208	208	-
Previous years' outputs	-		-	-	-	_
Total departmental	68,197	2,874	2,839	73,910	68,948	4,962

#### Note 19 - Appropriations (cont'd)

### Table B: Unspent Departmental Annual Appropriations ('Recoverable GST exclusive')

	2011	2010
Authority	\$'000	\$'000
Appropriation Act (No.1) 2004-05	7,559	7,559
Appropriation Act (No.5) 2005-06	519	519
Appropriation Act (No.1) 2009-10	4,962	4,962
Appropriation Act (No.1) 2010-11	8,386	-
Appropriation Act (No.2) 2010-11	398	-
Total	21,824	13,040

#### Table C: Special Appropriations ('Recoverable GST exclusive')

			Appropriation a	pplied
			2011	201
Authority	Type	Purpose	\$'000	\$'00
Auditor-General Act 1997, Schedule 1 sections 3 and 7, Administered	Unlimited amount	Remuneration expenses and allowances of the office of the Auditor-General	470	477
Financial Management and Accountabiltiy Act 1997 s28(2), Administered	Refund	To provide an appropriation where an Act or other law requires or permits the repayment of an amount received by the Commonwealth and apart from this section there is no specific appropriation for the repayment	1,537	1,570
Total			2,007	2,047

Note 20 - Special Accounts

Other Trust Special Account - Special Public Monies	2011 \$'000	2010 \$'000				
Appropriation: Financial Management and Accountability Act 1997 section	n 20					
Purpose: 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	17	1				
Other receipts - Comcare receipts paid in accordance with the Safety						
Rehabilitation and Compensation Act 1998	45	33				
Available for payments	62	34				
Total increase	62	34				
Payments made to employees	(62)	(17)				
Total decrease	(62)	(17)				
Total balance carried to the next period	-	17				

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 2010-11 or 2009-10 financial years.

The purpose of the services for other Governments & Non-agency Bodies Special Account (Special Public Money) is for expenditure in connection with services performed on behalf of other Governments and bodies that are not Agencies under the FMA Act.

Note 21 - Compensation and Debt Relief	2011 \$	2010
Departmental		
No payments made under section 73 of the Public Service Act 1999 (2009-10: No payments made).	Nil	Nil
Administered		
No 'Act of Grace' expenses were incurred during the reporting period (2009-10: No payments made).	Nil	Nil
No waivers of amounts owing to the Commonwealth were made pursuant to subsection 34(1) of the Financial Management and Accountability Act 1997. (2009-10: No waivers made).	Nil	Nil
No ex-gratia payments were made during the year (2009-10: No payments made).	Nil	Nil

#### **Note 22: 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 22A: Net Cost of Outcome Delivery

	Outco	Outcome 1		Outcome 2		Total	
	Assuran	Assurance Audit		Performance Audit			
	Serv	ices	Serv	ices			
	2011	2010	2011	2010	2011	2010	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Expenses							
Administered	-	-	-	-	-	-	
Departmental	41,061	42,192	30,290	28,130	71,351	70,322	
Total	41,061	42,192	30,290	28,130	71,351	70,322	
Income from non-government sector							
Administered							
Activities subject to cost recovery	-	-	-	-	-	-	
Other	-	-	-	-	-	-	
Total administered	-	-	-	-	-	-	
Departmental							
Activities subject to cost recovery	-	-	-	-	-	-	
Other	-	-	-	-	-	-	
Total departmental	-	-	-	-	-	-	
Total	_	•	-	-	-	-	
Other own-source income							
Administered	8,282	7,956	-	-	8,282	7,956	
Departmental	2,568	2,820	673	825	3,241	3,645	
Total	10,850	10,776	673	825	11,523	11,601	
	•						
Net cost of outcome delivery	30,211	31,416	29,617	27,305	59,828	58,721	

Outcomes 1 and 2 are described in Note 1.

Note 22B: Major Classes of Departmental Expense, Income, Assets and Liabilities by Outcomes

	Outco	ome 1	Outcome 2		Total	
	Assuran	ce Audit	Performance Audit			
	Serv	ices	Services			
	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Departmental Expenses:						
Employee benefits	18,401	19,605	20,940	18,793	39,341	38,398
Suppliers	21,720	21,692	8,554	8,701	30,274	30,393
Depreciation and amortisation	867	818	734	586	1,601	1,404
Other expenses	73	77	62	50	135	127
Total	41,061	42,192	30,290	28,130	71,351	70,322
Departmental Income:						
Income from government	39,317	45,158	33,492	25,864	72,809	71,022
Sale of goods and services	2,568	2,820	673	825	3,241	3,645
Total	41,885	47,978	34,165	26,689	76,050	74,667
Departmental Assets					T	
Cash and cash equivilents	641	426	546	272	1,187	698
Trade and other receivables	12,365	9.058	10,533	5,692	22,898	14,750
Other financial assets	118	75	100	48	218	123
Land and buildings	3,261	3,969	2,777	2,537	6,038	6,506
Property, plant and equipment	461	515	392	329	853	844
Intangibles	983	1.154	837	738	1.820	1.892
Other non-financial assets	545	561	465	359	1,010	920
Total	18,374	15,758	15,650	9,975	34,024	25,733
Departmental Liabilities						
Suppliers	1,837	1,582	1,565	1,011	3,402	2,593
Operating lease	795	999	677	638	1,472	1,637
Other payables	886	941	754	602	1,640	1,543
Employee provisions	5,532	5,673	4,713	3,627	10,245	9,300
Other provisions	22	24	18	16	40	40
Total	9,073	9,219	7,727	5,894	16,799	15,113

Outcomes 1 and 2 are described in Note 1.

Note 22C: Major Classes of Administered Expenses, Income, Assets and Liabilities by Outcomes

	Outco	ome 1	Outcome 2		To	tal
	Assurance Audit Services		Performance Audit Services			
	2011	2010	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Administered income						
Sale of goods and services	8,282	7,956	-	-	8,282	7,956
Total	8,282	7,956	-	-	8,282	7,956
Administered assets						
Receivables (audit fees)	3,260	1,549	-	-	3,260	1,549
Work in progress	1,011	1,602	-	-	1,011	1,602
Total	4,271	3,151	-	-	4,271	3,151
Administered liabilities						
GST payable	268	175	-	-	268	175
Total	268	175	-	-	268	175

Outcomes 1 and 2 are described in Note 1.

### Note 23: Comprehensive Income (Loss) attributable to the ANAO

Total Comprehensive Income (loss) attributable to the	2011 \$'000	2010 \$'000
entity		
Total comprehensive income (loss)*	5,040	4,351
Plus: non-appropriated expenses		
Depreciation and amortisation expenses	1,601	1,404
Total comprehensive income (loss) attributable to the		
entity	6,641	5,755

<sup>\*</sup> As per the Statement of Comprehensive Income.

# APPENDIX 2—STAFFING STATISTICS

Table A2.1 Staffing profile at 30 June 2011

Classification	ACT	NSW	2010-11 total	2009-10 total
SES Band 3	1	0	1	1
SES Band 2	6	0	6	6
SES Band 1	22	0	22	19
EL 2	90	3	93	87
EL 1	52	1	53	57
APS 6	66	4	70	70
APS 5	39	0	39	48
APS 4	38	0	38	36
APS 3	16	1	17	14
APS 2	4	0	4	5
APS 1 (Undergraduate)	6	0	6	7
Graduate	15	0	15	17
Total	355	9	364	367

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, 2010 and 2011

Location	June 2010	June 2011					
	Audit	Non-audit	Subtotal	Audit	Non-audit	Subtotal	
ACT	277	54	331	266	67	333	
NSW	10	1	11	6	1	7	
Total	287	55	342	272	68	340	

Note: Excludes 24 inoperative staff.

Table A2.3 Paid full-time, part-time and non-ongoing staff at 30 June 2011

Classification	Full-ti	me	Part-time		Non-ongoing		Total	
	М	F	M	F	M	F	M	F
SES Band 3	1	0	0	0	0	0	1	0
SES Band 2	6	0	0	0	0	0	6	0
SES Band 1	15	6	0	1	0	0	15	7
EL 2	51	28	2	11	1	0	54	39
EL 1	22	17	0	6	2	1	24	24
APS 6	29	29	1	7	0	0	30	36
APS 5	17	18	0	3	0	1	17	22
APS 4	15	19	1	0	1	2	17	21
APS 3	0	13	0	1	0	2	0	16
APS 2	0	0	0	2	1	0	1	2
APS 1 (Undergraduate)	0	0	0	0	3	3	3	3
Graduate	6	9	0	0	0	0	6	9
Subtotal	162	139	4	31	8	9	174	179
Total	301		35		17		353	

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

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

Table A2.4 Analysis of workplace diversity groups within salary levels, 2010-11

Salary range	Women	NESB1	NESB2	ATSI	PWD
Below \$48,298 (APS 1 and undergraduates)	3	1	1	0	0
\$48,298 to \$57,158 (APS 2–3 and graduates)	29	4	5	0	0
\$57,159 to \$71,540 (APS 4-5)	43	13	3	0	0
\$71,541 to \$98,943 (APS 6-EL 1)	64	25	5	0	0
\$98,944 and above (EL2–SES Band 3)	46	10	7	0	1
Total staff: 364	185	53	21	0	1
Percentage of total staff	(51%)	(15%)	(6%)	-	(<1%)

 $\mathsf{APS} = \mathsf{Australian} \; \mathsf{Public} \; \mathsf{Service}, \; \mathsf{EL} = \mathsf{Executive} \; \mathsf{Level}$ 

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), 2010-11

Location	Movements to other departments	Resignations	Medical retirements	Voluntary retirements	Other	Total losses	Gains
ACT	39	35	0	0	11	85	91
NSW	0	2	0	0	1	3	0
Total	39	37	0	0	12	88	91

Table A2.6 Details of staff training, 2006-07 to 2010-11

Description	2010-11	2009–10	2008–09	2007–08	2006–07
Direct expenditure on training	\$766,412	\$920,130	\$890,642	\$993,759	\$1,161,057
Total number of person-days spent by staff on eligible training programs	2,160	2,131	2,168	1,753	2,176
Total number of staff eligible to participate in training programs	349	371	352	297	321

Table A2.7 Basis of employment, 2010-11

		Australian Workplace	
Level	Enterprise agreement	Agreement	Common law contract
SES	0	0	29
Non-SES	329	6	0
Total	329	6	29

SES = Senior Executive Service

Table A2.8 Performance payments in 2010–11

Classification	Number	Total (\$)	Average (\$)	Minimum (\$)	Maximum (\$)
SES	26	220,159	8,468	4,000	15,000
EL 2	44	171,547	3,899	1,450	8,811
EL 1	18	54,317	3,018	1,707	7,037
APS 6	24	57,930	2,414	1,319	5,480
APS 5	10	24,880	2,488	1,695	4,668
APS 4	13	19,937	1,534	1,127	1,954
APS 1-3	3	4,533	1,511	979	1,830
Total	138	553,303			

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

# APPENDIX 3—AUDIT REPORTS TABLED IN 2010–11

No.	Title	Date tabled	Cost (\$)a
Perfo	rmance audits		
1	Implementation of the Family Relationship Centres Initiative	15 July 2010	550,000
2	Conduct by Infrastructure Australia of the First National Infrastructure Audit and Development of the Infrastructure Priority List	23 July 2010	573,000
3	The Establishment, Implementation and Administration of the Strategic Projects Component of the Regional and Local Community Infrastructure Program	27 July 2010	465,000
4	National Security Hotline	28 July 2010	264,000
5	Practice Incentives Program	15 September 2010	632,000
6	The Tax Office's Implementation of the Client Contact – Work Management – Case Management System	21 September 2010	517,600
7	Confidentiality in Government Contracts: Senate Order for Departmental and Agency Contracts (Calendar Year 2009 Compliance)	22 September 2010	284,000
8	Multifunctional Aboriginal Children's Services (MACS) and Crèches	23 September 2010	350,000
9	Green Loans Program	29 September 2010	685,000
10	Centrelink Fraud Investigations	30 September 2010	797,600
11	Direct Source Procurement	30 September 2010	523,000
12	Home Insulation Program	15 October 2010	653,091
13	Implementation and Administration of the Civil Aviation Safety Authority's Safety Management System Approach for Aircraft Operators	28 October 2010	605,000
14	Capitalisation of Software	28 October 2010	325,000
15	Food Standards Australia New Zealand	18 November 2010	449,200
16	Centrelink's Role in the Process of Appeal to the Social Security Appeals Tribunal and to the Administrative Appeals Tribunal	25 November 2010	370,000
18	Government Business Managers in Aboriginal Communities under the Northern Territory Emergency Response	8 December 2010	362,000
19	Army Aboriginal Community Assistance Program	9 December 2010	295,000
20	Administration of the Wine Equalisation Tax	14 December 2010	230,000
21	Indigenous Housing Initiatives: the Fixing Houses for Better Health program	15 December 2010	285,000
23	Home Ownership on Indigenous Land Program	21 December 2010	330,600
24	The Design and Administration of the Better Regions Program	27 January 2011	415,000
25	Administration of the Trade Training Centres in Schools Program	2 February 2011	500,000
26	Management of the Tender Process for a Replacement BasicsCard	9 February 2011	166,000
27	Restoring the Balance in the Murray-Darling Basin	10 February 2011	490,000
28	Management of the Australian Broadband Guarantee Program	15 February 2011	633,000
29	Management of the Implementation of New Policy Initiatives	16 February 2011	356,500
30	Digital Education Revolution program—National Secondary Schools Computer Fund	17 February 2011	570,000

No.	Title	Date tabled	Cost (\$)a
31	Administration of the Superannuation Lost Members Register	24 February 2011	293,000
32	Northern Territory Night Patrols	1 March 2011	360,000
33	The Protection and Security of Electronic Information Held by Australian Government Agencies	23 March 2011	475,000
34	General Practice Education and Training	24 March 2011	591,000
35	Management of the Overseas Leased Estate	30 March 2011	290,000
36	Service Delivery in CRS Australia	14 April 2011	398,500
37	Management of Explosive Ordnance Held by the Air Force, Army and Navy	19 April 2011	420,000
38	Management of the Certificate of Compliance Process for FMA Act Agencies	20 April 2011	441,000
39	Management of the Aviation and Maritime Security Identification Card Schemes	5 May 2011	420,000
40	Management of the Explosive Ordnance Services Contract	17 May 2011	330,000
41	Maintenance of the Defence Estate	17 May 2011	280,000
42	The Establishment, Implementation and Administration of the Council Allocation Component of the Regional and Local Community Infrastructure Program	18 May 2011	425,000
43	Australian Federal Police Protection Services	25 May 2011	350,000
44	AusAID's Management of Tertiary Training Assistance	26 May 2011	385,000
45	Administration of the Luxury Car Tax	31 May 2011	476,000
46	Management of Student Visas	31 May 2011	171,000
47	The Development and Administration of National Research Flagships	8 June 2011	320,000
48	Monitoring and Compliance Arrangements Supporting Quality of Care in Residential Aged Care Homes	16 June 2011	575,800
49	Fuel Tax Credits Scheme	21 June 2011	497,000
50	Administration of Tax Office Shopfronts	21 June 2011	231,200
51	Administration of the Access to Allied Psychological Services Program	21 June 2011	325,000
52	Administration of Deductible Gift Recipients (Non-profit Sector)	22 June 2011	312,000
53	Drought Assistance	23 June 2011	445,000
55	Administering the Character Requirements of the Migration Act 1958	23 June 2011	222,000
56	Administering the Character Requirements of the	23 June 2011	222,000
57	Acceptance into Service of Navy Capability	28 June 2011	497,300
Finar	ncial statement audits		
22	Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2010	16 December 2010	328,500
54	Interim Phase of the Audit of Financial Statements of Major General Government Sector Agencies for the year ending 30 June 2011	23 June 2011	182,316
Assui	rance audits		
17	2009–10 Major Projects Report	30 November 2010	1,421,500

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

# APPENDIX 4—SUMMARY OF REPORTS TABLED IN 2010—11

This appendix summarises the main issues raised in reports tabled in 2010–11 (including performance audit reports, an assurance report on major Defence projects and our report on the audits of financial statements of Australian Government entities). The summaries are grouped by portfolio.

# Agriculture, Fisheries and Forestry portfolio

# Audit Report No.53 2010-11, Drought Assistance

The objective of the audit was to assess the effectiveness of the Department of Agriculture, Fisheries and Forestry's (DAFF's) administration of exceptional circumstances (EC) measures and the implementation of the pilot of new drought reform measures.

DAFF's administration of the EC programs was generally sound. In particular, EC applications from the states and territories were assessed and reviewed by DAFF and the National Rural Advisory Council (NRAC) in a timely and consistent manner. The assessment and review processes took into account expert advice and appropriate data, and involved stakeholder consultation. There was sufficient information provided to allow the minister to make an informed decision on whether to declare an area as experiencing EC. DAFF has published the rationale underpinning the minister's recent decisions on its website, providing stakeholders with more information as to the reason(s) for the success or otherwise of a state or territory government's EC application.

Following recent rainfall, the percentage of Australia's agricultural land that is EC declared has reduced from a peak of 69.2 per cent in 2008 to 0.3 per cent in 2011. At the same time, Australian and state and territory governments have been considering the results of several evaluations that have been generally critical of the appropriateness and delivery of the current EC drought policy. In light of these reviews, a shift in policy direction from crisis management to risk management to help farmers and farm businesses plan and prepare for a more challenging climate is currently being tested in a pilot program in Western Australia.

The implementation of future drought policies in Australia will continue to require a collaborative effort and partnerships that involve governments and their delivery partners. Based on this audit, and the lessons learned from evaluations undertaken during the past decade, focusing on the following areas will assist DAFF to oversee the delivery of drought assistance now and in the future:

- monitoring key aspects of the performance of DAFF's delivery partners that provide EC payments, including state and territory government–based rural adjustment authorities and Centrelink
- building on DAFF's evaluation work with a view to establishing key performance indicators that
  can better inform decision makers about drought assistance outcomes on a more timely and
  regular basis.

# Attorney-General's portfolio

## Audit Report No.4 2010-11, National Security Hotline

The objective of the audit was to assess whether:

- the Attorney-General's Department (AGD) effectively manages the National Security Hotline (NSH)
- the Australian Federal Police (AFP) and the Australian Security Intelligence Organisation (ASIO) have effective procedures in place to deal with incoming referrals from the NSH.

The NSH is an important means by which members of the public can pass information to the Government or receive assurance about national security issues. Since its inception, the NSH has received more than 140,000 calls.

The ANAO concluded that the AGD effectively manages the operation of the NSH. The NSH was conceived, designed, constructed and implemented in a short period of time in 2002. Since then, the NSH has worked to improve the IT system, institute sound arrangements for 'surges' and contingencies, and develop innovative and effective staff training. The ANAO identified some opportunities for administrative improvement which were adopted by the AGD.

Each of the three audited organisations responded promptly to issues that arose during the audit. Most significantly, the NSH quickly rectified a technical issue in the NSH database that was preventing ASIO from receiving all calls, and ASIO instituted a daily reconciliation process to ensure that all calls received are assessed. The AFP also reviewed its processes and implemented a weekly quality control process to ensure that officers properly document all calls received. The changes made by each agency will enhance the NSH's usefulness and contribute to making sure that no call is overlooked.

# Audit Report No.29 2010–11, *Management of the Implementation of New Policy Initiatives*

The audit examined the effectiveness of the AFP's approach to its management of the implementation of new policy initiatives (NPIs).

Overall, the AFP has been generally effective in updating its broad governance structures and enhancing its policy development and advising capabilities to meet new challenges. However, while the broad strategy developed in 2008 to improve project management and oversight in the AFP was sound, its implementation has not been effective. As a consequence, the measures taken to improve organisational project management capability have had little effect and the AFP still lacks the processes, controls and structures necessary to assure the commissioner and the Government that new policy initiatives are being delivered in accordance with the Government's time, quality and cost expectations.

In particular, implementation planning has been generally poor, with no consistent approach to, or clear policy on, project management across the organisation; and coordinated executive reporting on NPI implementation has been neither comprehensive nor rigorous.

### Audit Report No.32 2010–11, Northern Territory Night Patrols

The purpose of the audit was to assess the administrative effectiveness of the AGD's management of the Northern Territory Night Patrols program, with a particular focus on implementation arrangements to manage the expansion of the program under the Northern Territory Emergency Response (NTER). The audit focused on program design and planning, management of service providers, operations in communities, and linkages between performance indicators, activities and outcomes.

The AGD quickly implemented a new service delivery model which enabled the department to establish and support night patrol services in an additional 50 remote communities across the Northern Territory. There are now night patrol services operating in 80 communities, including in urban areas. In one year of operation, between July 2008 and June 2009, night patrols assisted 75,220 people on a range of community safety matters.

The department has made some adjustments to program administration. There is potential for further modification to allow increased flexibility and responsiveness to local circumstances, as well as a greater focus on referrals to other community services.

# Audit Report No.43 2010-11, Australian Federal Police Protection Services

The audit objective was to examine whether the Uniform Protection (UP) and Close Personal Protection (CPP) services provided by AFP Protection are being managed effectively.

The ANAO concluded that the UP and CPP services provided by AFP Protection are being managed effectively. The functional integration of the former Australian Protective Service into the AFP has largely been completed, with key elements such as recruitment, training and human resource management delivered and monitored through AFP-wide systems. AFP Protection has in place an administrative framework that enables it to effectively manage, monitor and deliver its services across the diverse sites at which it operates. In particular, it has established sound planning and risk management arrangements, which underpin its service delivery. It has also put in place effective arrangements to monitor and manage its UP and CPP workforces on a day-to-day basis, strengthened its training arrangements for new and existing protective service officers and CPP officers, and developed adequate guidance for staff.

While management oversight and service delivery are generally sound, there are a number of weaknesses in the supporting administrative arrangements that have the potential to impede effective decision making and allocation of resources. In particular, there would be benefits to both AFP Protection and its clients in increasing the transparency of the cost-recovery arrangements, strengthening the arrangements for reporting to clients, and improving performance information for both the protection function as a whole, and for individual UP clients.

Management has been active in dealing with integration issues such as differences in employment conditions and career and training opportunities. However, staff surveys found that AFP Protection staff have lower job satisfaction and feel a sense of disengagement from the rest of the organisation, which indicates that there is still work to be done to achieve greater functional and workforce integration into the AFP.

# Broadband, Communications and the Digital Economy portfolio

# Audit Report No.28 2010–11, Management of the Australian Broadband Guarantee Program

The objective of the audit was to assess whether the Department of Broadband, Communications and the Digital Economy had effectively managed the Australian Broadband Guarantee (ABG) program, and the extent to which the program was achieving its stated objectives.

The ABG program has provided subsidised access to broadband services for more than 103,000 residences and small businesses in regional, rural and remote areas of Australia. The number of underserved premises in Australia fell from more than 925,000 at the start of the program to 160,000 in July 2010. This reduction primarily resulted from the rollout of commercial broadband services into previously underserved areas.

The policy settings for the ABG program are matters for the Australian Government to determine, based on advice from its department and any other sources. There has been a six-fold increase in the minimum data allowance for the ABG threshold service over the life of the program, but little improvement in the minimum download speed. Since 1 July 2010, the monthly data

allowance for the threshold service has been more closely aligned with the Australian average amount of data downloaded per month. However, the entry-level service, which accounts for about 77 per cent of ABG connections, has not changed over the three years of the program. On average, prices paid by ABG customers, while lower than would have been the case without the subsidy, have exceeded the prices paid for equivalent broadband services (in terms of speed and data allowances) in metropolitan areas. For reviews of the service levels and subsidies completed in 2008, 2009 and 2010, there was a lack of documentation to support the department's recommendations to the minister, and the underlying rationale for changing (or retaining) program elements was not readily apparent.

To administer the program and its interface with customers and providers, the department has established an effective management framework. However, the audit identified a number of shortcomings in the department's regime for the technical testing of the quality of broadband services delivered by providers, the conduct of telephone audits of ABG customers, and site audits of ABG providers. The department has taken steps to address these matters.

The department has not reported against the program's key performance indicators and performance targets outlined in its Portfolio Budget Statements whether program objectives have been achieved and what outcomes can be attributed to the program's intervention. Performance reporting has largely been activity based and does not include key program elements, their results and impacts, or trends over time. This type of information would give greater transparency to the operation of the program, better inform management and policy decision making, and provide context about the environment in which the program is operating.

# **Defence portfolio**

# Audit Report No.17 2010-11, 2009-10 Major Projects Report

This third major projects report progressed the development of an annual reporting program for the Defence Materiel Organisation (DMO). It focused on improved transparency and accountability for performance relating to budgeted cost, schedule and progress towards delivering the key capabilities of defence major projects. The report builds on the data analysis introduced in the 2008–09 Major Projects Report, and provides a basis for greater longitudinal analysis of project performance in future years.

The formal conclusion from the review of the project data summary sheets (PDSSs) was that, except that project expenditure history was not expressed in base-date dollars for 19 major projects and the prime contract price was not expressed in base-date dollars for four major projects, nothing came to the attention of the ANAO that caused us to believe that the information in the PDSSs (within the scope of the review) has not been prepared in all material aspects in accordance with the PDSS guidelines.

The ANAO's analysis indicated that maintaining major projects on schedule remains the major challenge for the DMO and industry contractors, affecting when the capability is made available for operational release and deployment. DMO data indicated that at 30 June 2010 the total time for the 22 major projects to achieve their final operational capability date was expected to be almost one-third longer than was originally planned.

The program is well placed to incorporate a further six new projects in the 2010–11 major projects report, to bring the total number of major projects reported on to 28.

# Audit Report No.37 2010–11, Management of Explosive Ordnance Held by the Air Force, Army and Navy

The audit examined the effectiveness of the management of explosive ordnance by the Department of Defence (Defence), focusing on the effectiveness of the arrangements for the oversight and physical control of explosive ordnance once it has been issued to Australian Defence Force (ADF) units.

Explosive ordnance merits stringent monitoring, oversight and control. However, some ADF units relied on inconsistent guidance for recording and managing their explosive ordnance, using stand-alone computer-based spreadsheets and manual stock-recording systems. The arrangements varied between and within the Air Force, Army and Navy.

At the unit level, the policies, procedures and guidelines for the management of explosive ordnance were incomplete and, in some cases, contained inconsistent advice. The gaps and inconsistencies extended from central policies and procedures down to unit-specific instructions. They also extended to Defence's reporting, recording and investigation of explosive ordnance security incidents, limiting the department's ability to detect, assess and mitigate its security vulnerabilities.

Defence has yet to achieve assurance that all its explosive ordnance is being effectively managed at the unit level. Defence's limited oversight of ADF unit holdings was caused by:

- the frequent need for ADF units to manually process large volumes of explosive ordnance transactions
- the lack of
  - consistent and complete procedures and guidance to ADF units on recording explosive ordnance transactions
  - consistent guidance and instruction on the recording and reporting of explosive ordnance security incidents
  - an effective program of monitoring and review within the department.

More than three years after the ANAO conducted a performance audit of weapons, munitions and explosives security, Defence is only now achieving the improvements to policies and systems that are necessary to ensure that it can track and control explosive ordnance throughout its life cycle.

# Audit Report No.40 2010-11, Management of the Explosive Ordnance Services Contract

The purpose of the audit was to assess whether Defence is effectively managing the Explosive Ordnance Services Contract (EO Services Contract). The audit focused mainly on Defence's contract management framework, including the arrangements to monitor the contractor's performance in delivering services. The audit also examined the processes used to develop the current version of the contract and the extent to which the revised contract, as negotiated in 2006, provides an assurance of better value for money when compared to the original contract signed in 2001.

Overall, Defence has established mechanisms to support the effective management of the EO Services Contract. Defence's 2006 contract renegotiation resulted in better specified services, a performance management framework, and improvement and cost-reduction targets. Subsequently, increases in contract costs levelled off and there have been marked improvements in the timeliness of the contractor's deliveries of explosive ordnance to ADF units. Nonetheless,

Defence could obtain additional contract efficiencies. As part of Defence's regular reviews of the EO Services Contract costs, the margins paid for some contract elements could be revisited. Defence could improve its forecasting of its explosive ordnance requirements.

In the course of its regular contract review process, Defence should also seek to incorporate a firm contract expiry date to allow for the services provided under the EO Services Contract to be market tested. There is currently no limit on the number of performance-based contract extensions available to the incumbent contractor: provided the contractor continues to meet contractually defined performance standards, the contract can potentially be extended indefinitely. For a long time, the Department of Finance and Deregulation (Finance) has advised agencies that such evergreen provisions are likely to limit competition, and do not provide the necessary assurance that the value-for-money requirements of the policy framework in the *Commonwealth Procurement Guidelines* will be met.

## Audit Report No.41 2010-11, Maintenance of the Defence Estate

The audit examined the effectiveness of the management of maintenance of the Defence estate, taking particular account of planning and delivery.

In considering the ongoing management of the estate, the 2008 Audit of the Defence Budget (Pappas report) found that the estate was an ageing, complex and costly historical legacy, and that investment in maintenance of the estate had been decreasing since the 1980s. Providing sufficient funding for estate maintenance is an ongoing challenge because of competing demands for Defence funds, as well as external pressures such as urban encroachment and environmental and heritage issues.

The ANAO concluded that the management of estate maintenance has not been fully effective. Both planning and delivery of estate maintenance would benefit if Defence had in place authoritative, longer term plans for the estate, and condition assessments of estate facilities and infrastructure. Further, the funding currently applied to estate maintenance is not sufficient to preserve existing assets, which, in many cases, Defence will require for long-term use. In terms of the delivery of estate maintenance services to bases and other Defence establishments, performance is mixed; Defence has advised that it is pursuing initiatives to improve that performance in the longer term.

### Audit Report No.57 2010-11, Acceptance into Service of Navy Capability

The objective of the audit was to report on the effectiveness of Defence's approach to the acceptance into service of Navy capability, and to identify where better practice may be used by the Capability Development Group, DMO and Navy.

Defence is still some way from achieving its decade-old objective of seamless, well-developed processes and systems for the effective and efficient delivery of Navy capability. The overall picture is of a capability development system that has not consistently identified and responded, in a timely and comprehensive way, to conditions that adversely affected Navy capability acquisition and support. Opportunities to identify and mitigate cost, schedule and technical risks have been missed, resulting in chronic delays in Navy Mission Systems achieving Final Operational Capability. At the highest level, acquisition plans have not clearly set out the Government's agreed scope, cost and schedule for each project at the time of each project's approval. Consequently, compliance with government requirements, which is a fundamental responsibility of Defence, could not be confirmed by Defence.

The pathway to better capability outcomes is reliant on clear up-front agreements on capability requirements definition, verification and validation procedures, and configuration management. In all cases, the Capability Development Group, DMO and Navy would benefit from working more closely together during important phases of the development of major systems. At key stages of each project, all parties would benefit from having a definite agreed view of the risks that must be managed in order to achieve a successful outcome. Experience in the United Kingdom and the United States underscores the importance of the acquisition organisation and the navy working together to ensure that hand-offs do not become 'voyages of discovery' in the final stages of the project.

Without the application of greater discipline by Defence in the implementation of its own policies and procedures, the necessary improvements in acquisition outcomes will not be achieved. In some essential systems engineering, technical regulatory elements and capability integration management areas, there are insufficient numbers of qualified staff; this needs to be addressed as a priority. The ANAO made eight recommendations designed to improve Defence's management of the acquisition and transition into service of Navy capability, including reducing delays in achieving operational release.

# **Education, Employment and Workplace Relations portfolio**

# Audit Report No.8 2010–11, Multifunctional Aboriginal Children's Services (MACS) and Crèches

The objective of the audit was to examine the effectiveness of the administrative arrangements of the Department of Education, Employment and Workplace Relations (DEEWR) supporting the delivery of Indigenous childcare services through multifunctional Aboriginal children's services (MACS) and crèches, including the approaches DEEWR uses to monitor the achievement of the budget-based funding sub-program objective.

The services covered in this audit are community-based childcare services provided in Indigenous communities across Australia, mainly in remote and very remote areas. During 2009–10, the Australian Government funded the operation of 268 Indigenous childcare services, including 33 MACS and 36 crèches.

The ANAO concluded that DEEWR's management of Indigenous childcare services had improved since the department took responsibility for their administration in December 2007. DEEWR has developed a management framework supporting the provision of Indigenous childcare services, including operational guidelines, program guidelines, and a revised performance management framework. This has provided a basis for more consistent program management and has assisted service providers to better understand their roles and responsibilities as well as DEEWR's administrative and reporting requirements. However, the ANAO identified several areas in which MACS and crèches could be better managed through further improvements to the management of the budget-based funding sub-program.

# Audit Report No.25 2010–11, Administration of the Trade Training Centres in Schools Program

The audit examined the effectiveness of DEEWR's administration of the Trade Training Centres in Schools Program. The audit's major focus was on assessing the program's administrative framework and whether its implementation had been well managed. The audit also considered the adequacy of the program's performance information framework.

DEEWR's approach to planning and its administrative framework for the program were generally sound. Nevertheless, DEEWR was not consistent in the implementation or documentation of application assessment processes; its oversight of compliance with funding agreements has been limited; and there is scope to further strengthen the program's performance information framework.

As the program is based on a competitive process and does not have specific targets for the construction of trade training centres, it is difficult for stakeholders to assess the extent to which the program is successful in developing the trade training centre infrastructure which underpins the delivery of program objectives. At the individual project level, there have been time lags between projects receiving in-principle approval and contractual agreements being finalised (on average 240 days for rounds 1 and 2), in part due to the need for detailed planning and the close attention given by DEEWR to project costs.

There have also been delays in approved projects reaching specific construction milestone dates, with only 31 per cent of round 1 and 2 projects meeting milestone 2 (commencement of construction) and 27 per cent meeting milestone 4 (completion of construction) on time. DEEWR advised that construction delays were due to factors such as availability of subcontractors and building materials; weather conditions and other site issues; state and territory procurement requirements and lead times; and optimistic milestone proposals by schools having regard to planning, procurement and approval requirements.

# Audit Report No.30 2010–11, *Digital Education Revolution Program—National Secondary Schools Computer Fund*

The objective of the audit was to examine the effectiveness of DEEWR's administration of the Digital Education Revolution (DER) program, focusing on the major component of the program, the National Secondary Schools Computer Fund (NSSCF).

Overall, DEEWR's administration of the DER program has been effective in supporting progress, through a partnership approach, towards the fund's objective of increasing the computer-to-student ratio for students in years 9 to 12. Some aspects of the department's oversight of implementation could have been strengthened. While DEEWR worked with education authorities to collect preliminary survey data as a basis for allocating application round funding, and required education authorities to verify and provide assurances about the accuracy of the data, DEEWR did not perform simple checks on the data to provide assurance over data quality. Further, unlike agreements with government education authorities, agreements with the non-government sector do not require annual acquittal of the use of funds, nor reporting on education authorities' or schools' ongoing investment in schools' information and communications technology.

More broadly, if education authorities had been required to establish one or two intermediate progress milestones based on their respective implementation plans, DEEWR and stakeholders would have been better able to gauge progress towards the program's target computer-to-student ratio of 1:1 and to identify any delivery problems in time for remediation to occur.

Education authorities have reported solid progress in the installation of computers purchased using NSSCF funding, indicating during the audit period that about 268,000 computers had been installed from the three funding rounds. Under the DER timelines, following the conclusion of application round funding agreements, schools must transition to a computer-to-student ratio of 1:1 in a relatively short time. As at 30 September 2010, the reported computer-to-student ratio across Australia was slightly better than 1:2, with 15 months remaining for schools to install another 438,000 computers to reach a 1:1 ratio by 31 December 2011. Education authorities'

progress towards the computer-to-student ratio of 1:1 for students in their state or sector varied, ranging from about 1:1.3 to 1:2.5. In this context, the Australian Government agreed to education authorities committing program funds by 31 December 2011 and completing computer installation early in 2012.

# **Environment, Water, Heritage and the Arts portfolio**

# Audit Report No.9 2010-11, Green Loans Program

The objective of the audit was to examine key aspects of the establishment and administration of the Green Loans program by the then Department of the Environment, Water, Heritage and the Arts (DEWHA) and the program's transition to the Department of Climate Change and Energy Efficiency (DCCEE).

The absence of effective governance by DEWHA during the program's design and early implementation resulted in administrative deficiencies. Limited executive oversight and a lack of robust and executive-endorsed program management plans for procurement, risk management, IT and communications led to both:

- · delays in implementing key program elements
- inadequate program delivery mechanisms (including mechanisms for demand management, monitoring, budgeting and financial management, procurement and stakeholder consultation).

The audit also found that the minister received incomplete, inaccurate and untimely briefings in relation to the program.

Since late 2009, the Green Loans management effort has not only had to deal with the ongoing management of the program but also had to manage the numerous administrative issues that adversely impacted on the effective implementation of the program. DEWHA and the DCCEE have devoted additional resources to improve the administration of the program. However, both departments have been inhibited by the entrenched nature of the legacy issues, the loss of corporate memory through staff turnover, and the generally poor standard of past record keeping.

The audit noted that, in response to program reviews, DEWHA and the DCCEE were taking steps to improve to program governance and the DCCEE was taking measures to address the program's legacy issues.

## Audit Report No.12 2010-11, Home Insulation Program

The audit assessed key aspects of the establishment and administration of the Home Insulation Program (HIP) by DEWHA and the transition of the program to DCCEE.

The \$2.8 billion HIP was designed to generate economic stimulus and create jobs for lower skilled workers in the housing and construction industry, which was expected to be adversely affected by an economic downturn flowing from the global financial crisis. A secondary but important objective was to improve the energy efficiency of 2.7 million Australian homes and reduce greenhouse gas emissions.

There were a number of contributing factors that impacted on the successful implementation of Phase 2 of the program. These included:

- the very tight time frame in which the program was required to be delivered
- underestimation of key program risks

- under-resourcing of program administration
- the delayed introduction of an effective compliance and audit program
- inadequate governance arrangements and advice to the then minister.

DEWHA's approach to the management of program risks was heavily influenced by the tight time frame associated with developing and implementing the HIP due to the program's stimulus focus. Consequently, some of the controls and mitigation strategies which could have been expected to have been implemented as part of the HIP were not in place. In its risk assessment in April 2009, DEWHA identified 18 extreme or high-level risks that could adversely impact on the delivery of the program. While the department took steps to address some of those risks, treatments were inadequate and the department was subsequently required to implement a number of program changes in response to realised risks.

Under the HIP, some 1.1 million roofs were insulated at a cost of \$1.45 billion and between 6,000 and 10,000 jobs were created. However, the jobs did not last as long as intended, because of the early closure of the program. There were energy efficiency benefits, but these were likely to be less than anticipated due to deficiencies in a significant number of installations. From 13,808 roof inspections conducted by the department, around 29 per cent identified some level of deficiency, ranging from minor quality issues to serious safety concerns. Funding for checking and rectifying installations was expected to cost \$424 million. In addition, cases of potential fraud were identified.

The audit concluded that the HIP was a costly program for the outcomes achieved. There were key lessons for public administration arising from the HIP experience, in terms of both policy development and implementation.

# Families, Housing, Community Services and Indigenous Affairs portfolio

# Audit Report No.18 2010–11, Government Business Managers in Aboriginal Communities under the Northern Territory Emergency Response

The objective of the audit was to assess the administrative effectiveness of the management of the Government Business Manager (GBM) initiative by the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA), and the extent to which the initiative has contributed to improvements in community engagement and government coordination in the Northern Territory.

The NTER was a complex undertaking involving sensitive matters, and the Government required it to be established and implemented in a short period of time. In its role as lead agency for Indigenous affairs and the NTER, FaHCSIA rapidly recruited and deployed GBMs to support each of the NTER communities. As a result of its efforts during the initial stabilisation phase of the NTER and its ongoing management of the GBM initiative, FaHCSIA has established a stable presence in the NTER communities.

The audit concluded that FaHCSIA's overall management of the GBM initiative was effective, noting that the emergency context surrounding Indigenous affairs in the Northern Territory had constrained the development of typical program management arrangements. Over time, GBMs' coordination efforts have come to be hampered by the persistence of vertical, single-agency approaches to service delivery and by other agencies' waning recognition of GBMs' coordination role in communities. The development of local service delivery agreements could help to provide

GBMs with strategic priorities and strengthen GBMs' authority in communities. Improvements in the communication of community issues to people within FaHCSIA and other agencies will help to give practical effect to GBMs' engagement efforts, while the ongoing development of systems to track agencies' responses to issues raised by GBMs should provide an incentive for those agencies to better engage at the local level.

# Audit Report No.19 2010-11, Army Aboriginal Community Assistance Program

The audit examined the strategic direction, planning and implementation of the Army Aboriginal Community Assistance Program (AACAP) and how the program contributes to the Australian Government's broader objectives for environmental health in remote Indigenous communities.

AACAP is administered by FaHCSIA and implemented by the Australian Army. The aim of the program is to develop and upgrade environmental health infrastructure in remote Aboriginal and Torres Strait Islander communities, and to enhance the primary healthcare services and facilities available to these communities. Since 1997, the program has implemented projects in 20 discrete locations covering 35 communities in the Northern Territory, Western Australia, South Australia and Queensland. The main infrastructure focus of AACAP has enabled the building of housing and health clinics, and upgrades to roads and airstrips. The Army has also provided other services for communities—for example, removing old car bodies from the yards of houses, repairing school fencing and refurbishing local waste sites.

AACAP is a small program in terms of funding but represents a significant investment in small communities. Because of this concentration of investment, a high degree of management consideration has been required to achieve an appropriate balance between a community's expressed needs, the ability of the program to cater for them and the capability of the Army to deliver the projects. In using limited resources, FaHCSIA has also had to find a balance between ensuring that the annual project processes are undertaken and strengthening the administration of the program.

Changes made to the program in 2009 to include health, housing and education initiatives have served to make AACAP consistent with the Council of Australian Governments (COAG) National Indigenous Reform Agreement priorities. AACAP now co-exists with other COAG initiatives and there is scope for it to become better integrated with other elements of the Government's Indigenous program framework.

The ANAO identified areas where further improvements to the management of AACAP could be made. These include:

- making greater use of the AACAP steering committee as a forum to provide high-level strategic direction to assist both FaHCSIA and the Army
- developing an approach for reviewing and assessing the longer term performance and sustainability of infrastructure provided under AACAP
- reviewing the approach the program takes to managing grant funds to ensure that the arrangements fully reflect current legislative and policy requirements.

# Audit Report No.21 2010–11, *Indigenous Housing Initiatives: the Fixing Houses for Better Health program*

The objective of the audit was to assess the effectiveness of FaHCSIA's management of the Fixing Houses for Better Health (FHBH) program since 2005.

The audit concluded that between July 2005 and June 2009, on a modest resource base, the FHBH program was able to make key health-related improvements, as planned, to over 2,000 houses in 34 communities. These communities were geographically dispersed in mainly remote areas of five states and the Northern Territory. Performance information indicated that, while the extent of improvement in individual houses was subject to some variation, across the program there was an overall improvement in the way houses performed in being able to support what are known as the 'healthy living' practices.

FaHCSIA's program management arrangements did not cater for the collection of data that provided a means of linking the improvements made to houses in communities under this program with changes in health indicators in those same communities. Because of this gap, it is not possible to draw links between the implementation of the FHBH program's activities and its overall purpose of improving Indigenous health.

Some specific assessment of the FHBH program's relative effectiveness would have allowed FaHCSIA to increase its knowledge of how different programs and interventions can contribute to desired outcomes. This will be an increasingly important matter for FaHCSIA given the significantly increased funding being provided for Indigenous housing under the National Partnership Agreement on Remote Indigenous Housing and the contribution that COAG expects the agreement to make to improving environmental health in communities.

#### Audit Report No.23 2010-11, Home Ownership of Indigenous Land Program

The purpose of the audit was to assess the administrative effectiveness of management of the Home Ownership of Indigenous Land (HOIL) Program by FaHCSIA and Indigenous Business Australia (IBA). In particular, the audit examined the administrative design of the program, its implementation and its progress in achieving the expected results.

The ANAO concluded that increasing the level of home ownership on Indigenous land has proven to be a significant challenge for FaHCSIA and IBA. The two agencies have been faced with a range of barriers affecting their ability to provide loans and home ownership incentives to Indigenous people on community-titled land. These barriers were primarily related to reaching agreement on land tenure, and have restricted the number of potential clients, with consequential effects on the number of loans, other financial incentives and training packages delivered to Indigenous people.

The initial four-year funding period for the HOIL program concluded on 30 June 2010. Against a target of providing 460 loans across eight communities, IBA has been able to provide only 15 loans. All of the 15 loans provided were for homes on the Tiwi Islands in the Northern Territory, with 14 provided in the community of Nguiu.

### Foreign Affairs and Trade portfolio

### Audit Report No.35 2010-11, Management of the Overseas Leased Estate

The audit objective was to examine the effectiveness of management of the overseas leased estate by the Department of Foreign Affairs and Trade (DFAT).

DFAT manages the majority of the Australian Government's overseas leased property estate. The diversity and geographic spread of the estate pose management challenges for DFAT. The audit concluded that DFAT has been largely effective in the provision of leased property overseas, noting that the basic elements for leased office and residential property are working effectively.

DFAT has been working to strengthen some of the shared management elements of the overseas estates which were identified by a previous audit report (No.32 2009–10, *Management of the Overseas Owned Estate*) and this audit. The department has also identified other areas where it can strengthen its management arrangements.

The audit identified some elements of DFAT's administration where improvements would strengthen the overall management of the overseas leased estate. These elements include reviewing the governance arrangements to better support the leased estate, with the intent of more clearly delineating roles and responsibilities within DFAT; and focusing on improved long-term planning for leased chanceries to better manage lease life cycles and changes to post requirements.

### Audit Report No.44 2010-11, AusAID's Management of Tertiary Training Assistance

The purpose of the audit was to assess the effectiveness of AusAID's management of tertiary training assistance.

AusAID's management of tertiary training assistance has been broadly effective. In designing tertiary training initiatives, AusAID targets assistance to the needs of aid recipients, and implements tertiary training initiatives in a way that is appropriate for local contexts. AusAID's regular monitoring and review of the performance of initiatives is robust, and the outcomes of these reviews are a major influence on the design of future initiatives. AusAID has also made good progress in coordinating the delivery of tertiary training programs in the Pacific by establishing joint management arrangements with the New Zealand Government's aid program. The assistance provided by AusAID is generally well regarded by aid recipients.

### Health and Ageing portfolio

### Audit Report No.5 2010-11, Practice Incentives Program

The objective of the audit was to assess the effectiveness of the Department of Health and Ageing (DOHA) in planning, monitoring and reviewing the Practice Incentives Program (PIP) and, with Medicare Australia, ensuring that the PIP is delivered to general practices and their medical practitioners.

The program's administration was broadly effective. As a result of the program, 67 per cent of general practices, covering 82 per cent of general practice care, achieved accreditation against the Royal Australian College of General Practitioners (RACGP) Standards for General Practice. However, PIP features made its management challenging. While general practice accreditation

was the key program entry requirement, each incentive under the program had its own set of aims, requirements, and payment arrangements.

Accreditation was a barrier to participation, particularly by Aboriginal Medical Services and smaller practices, limiting access to incentives applicable to all general practices, such as eHealth. The means by which payments were calculated could also have unintended consequences, potentially impacting on the take-up of individual PIP incentives. Program planning for placing an incentive in PIP did not systematically take program design features such as accreditation requirements and the basis for payments into account.

Furthermore, the assessment of PIP achievements was limited by a lack of indicators with which to measure the success or otherwise of individual incentives. Government expected that general practice accreditation would ensure access to high-quality primary health care. However, the way that general practice accreditation was organised limited DOHA's assurance over the quality and rigor of the accreditation processes—a key program entry criterion. As a result, DOHA was not in a position to fully inform government on the development and use of PIP for particular incentives, and the outcomes from accreditation and individual incentives.

#### Audit Report No.15 2010-11, Food Standards Australia New Zealand

The objective of the audit was to assess the administration by Food Standards Australia New Zealand (FSANZ) of certain functions specified in the *Food Standards Australia New Zealand Act 1991*.

Over time, the Australian and New Zealand governments have committed to reducing the regulatory burden on businesses within the food industry, without compromising public health and safety. Recent amendments to food legislation have focused on processing applications more efficiently to change or amend the joint Australia New Zealand Food Standards Code, while avoiding unnecessary compliance costs, and protecting consumers. In this environment, the role of FSANZ is to develop food standards (regulations) based on the best available scientific evidence provided by applicants or researched by FSANZ.

FSANZ is a relatively small agency operating in a complex multijurisdictional environment. It has met most of its key responsibilities and completed a large component of its annual work program using its available resources.

Although FSANZ actively engages stakeholders, there is a broad range of views as to the direction and appropriateness of food standards. Against this background, the audit found that FSANZ should be able to report more fully on its effectiveness in developing food standards. It could do this by:

- developing performance indicators to identify its contribution to its single Outcome—a safe food supply and well-informed consumers in Australia and New Zealand
- documenting how it takes its legislative objectives into consideration when it develops or amends food standards
- its approach to managing the processing of paid versus unpaid applications and proposals using its current resources (a recognised noncompliance issue).

### Audit Report No.34 2010-11, General Practice Education and Training

The objective of this audit was to assess the administrative effectiveness of the management of two training programs by General Practice Education and Training Limited (GPET). The programs

are Australian General Practice Training (AGPT) and the Prevocational General Practice Training Placements Program (PGPPP), the latter being a responsibility that GPET assumed in 2010.

GPET has successfully administered AGPT and successfully managed the transition and early implementation phases of the PGPPP. Overall, GPET's delivery and review processes for both programs are sound.

Over time the Government has increased its expectations of GPET. These changing expectations and expanding functions have not been fully reflected in updated, clear and aligned statements of GPET's objectives, strategies, priorities and performance information. The amendment of GPET's constitution in December 2010 was an important step towards improving this and also presented opportunities for GPET to clarify its directions and the alignment of strategies and performance expectations across key corporate documents.

GPET would have had a better appreciation of health workforce issues and their relevance to GPET's strategies if it had been able to access additional workforce data from DOHA. The ANAO recommended that GPET pursue arrangements with DOHA to gain access to this data. The department agreed and, in the latter part of the audit, advised that it was putting processes in place to provide this data to GPET.

# Audit Report No.48 2010–11, Monitoring and Compliance Arrangements Supporting Quality of Care in Residential Aged Care Homes

The objective of the audit was to assess the effectiveness of monitoring arrangements (by the Accreditation Agency) and compliance activities (by DOHA) put in place to achieve residential aged care homes' compliance with the Accreditation Standards and their other, related, responsibilities under the *Aged Care Act 1997* and its associated instruments.

An effective monitoring and compliance framework is an important means of ensuring that the Government policy objective of 'access to quality and affordable aged care' is met. In this context, both DOHA and the Accreditation Agency have key roles:

- DOHA has the overarching regulatory role, monitoring compliance by approved providers with all their responsibilities under the Act, and imposing sanctions where appropriate.
- The agency has a more defined role, with responsibility for promoting high-quality care
  through its management of the accreditation process, including the monitoring of approved
  providers' compliance with the Accreditation Standards and the delivery of education
  programs to industry.

While the strategies adopted by DOHA and the agency focus on promoting quality in individual accredited homes, there is less of a focus on sector-wide risks to quality and compliance. The development of a common risk profile for each accredited home that could be analysed at an aggregate level would contribute to an improved understanding of trends in compliance and noncompliance across the residential sector.

Stakeholder understanding of the separate but complementary roles of DOHA and the agency could be enhanced by the use of service charters. Stakeholder understanding of regulatory performance and its contribution to quality improvements in the sector could be improved by a more complete reporting framework focused on measuring the contributions of both organisations to the quality outcomes sought by government.

# Audit Report No.51 2010–11, Administration of the Access to Allied Psychological Services Program

The objective of the audit was to examine the effectiveness of DOHA's administration of the Access to Allied Psychological Services (ATAPS) Program.

ATAPS is an Australian Government initiative designed to improve access to mental health care. In recent years, it has increasingly focused on groups with historically poor access to and low usage of 'mainstream' Medicare-funded services.

Since commencing in 2002, ATAPS has facilitated greater consumer access, at low or no cost, to Australian Government–subsidised treatment in a primary care setting for people experiencing high-prevalence mental health disorders, such as depression and anxiety. By March 2011, more than 900,000 mental health sessions of care had been recorded under ATAPS to around 170,000 people with a diagnosed mental health disorder.

Although considered a mature program, ATAPS is at a point of transition, with policy and administrative challenges arising from:

- a substantial increase in program funding announced in the 2011–12 Budget
- the refocusing and targeting of the program, following a review released in early 2010, to better complement larger mainstream programs
- the implementation of four new ATAPS measures from the 2010–11 Budget
- the proposed transfer of responsibility for day-to-day administration from Divisions of General Practice to Medicare Locals
- the implications of broader reforms to the healthcare system in Australia.

While ATAPS is delivering valued services to those able to access mental health care under the capped program, the administrative arrangements established by DOHA have not consistently supported the achievement of program objectives. In particular there has been variable administrative performance, over the relatively long life of the program, in relation to a number of important program elements, including the allocation of program funding on the basis of identified need; monitoring of compliance with program requirements; and administration of new ATAPS initiatives.

### **Human Services portfolio**

### Audit Report No.10 2010-11, Centrelink Fraud Investigations

The objective of this audit was to examine the effectiveness of Centrelink's approach to investigating and responding to external fraud.

Centrelink has recently undertaken key developments to improve its fraud control program. They include implementing the online *Fraud Investigation Manual*; using an intelligence capability to detect fraud; and restructuring the Business Integrity Network. However, the ANAO's case reviews indicate that most of Centrelink's fraud investigations did not comply with the Australian Government Investigations Standards or with Centrelink's own internal policies and procedures.

Such noncompliance at key points throughout the investigation process contributed to deficiencies in case selection and prioritisation practices, and to shortcomings in managerial oversight of both the planning of investigations and the deliberations leading to critical decisions and investigation outcomes. The government's legislated framework sets out procedural

requirements for these key points, as do Centrelink's own internal procedural controls, which were put in place to promote high-quality investigations and prosecution referrals, including through the collection of admissible evidence, while ensuring that cases of fraud are treated fairly and equitably.

Cases that are not referred to the Commonwealth Director of Public Prosecutions result in administrative remedies; this is the outcome of most Centrelink cases investigated. Irrespective of the manner in which cases are handled following investigation, the audit demonstrated that Centrelink would benefit from placing stronger emphasis on the quality and consistency of its case management practices by making the manual easier to use; providing regular refresher training in the use of the manual; and targeting customers most at risk of committing serious fraud

# Audit Report No.26 2010–11, Management of the Tender Process for a Replacement BasicsCard

The objective of this audit was to assess the effectiveness of DHS's management of the tender process for a replacement BasicsCard to support the delivery of the income management scheme.

Overall, DHS effectively managed the tender process for a replacement BasicsCard to support the delivery of the income management scheme. DHS's management of the replacement BasicsCard procurement allowed the tender to be conducted within the required time frame and budget. DHS demonstrated sound procurement and management practice and acted in a manner consistent with Finance's operational guidance to agencies, as contained in the *Guidance on the Mandatory Procurement Procedures*. In planning and managing the procurement, including approaching the market, evaluating tender submissions and conducting contract negotiations, DHS also complied with the requirements of the *Commonwealth Procurement Guidelines*.

DHS's approach to planning the replacement BasicsCard procurement responded to an important opportunity to address the existing criticisms of the BasicsCard, such as limited options for card users to make account balance inquiries and individual customers having a high number of transactions declined. Additionally, the lessons learned from the operation of the first BasicsCard informed the approach to the market for the card's functionality and the level of operational performance that would potentially be required to support income management into the future.

### Audit Report No.36 2010-11, Service Delivery in CRS Australia

The purpose of the audit was to assess the effectiveness of CRS Australia's delivery of disability management services.

For some 70 years, CRS Australia has been providing vocational rehabilitation and employment-related services to help people with a disability, injury or health condition obtain and/or maintain sustainable employment. In recent years, the Australian Government has implemented a suite of reforms to the disability employment sector, including the introduction of competition. This has resulted in CRS Australia moving from being the sole provider of vocational rehabilitation services to being one of 66 providers of disability management services. The diminishing level of 'guaranteed' work and the need to compete have required CRS Australia to be flexible in its operations while maintaining a high level of customer service that provides employment outcomes for clients.

CRS Australia's operational processes and service delivery model allow it to effectively deliver services in accordance with the Disability Services Standards and requirements of the DEEWR

memorandum of understanding. In doing this, CRS Australia has regularly met key service delivery milestones while achieving an operating surplus. To support service delivery, CRS Australia maintains a quality management system; has processes in place to obtain client feedback and to address client complaints; and adopts a planning framework that encompasses all levels of its operations. Notwithstanding the effectiveness of CRS Australia's overall performance, there are areas where existing practices could be improved to achieve better on-site quality assurance, client feedback processes (including complaints) and performance reporting.

### **Immigration and Citizenship portfolio**

### Audit Report No.46 2010-11, Management of Student Visas

The audit objective was to assess the effectiveness of the management of the student visa program by the Department of Immigration and Citizenship (DIAC). Three key areas were examined in the audit: the processing of student visa applications; ensuring compliance with student visa conditions; and cooperation between DIAC and DEEWR.

Overall, the ANAO concluded that a number of DIAC's key administrative structures and processes were not sufficiently robust to effectively meet the challenges involved in achieving the Government's objective of balancing industry growth and program integrity. Fundamental to this objective is maintaining alignment between the student visa program and the contemporary international education environment. Visa processing arrangements and compliance functions, as well as the primary collaborative relationship with DEEWR, have not kept pace with the demands of this dynamic program environment.

There is scope for DIAC to strengthen its process for determining the risk-based assessment levels for countries and education sectors to better align student visa requirements with program integrity risks. DIAC should evaluate the client service and processing efficiency benefits of its eVisa lodgement facility for students, and maintain a regular program of audits and evaluation to assess whether agents are complying with the terms of their access to the eVisa facility.

The rapid growth of the program in 2009–10 placed significant pressure on DIAC's compliance functions. DIAC's integrity and compliance units were hampered because the department failed to update its national compliance priorities after 2008 or deal with a backlog of noncompliance notices for student visa holders. There are problems in enforcing the mandatory visa conditions and the enforceability of these conditions requires review.

There are strong interdependencies between DIAC and DEEWR that require close collaboration. While the relationship between the departments is effective at the working level, it lacks mechanisms to provide a shared strategic direction and agreed priorities to guide the interaction of the student visa program with the international education sector.

## Audit Report No.55 2010–11, *Administering the Character Requirements of the* Migration Act 1958

The objective of this audit was to assess the effectiveness of DIAC's administration of the character requirements of the *Migration Act 1958*. Visa applicants must satisfactorily demonstrate to DIAC that they meet the criteria specific to the visa for which they have applied, including the character requirements outlined in section 501 of the Act. Overall, DIAC has established a sound framework for identifying and processing visa applicants and visa holders of potential character concern, it has provided extensive relevant guidance to its staff and the department's National

Character Consideration Centre (NCCC) has implemented adequate arrangements to manage the assessment of section 501 cases.

However, there are shortcomings in the implementation of this framework. The character requirements necessitate consideration of a person's documented criminal convictions as well as their associations and general conduct and the risk they might pose to the Australian community. In practice, DIAC's assessment primarily focuses on documented criminal convictions. DIAC's arrangements to receive information from internal and external stakeholders do not give it assurance that all relevant visa applications of character concern are being referred to the NCCC from visa processing centres, and that the information received from external stakeholders is reliable.

These shortcomings mean that the department's ability to identify and assess the character of visa applicants and visa holders is constrained. Consequently, there is a small but potentially significant risk that persons of character concern may enter and remain in Australia.

# Audit Report No.56 2010–11, *Administering the Character Requirements of the* Australian Citizenship Act 2007

The objective of the audit was to assess the effectiveness of DIAC's administration of the character requirements of the *Australian Citizenship Act 2007* (Citizenship Act).

To be approved for citizenship, the applicant must satisfactorily demonstrate to DIAC that they are of good character. Of the approximately 140,000 applications that DIAC finalises each year, only a small proportion (242 applicants in 2009–10) are refused citizenship on character grounds. While this number is relatively small, it is important that DIAC effectively administer the good character requirements to increase the likelihood that those granted citizenship are of good character, and to reduce the risk that persons of significant character concern are granted citizenship.

Overall, DIAC has established an appropriate framework for administering the character requirements of the Citizenship Act and reaching a conclusion as to whether an applicant is of good character. This framework includes clear roles and responsibilities that are understood by all stakeholders, comprehensive training for decision makers about the character requirements, and sound processes for recording citizenship decisions. DIAC also has satisfactory processes for identifying applicants of potential character concern.

However, there are aspects of the implementation of this framework that reduce its effectiveness. These include:

- variability in the application of processes for decision making by DIAC case officers, due to a
  decentralised decision-making model in which most decisions, including character decisions,
  are made by any one of around 150 junior officers with minimal input or review by senior
  officers
- the fact that the term 'good character' is not defined, for administrative purposes, in DIAC's
  policy and guidance materials, allowing for considerable discretion by the decision makers
  applying the character requirements
- limited interaction between the areas within DIAC that administer the character requirements of the *Migration Act 1958* and the Citizenship Act in relation to the processing and referral of cases concerning the same client.

# Infrastructure, Transport, Regional Development and Local Government portfolio

# Audit Report No.2 2010–11, Conduct by Infrastructure Australia of the First National Infrastructure Audit and Development of the Infrastructure Priority List

The objective of the audit was to assess the effectiveness of the conduct of the first national infrastructure audit and development of the infrastructure priority list.

The results of the national infrastructure audit were published in December 2008, together with the interim priority list. The national infrastructure audit identified a range of 'challenges' at the national level and location-specific levels, and Infrastructure Australia formulated seven themes in response to those challenges.

During November and December 2008, the Office of the Infrastructure Coordinator shortlisted 94 project proposals, with 28 projects being recommended as meriting further consideration. Consistent with its statutory role, the Infrastructure Australia Council (with the support of the Infrastructure Coordinator) took a different perspective, and included all 94 short-listed projects on the interim priority list for further consideration. This decision and its reasons were not documented in the records of the relevant council meeting.

The final priority list was published in May 2009. It comprised:

- nine 'priority' projects that had been assessed as meeting the tests outlined in the published prioritisation methodology, including having a benefit-to-cost ratio (BCR) greater than 1 such that the project offered net economic benefits
- 28 'pipeline' projects, largely comprising projects which had not submitted a BCR for
  evaluation by the Office of the Infrastructure Coordinator or projects where the Office of the
  Infrastructure Coordinator's evaluation had identified shortcomings in the BCR.

Infrastructure Australia's published prioritisation methodology outlined a range of factors that would be taken into account, but stated that BCRs would be used as the 'primary driver' of decision making and did not contemplate that a project without a robust economic appraisal would remain a candidate for inclusion on the final priority list, or outline any criteria that would be applied to such projects in lieu of their BCR being used as the primary driver of decision making. Further, Infrastructure Australia did not maintain a clear record of the reasons for the council deciding which projects were to be included on the final priority list and which projects were to be excluded. Funding for seven (of the nine) priority projects and six pipeline projects was announced in the May 2009 budget, with funding for a further two pipeline projects announced in the May 2010 budget.

# Audit Report No.3 2010–11, The Establishment, Implementation and Administration of the Strategic Projects Component of the Regional and Local Community Infrastructure Program

The objective of the audit was to assess whether the strategic projects component of the Regional and Local Community Infrastructure Program (RLCIP) had been effectively designed and administered.

The strategic projects component of the RLCIP was one of a number of programs introduced by the Australian Government in response to the global financial crisis. The Government initially announced funding of \$50 million, but in January 2009 this was increased by a further

\$500 million so as to increase stimulus spending in local communities. Projects were to be allocated funding on a nationally competitive basis through an application process open to all local councils.

Soon after the RLCIP was announced, the Government approved and published guidelines for the strategic projects component of the program; however, no version of the program guidelines outlined the assessment criteria that would be used to select the successful applications. The actual criteria used were not published or otherwise advised to councils and other stakeholders. Further, there was no documented assessment of each application against these criteria outlining the extent to which each application had been assessed as satisfying each criterion, or the information relied upon in making the assessment; and there was no overall assessment and ranking of each competing application.

The published program guidelines stated that all councils were eligible to apply for funding towards the cost of a large strategic project and that funding would be allocated on a nationally competitive basis. In this light, while the total amount of funding provided a reasonable geographic spread and was largely consistent with the proportion of electorates held by the major parties and independent members, in terms of the number of applications, projects located in electorates held by the Australian Labor Party and independent members were more successful at being awarded funding than those located in electorates held by the Coalition parties.

The strategic projects component of the program has not provided the planned level of stimulus in the time frame that was budgeted for at the time it was introduced. Program expenditure to date is relatively low because a large proportion of the projects approved for funding were not ready to proceed, were planned to be delivered over a longer time frame than that necessary to provide timely stimulus, and/or involved high project delivery risks which have been realised.

# Audit Report No.13 2010–11, Implementation and Administration of the Civil Aviation Safety Authority's Safety Management System Approach for Aircraft Operators

The objective of the audit was to assess the implementation and administration of the regulation of aircraft operator safety management systems (SMSs) by the Civil Aviation Safety Authority (CASA).

Consistent with Australia's international obligations, CASA is progressing with the regulation of operator SMSs. The relevant regulations have been changed to require regular public transport operators to use an SMS that has been approved by CASA. The regulatory changes came into effect in January 2009. There were two stages of CASA's approval processes: documentation evaluation (pre-SMS approval) and capability assessment (post-SMS approval).

A total of 35 regular public transport operators submitted an SMS manual for assessment at the documentation evaluation stage. CASA approved the proposed SMS of each of the 35 operators on the basis of a desktop review of the SMS manual. Nevertheless, there were some shortcomings in the documentation assessment process, including instances where there was not a clear and consistent evidentiary trail to support CASA's decision to approve an SMS manual. Furthermore, when CASA conducted a trial capability assessment of one operator during surveillance activities, the results highlighted the risks involved in granting an approval based solely on a desktop documentation evaluation. Specifically, the capability assessment found that important elements of the SMS manual approved by CASA were not being complied with and that SMSs had not been developed as planned.

### Innovation, Industry, Science and Research portfolio

# Audit Report No.47 2010–11, *The Development and Administration of National Research Flagships*

The objective of the audit was to assess the effectiveness of the development and administration of selected national research flagships by the Commonwealth Scientific and Industrial Research Organisation (CSIRO).

The National Research Flagships Program has provided the basis for a significant realignment of the research activities in CSIRO over several years. This realignment has been supported by a large-scale organisational change program. Consequently, the flagship program has developed in an environment of ongoing changes to business processes, while acting as a key driver for the organisational change program. This approach contributed to the effective development of the program within CSIRO.

CSIRO's approach to administering the flagship program has evolved as the program has matured. As part of this, CSIRO has used the experiences from the progressive rollout of individual flagships to inform the development and implementation of subsequent flagships. CSIRO has also used the organisational change process as a base to support the administration of the program. In that regard, the transition to a matrix-based management model has been a particularly challenging exercise. CSIRO has adopted a continuous improvement approach to administering the program and has actively refined and modified change initiatives related to the program to enhance organisational outcomes. This approach has provided a sound structural framework for administering flagship research.

Given the nature of the flagship program, in terms of its long-term goals, partnership arrangements and research paths, which are subject to external drivers that change over time, the evolution of the program and the individual flagships will necessarily be a continuous process. This process requires not only effective external engagement but also an ongoing focus on refining internal arrangements for managing complex multidisciplinary research activities in a matrix management environment. Within this context there are opportunities to improve the administration of the program, particularly around reporting on budget performance and performance management arrangements. More broadly, there are opportunities to improve the overarching governance, direction setting and internal coordination of the program.

### The Prime Minister and Cabinet portfolio

# Audit Report No.24 2010–11, *The Design and Administration of the Better Regions Program*

The audit objective was to assess whether the Better Regions Program had been effectively designed and administered. The audit examined all 106 Better Regions Program projects.

Overall, the Better Regions Program was effectively designed and has been well administered. Considerable effort was invested by the Department of Infrastructure, Transport, Regional Development and Local Government (and later the Department of Regional Australia, Regional Development and Local Government) to meet the Government's stated commitment that the Better Regions Program would be designed and administered in a way that was consistent with the Financial Management and Accountability Regulations, the ANAO better practice guide on grants administration and recommendations from the ANAO audit of the Regional Partnerships program.

Because the program was established solely to fund various regional election commitments, neither department had a role in the selection of projects. Nevertheless, the obligation to assess the efficient and effective use of public money for a proposed grant exists regardless of how a project proposal comes before an approver and regardless of whether project proposals are assessed and ranked in comparison to one another. Accordingly, the published program guidelines and departmental administration of the program recognised that there was a requirement for both an assessment of whether each project would make efficient and effective use of public money and an assessment of whether any risk mitigation measures should be imposed. The department clearly and effectively communicated the results of its risk analysis and mitigation proposals to the relevant parliamentary secretary. However, the assessment briefings provided to the relevant parliamentary secretary did not similarly outline the basis upon which the department had assessed each project as representing an efficient and effective use of public money.

Most of the announced election commitments are proceeding in whole or part under a signed funding agreement, and the monitoring of project progress under the funding agreements has been effective. This has meant that the department has been aware of delays in the commencement and/or delivery of a significant number of projects. Consistent with better practice, project payments were structured to reflect actual progress rather than being made solely upon signing of a funding agreement. Additionally, progress payments have been withheld until project milestones have been met. As a result, there have been rephasings of the budgeted expenditure for the program, and the program may need to be extended for an additional year to enable projects to be completed. The Better Regions Program is not an economic stimulus program, and projects were not otherwise selected for funding on the basis of their ability to commence and be completed in a timely manner, so this situation does not reflect poor assessment practices or program management. Rather, it reflects the fact that some of the projects were at an early stage of planning and development when they were announced and/or that proponents have delayed progressing their projects.

# Audit Report No.42 2010–11, The Establishment, Implementation and Administration of the Council Allocation Component of the Regional and Local Community Infrastructure Program

The purpose of the audit was to assess whether the council allocation component of the Regional and Local Community Infrastructure Program has been effectively designed, implemented and administered. The audit examined each of the three funding rounds, with a focus on the first round.

The audit report concluded that the program was appropriately designed to distribute funds across the nation. Funding allocations were set by a formula that was similar to that used in the long-running Roads to Recovery Program. The formula did not give any priority to particular geographic areas. Rather, it gave a preference to councils in growth areas and those with larger numbers of residents.

In the context of the emerging financial crisis and the need for a timely government response, the establishment of the council allocation component of the program meant that in the first round there was, necessarily, significant reliance on the ability of councils to identify community infrastructure projects that could provide the desired economic stimulus and to then deliver these projects in a timely manner. The rate of project delivery has been slower than anticipated, but progress is largely in the hands of councils once the department has approved projects and signed a funding agreement.

Project delays and slower than expected expenditure commenced with the first round and were, in large part, repeated in the second funding round. In addition, there were considerable delays in councils being able to identify and put forward eligible project nominations for the third funding round, even after the application closing date was extended by some two months. However, the need for, the allocation approach of and the optimal time frame with respect to expenditure of a further \$100 million of economic stimulus through a third funding round were not addressed by the department in its advice to the incoming government.

### **Treasury portfolio**

# Audit Report No.6 2010–11, The Tax Office's Implementation of the Client Contact—Work Management–Case Management System

The objective of the audit was to assess the implementation of the Client Contact—Work Management—Case Management system (CWC) by the Australian Taxation Office (ATO). The audit examined four key areas:

- progress of the CWC, as a component of the change program, against the endorsed business case
- improvements to the productivity and efficiency of tax administration as a result of the implementation of the CWC
- improvements to client experiences when dealing with the ATO as a result of the implementation of the CWC
- effects of the CWC implementation, including additional benefits achievable beyond the system's current capacity to further improve tax administration.

The implementation of the CWC has improved and transformed key aspects of ATO activity that support tax administration. The integrated CWC system has provided a new approach to managing internal administration and communication arrangements with taxpayers, tax professionals and the community. The ATO now manages correspondence and work resulting from telephone calls on a national, enterprise-wide basis, rather than in a fragmented regional way.

The ATO's implementation of the CWC has been generally successful when assessed against the original intent of the project, having achieved six of the eight objectives of the change program business case. The remaining objectives are expected to be achieved once the integrated core processing component of the overall change program is fully functional across the ATO.

#### Audit Report No.20 2010–11, Administration of the Wine Equalisation Tax

The purpose of the audit was to assess the effectiveness of the ATO's administration of the wine equalisation tax.

The audit found that the ATO had generally administered the tax effectively, having implemented sound governance arrangements and administrative practices focused on assuring compliance by the larger taxpayers, and had responded reasonably to changes in taxpayer behaviour that heightened compliance risks regarding the wine producer rebate.

Interpretative assistance and advice provided via taxpayer alerts, determinations and private rulings helped to reduce the incidence of major wine tax minimisation arrangements. Greater timeliness in providing such information would have reduced uncertainty for wine industry participants.

The program of audits and risk reviews of Australian wine tax payers has been significantly expanded in recent years, and would benefit from improved intelligence through further sophisticated interrogation of existing databases together with better processes for selecting entities to review and audit.

The ATO should also resume discussions with Treasury about the definition of a 'wine producer', in order to resolve unintended outcomes regarding access to the producer rebate. Producers accessing the New Zealand producer rebate systems are required to meet more extensive administration and compliance arrangements than are required for the Australian rebate. The main opportunity for further assurance about compliance by New Zealand wine producers is for the ATO to check the accuracy of information provided by relevant Australian entities that indicates whether the wine tax has been paid, as this documentation forms the basis of claims by New Zealand producers for a wine producer rebate payment.

#### Audit Report No.31 2010–11, Administration of the Superannuation Lost Members Register

The audit objective was to examine the ATO's administration of the Lost Members Register (LMR). In particular, the audit examined the ATO's governance arrangements for the LMR; its strategies for managing data quality; and the provision of access to LMR data. The audit also considered how the ATO's administration of the LMR has responded to recommendations made in an earlier ANAO review (Audit Report No.17 2005–06, *Administration of the Superannuation Lost Members Register*), relevant changes in funding and legislation supporting the LMR, and the 'change' program.

At 30 June 2010 the LMR contained information about 5.8 million superannuation accounts with an accumulated balance of some \$18.8 billion. The ATO has been able to link 4.9 million of these accounts, through each account holder's tax file number (TFN), to 3.7 million people identified in its tax administration systems. This leaves approximately 900,000 accounts, valued at some \$1 billion, which are considered to be 'unmatched'. These unmatched accounts represent the core of the lost superannuation issue that the LMR was established to address.

The way in which the ATO currently administers the LMR system requires a high-confidence identity match based on an individual's TFN. This means that the ATO cannot reunite the 900,000 unmatched accounts with their owners through outreach activities carried out by the ATO or by using 'self-service' options such as its search facility.

There is scope for the ATO to make improvements in a number of areas. These include explaining more clearly to industry which of its LMR activities are funded by the financial services levy; providing improved tools to analyse LMR data and monitor its quality; enhancing the search capabilities of SuperSeeker; and evaluating the results of marketing campaigns to provide information that assists in selecting effective strategies in the future.

#### Audit Report No.45 2010–11, Administration of the Luxury Car Tax

The objective of this audit was to assess the effectiveness of the ATO's administration of the luxury car tax (LCT), including aspects of the tax administered by the Australian Customs and Border Protection Service (Customs) on behalf of the ATO.

The LCT has been in place for almost 11 years. It is a mature tax that is well understood across the motor vehicle industry; is relatively concentrated in a small number of taxpayers; and contributes less than one per cent of total taxation revenue each year. The tax is relatively simple to administer, and both the ATO and Customs currently apply an overall low rating to the risk of taxpayers not complying with their LCT obligations.

The administrative arrangements for the LCT reflect its low risk rating and the low priority it is given against other administrative demands. There is scope to improve the coordination of governance arrangements for the LCT. No compliance strategy has been developed or implemented; rather, the ATO relies on compliance by the larger taxpayers, and identification of actual or emerging issues associated with the LCT through the compliance activities undertaken for other taxes. It also relies on specific intelligence about individual entities being reported to it.

While there are processes and mechanisms in place to administer this relatively small, low-risk tax, there is scope to better target and coordinate the ATO's administrative arrangements for planning, operational, reporting and compliance purposes. This could be achieved through process review and without necessarily applying additional resources to administering the LCT.

To this end, in March 2011, the ATO advised that it is currently planning several changes to its future administrative arrangements supporting the LCT. These include transferring responsibility for managing LCT risks within the indirect tax business line; enhancing the documentation of LCT discussion at the GST Product Committee; conducting additional analysis of LCT revenue performance; and reviewing aspects of the arrangements with Customs.

#### Audit Report No.49 2010–11, Fuel Tax Credits Scheme

The objective of the audit was to assess the effectiveness of the ATO's administration of the Fuel Tax Credits Scheme. Particular emphasis was given to the scheme's governance and reporting arrangements, risk management strategies and compliance management program.

When the Fuel Tax Credits Scheme was introduced on 1 July 2006 as a replacement for the Energy Grants Credits Scheme (EGCS), it expanded eligibility provisions, refocused the fuel tax rebate system on the uses of fuel rather than on specific fuel types, and aimed to lower compliance costs for business.

In implementing the fuel scheme, the ATO was able to build on and refine the experience it had gained through administering the EGCS. Existing administrative processes, such as claiming credits through the business activity statement, provided a generally effective basis for the ATO to collect and analyse most of the information from participants that it requires to administer the fuel scheme, and to undertake risk analysis and compliance activity on a case-by-case basis, as required.

Overall, the ATO is effectively administering the fuel scheme. Governance, reporting and processing arrangements are generally sound. The fuel scheme's risk management strategies are appropriate and the compliance program addresses identified risks and noncompliant practices.

#### Audit Report No.50 2010–11, Administration of Tax Office Shopfronts

The objective of the audit was to assess the effectiveness of the services delivered through ATO shopfronts to individual and micro-enterprise tax clients. Particular emphasis was given to the delivery of services to clients and planning and reporting processes for shopfront services.

Shopfronts were established in the late 1990s, to replace the ATO's Enquiry Counters. The new-look, open-plan shopfronts facilitated easy access to ATO staff and publications, as well as providing direct links to ATO phone and web-based services. Over the past decade, however, the provision of face-to-face or on-site services has been overtaken by developments in service delivery capabilities and approaches, and influenced by whole-of-government initiatives.

On-site services such as those delivered through shopfronts may provide a more personalised environment, but are generally the most expensive means of delivering a service and are

accessible by only the small proportion of ATO clientele who live or work in their immediate vicinity. Being available only during normal business hours, shopfronts do not provide the flexibility or range of services available through online options. While the personal circumstances of some people in the community preclude their use of online or phone services to conduct business with the ATO, the strategy underpinning shopfronts has not effectively identified the full extent and size of this client group, or developed a specific, targeted service to meet their needs.

The ATO proposes to close off-site shopfronts, where it is practical to do so, at the end of their lease, and is trialling alternative delivery programs designed to provide a form of shopfront or on-site service offer in these locations. The programs also seek to extend selected services to ATO clients across a wider geographical area, particularly to rural and remote locations. The approach adopted for these programs has been based on existing shopfront arrangements involving a model of service delivery utilising ATO staff, located in ATO premises, with direct access to ATO phone and web-based services through its computer systems.

# Audit Report No.52 2010–11, Administration of Deductible Gift Recipients (Non-profit Sector)

The objective of the audit was to assess the effectiveness of the ATO's administration of endorsements and associated arrangements for deductible gift recipients (DGRs).

The ATO has implemented appropriate arrangements to effectively administer DGR endorsements and associated tax concessions. The business planning and internal reporting of the Non-Profit Centre (NPC) are well integrated into the ATO's broader business approach. The NPC also undertakes internal monitoring of its operations and, within the constraints of its resourcing and capabilities, takes action to address required improvements. However, scope exists for the ATO to improve the consistency of its decision making on DGR endorsement applications and to more effectively monitor compliance by organisations that are endorsed as DGRs.

To support consistency in decision making when assessing DGR endorsement applications, the ATO has implemented a two-stage quality assurance process that reviews results prior to, and following, finalisation of cases. However, the rate of disallowed decisions subject to objections which are subsequently overturned suggests that approximately 5 per cent of all decisions (300 decisions) in the three years to June 2010 were inconsistent. These inconsistencies relate to differences: across the locations of assessment teams; in the relevance of documentation on which the assessment was based; and in the level of scrutiny applied to an application, resulting in a decision at odds with the ATO's contemporary view on the legislation.

The NPC's work has primarily focused on the demand for DGR and tax concession endorsements, limiting the resources available to properly assess the compliance risks associated with the sector and to undertake an appropriate level of post-endorsement compliance review. There are concerns in the ATO that a proportion of the DGRs registered at the time of the introduction of DGR requirements in 2000–01 would not be endorsed if they were subjected to the scrutiny currently given to applicants.

The NPC's compliance work is further limited by the lack of reporting required by most DGRs. The quantitative information that is available on DGRs is not collated and interrogated to identify organisations at risk of non-compliance that warrant further investigation. The Australian Charities and Not-for-profits Commission, to be established on 1 July 2012, may implement reporting requirements across the not-for-profit sector that may be of value in assessing DGR compliance risks in the future.

### **Cross-portfolio performance audits**

### Audit Report No.1 2010-11, Implementation of the Family Relationship Centres Initiative

The objective of this audit was to assess the effectiveness of the selection, implementation, operation and monitoring of family relationship centres (FRCs) by the AGD and FaHCSIA.

The FRC initiative was the centrepiece of the 2005 family law reforms. The initiative established 65 FRCs across Australia. FRCs were expected to provide an entry point into the family law system.

The AGD and FaHCSIA established a governance framework for the administration of the initiative, enabling the selection and rollout of the 65 FRCs through three tender rounds between 2006 and 2008. FRCs commenced operations within the expected time frames and overall funding parameters of the policy, with the centres from each round opening in July of the respective years. While the departments successfully established the 65 FRCs, there were some notable gaps in the selection, implementation, ongoing administration and performance monitoring phases. These gaps, particularly in the performance monitoring component, have limited the ability to assess the success, or otherwise, of the FRC network in achieving its objectives and delivering a value-for-money outcome.

# Audit Report No.7 2010–11, Confidentiality in Government Contracts: Senate Order for Departmental and Agency Contracts (Calendar Year 2009 Compliance)

The audit objective was to assess the appropriateness of the use and reporting of confidentiality provisions in Australian Government contracts. This included assessing agencies' compliance with the Senate Order for Departmental and Agency Contracts (Senate Order) and following up on the implementation of recommendations made in previous Senate Order audits.

Overall, the reported use of confidentiality provisions by audited agencies has decreased from 24 per cent of contracts in 2001–02 (when the Senate Order was introduced) to around 10 per cent of contracts over the 2007, 2008 and 2009 calendar years. Nevertheless, the benefit of the Senate Order as an accountability and transparency mechanism for Australian Government contracting activity is not being fully realised, because of the incorrect use of confidentiality provisions and inaccuracies in contract reporting.

Most agencies performed well in the area of compliance with the Senate Order contract listing requirements. This was reflected in the follow-up component of the audit, which showed that the four selected agencies had made significant progress in implementing previous recommendations related to contract listing accuracy and staff awareness of the Senate Order. Agencies made more limited progress in implementing recommendations focused on considered decision making about the appropriate use of confidentiality provisions.

#### Audit Report No.11 2010–11, Direct Source Procurement

The objective of this audit was to assess how well agencies had implemented the *Commonwealth Procurement Guidelines* (CPGs) and relevant legislation when undertaking direct source procurement. The audit examined direct source procurement procedures and practices in four selected agencies: the Australian Crime Commission, the Department of Families, Housing, Community Services and Indigenous Affairs, the Department of Innovation, Industry, Science and Research, and the Department of Veterans' Affairs.

The CPGs establish procurement policy, including the principles that apply to all procurement processes. They promote 'value for money' as the core principle in all procurements. The other principles underpin the achievement of value for money. For covered procurements (generally those above \$80,000), the mandatory procurement procedures limit the use of non-open approaches to the market, including direct source procurement, to a small number of specified circumstances. Direct source procurement involves an agency selecting one or more suppliers of its choice to make submissions, such as quotes or tenders, to provide property or services.

Overall, agencies were reasonably familiar with the Government's procurement framework and the CPGs. However, in practice, key elements of the CPGs were not consistently followed across the four audited agencies when choosing and conducting direct source procurements. For most direct source procurements examined, from the circumstances of the procurement and/or procurement documentation it was not evident that one or more CPG obligations, requirements or specified sound practices had been met, including for higher value procurements.

In 74 per cent of the 248 direct source procurements examined, agencies were unable to demonstrate that the procurement gave them value for money. In the majority of cases there was a lack of evidence of any comparative analysis of the relevant costs and benefits of different procurement options to support the procurement decision. For 85 per cent of the 248 procurements, agencies approached only one supplier and either did not seek quotes, or sought only one quote, prior to procurement. For larger valued procurements (generally those above \$80,000) it was not evident that 51 per cent of the direct source procurements examined met the limited circumstances in the CPGs that permit direct source procurement to be undertaken.

Agencies should strive to better balance the broader benefits of competitive tendering and streamlined procurement practices. Such a balance would see agencies give greater consideration to the scope of the potential procurement need at the outset of a procurement; more often seek opportunities to approach the market to enhance the potential to achieve value for money; and adopt more strategic approaches to procurement, such as greater use of panels and other standing offer arrangements. In general, procurement outcomes would be improved by a greater emphasis on earlier planning for procurement activities.

#### Audit Report No.14 2010-11, Capitalisation of Software

The objective of this audit was to assess whether entities properly accounted for software assets and adopted an integrated planning approach to inform decisions to invest in software assets.

Overall, each of the audited entities had properly accounted for their software assets. The entities' approaches were generally underpinned by appropriate accounting policy and guidance; project governance arrangements supporting software capitalisation; and systems and practices that enabled the capture and reporting of relevant capital costs. Nevertheless, one agency needed to improve its approach to software asset valuation. More generally, each of the entities had only partially adopted integrated planning for software asset investments.

Two or more of the entities had implemented the majority of relevant recommendations in the ANAO's 2002–03 performance audit on the capitalisation of software.

# Audit Report No.16 2010–11, Centrelink's Role in the Process of Appeal to the Social Security Appeals Tribunal and to the Administrative Appeals Tribunal

The purpose of the audit was to assess whether, in relation to appeals to the Social Security Appeals Tribunal (SSAT) and to the Administrative Appeals Tribunal (AAT), Centrelink undertakes its role effectively, so as to support the timely implementation of the tribunals' decisions about customers' entitlements.

Each year, Centrelink makes millions of decisions relating to customer entitlements; only a small number of those decisions are appealed. Nonetheless, the effective operation of the review and appeal process is an important feature of the Australian social security system. Centrelink customers are entitled to expect that decisions about their entitlements are correct and, in cases where they believe incorrect decisions have been made, have access to appropriate review and appeal mechanisms.

Centrelink has an established framework for managing its role in the review and appeal process, which supports the achievement of Centrelink's external requirements and organisational goals. These arrangements have helped it to implement tribunal decisions more quickly. Between 1 July and 30 December 2008, the time taken by Centrelink was 28 days for SSAT decisions and 31.8 days for AAT decisions. Between 1 January and 30 June 2010, this time had decreased to 22.7 days and 14.1 days respectively.

Nevertheless, Centrelink could improve its practices to better meet the needs of stakeholders, particularly customers. Areas for improvement include the clarity, relevance and completeness of information provided to customers and the tribunals; and the capture of insights from tribunal decisions that affirm Centrelink decisions. Most importantly for customers, current business practices could be amended to allow tribunal decisions to be implemented more quickly.

## Audit Report No.22 2010–11, Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2010

This report provides a summary of the final audit results of the audits of the financial statements of all Australian Government entities, including the Consolidated Financial Statements for the Australian Government. For the 2010–11 financial year, the Auditor-General and senior staff delegated to issue audit opinions issued 255 unqualified audit opinions and two reports containing other legal and regulatory requirements.

The total number of significant and moderate audit findings in entities decreased from 69 in 2008–09 to 49 in 2009–10, a reduction of almost 30 per cent. This result is consistent with the trend in relation to the results of our audits in recent years. Issues common to a number of entities identified in our final audits included controls in entities' IT environments, such as user access 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.

The report noted a high level of compliance in relation to requirements for accounting for annual appropriations, special appropriations, annotated appropriations, special accounts and the investment of public moneys.

The report also noted that, consistent with previous years, the large majority of entities' financial statements were completed within three months of the end of the financial year. This reflected positively on the priority entities gave to meeting their financial reporting responsibilities and on the financial stewardship of the public sector generally.

### Audit Report No.27 2010–11, Restoring the Balance in the Murray–Darling Basin

The objective of the audit was to assess whether the processes of the Department of Sustainability, Environment, Water, Population and Communities for purchasing water entitlements were well administered, and whether sound arrangements were in place to support timely and effective decisions by the Commonwealth Environmental Water Holder (CEWH) on the use of available water.

The \$3.1 billion Restoring the Balance (RtB) program is one of a number of initiatives under the Australian Government's overarching policy for water reform called *Water for the Future*. The RtB is the largest program of government purchases of water entitlements ever to be conducted in Australia. It is part of a broader set of water reforms aimed at providing the sustainable use of water resources in the Murray–Darling Basin.

Overall, the department has established adequate arrangements to administer the RtB program. Decisions on the locations at which entitlements should be bought have been made on the best information available at the time. The department developed and documented a clear approach to identifying and assessing value for money, and meeting other procurement principles. The decision to use discriminatory price tenders as the principal purchasing mechanism took appropriate account of the department's obligation to provide open and fair treatment of potential sellers, while also providing a good basis on which to assess and select the best value offers.

The department has established, and generally followed, standard processes to assess applications and transfer legal ownership to the Commonwealth. The tenders were conducted in accordance with the applicable purchasing strategy, guidelines and evaluation criteria endorsed by an internal project board and approved by the minister.

As the manager of the Commonwealth's water entitlements, the CEWH plays a vital role in ensuring that tangible environmental outcomes are achieved through the significant expenditure incurred under the RtB program and other 'water for the future' initiatives. The internal arrangements that the department established to support timely and effective decisions by the CEWH were mostly adequate. The main exception was the variable quality of information used in making water decisions; the department has recognised the need to improve this aspect of the decision-making process.

Overall, the CEWH's processes provided reasonable assurance that allocated water was delivered as specified. As well, sufficient monitoring information, albeit of variable quality, was obtained to indicate whether intended ecological responses were being achieved, at least in the short term. The monitoring information provided the basis for the CEWH's outcomes report for 2008–09. This report and other measures have helped to make Commonwealth watering actions in the basin more transparent.

# Audit Report No.33 2010–11, *The Protection and Security of Electronic Information Held by Australian Government Agencies*

The audit objective was to assess the effectiveness of Australian Government agencies' management and implementation of measures to protect and secure their electronic information, in accordance with government's protective security requirements. The four agencies included in the audit were the Australian Office of Financial Management, ComSuper, Medicare Australia, and the Department of the Prime Minister and Cabinet.

The audit concluded that the agencies' measures to protect and secure electronic information were generally operating in accordance with government protective security requirements. The agencies had established information security frameworks; had implemented controls to safeguard information, to protect network infrastructure and to prevent and detect unauthorised access to information; and had controls in place to reduce loss, damage or compromise to ICT assets.

However, the audit suggested that the audited agencies could improve their security measures by:

- making sure that information security policies and procedures are complete and up to date
- making sure that third-party software applications are regularly assessed for the availability of patches, and that patches are applied accordingly
- using suitably complex password configurations for administrator accounts and service accounts
- making sure that emails using public web-based email services are blocked on agency ICT systems.

# Audit Report No.38 2010–11, Management of the Certificate of Compliance Process for FMA Act Agencies

The objective of the audit was to assess the effectiveness of annual certificate of compliance (certificate) processes for *Financial Management and Accountability Act 1997* (FMA Act) agencies. The audit examined annual certificate processes within four selected agencies: the AGD, the ATO, the Commonwealth Grants Commission and the Office of the Commonwealth Director of Public Prosecutions. The audit also reviewed Finance's management of the certificate process, including support provided by the department to agencies in relation to the certificate.

Overall, the certificate process for FMA Act agencies has been effective notwithstanding the inherent limitations of the self-assessment process employed. The certificate process has resulted in: establishment and/or further development of agency arrangements for assessing compliance with the financial management framework; improvement in officials' understanding of financial management requirements; and strengthening of agencies' financial management procedures in support of compliance.

As the central government department responsible for administration of the certificate, Finance has provided sound high-level guidance for FMA Act agencies on the certificate process. This has included articulation of reporting requirements and establishment of reasonable confidence as the basis of chief executive certification.

In general, the audited agencies' certificate processes were appropriate in light of each agency's size, financial activities and financial management arrangements. Key aspects of these agencies' certificate processes were self-assessments of compliance by responsible officials and/or business areas; internal audit activity covering compliance with the financial management framework; audit committee involvement; and targeted remediation activities to address identified noncompliance.

The main area for improvement identified by the audit concerned the need for more targeted quality assurance activity by agencies in regard to compliance with the financial management framework. Self-assessments by agency officials are unlikely to consistently provide a high level of assurance to an agency's chief executive, and audits undertaken by the ANAO show there can be misunderstanding of the requirements of the framework by agency officials.

## Audit Report No.39 2010–11, Management of the Aviation and Maritime Security Identification Card Schemes

The audit assessed how effectively the Department of Infrastructure and Transport (DIT) and the AGD have managed the aviation security identification card (ASIC) and maritime security identification card (MSIC) schemes.

The successful implementation of the ASIC and MSIC schemes has meant that, with some specific exceptions, all persons who legitimately enter and remain in a secure area of an airport, seaport or offshore facility must now have been assessed as meeting the criteria for an ASIC or MSIC, including having their background checked, and must display their identification card appropriately. The arrangements put in place by DIT's Office of Transport Security (OTS) and AusCheck, a branch of the AGD, to administer the schemes reflect legislative requirements and facilitate the timely issue of security cards.

However, some risks associated with the current delivery model could be better managed by OTS. These risks primarily relate to issuing bodies and visitor management and are inherent in the devolved nature of the schemes.

OTS has been working with industry stakeholders on a range of strategies to manage some of the vulnerabilities identified by this audit and previous reviews. These include changing the frequency of background checks, changing the cancellation provisions for ASIC-issuing bodies, and tightening eligibility rules for visitors. As these changes are still to be bedded down, their capacity to mitigate these risks to the schemes' effectiveness is yet to be demonstrated. While recognising that a balance needs to be struck between the impact of regulation on industry and the achievement of the Government's security objectives, the ANAO suggests that continued management focus on these identified vulnerabilities is warranted.

# Audit Report No.54 2010–11, Interim Phase of the Audit of the Financial Statements of Major General Government Sector Entities for the Year Ending 30 June 2011

This report provides details of the results of the interim phase of the 2010–11 financial statement audits of all portfolio departments and other major general government sector (GGS) agencies. The 27 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 2010–11 financial statement audits identified that, generally, the effectiveness of controls over finance and accounting processes in the majority of agencies supported the production of reliable financial statement information. In 2010–11, there were 34 significant or moderate audit findings compared with 55 in 2009–10, reflecting a continuation of the reduction over recent years in the number of significant and moderate risk audit findings. This reflects the general maturity of agencies' control environments and actions taken by agencies to address prior year audit findings. The report noted that the ongoing responsibility of agencies to monitor the effectiveness of their systems and related controls to be confident of the integrity of the financial information reported to management and in their financial statements will underpin a continuation of this situation.

Our audits continued to identify control weaknesses in some areas, particularly the management of inventory and assets, including stocktakes; controls relating to business systems; the management of user access to key financial systems; and business continuity management. In respect of IT controls, our audits noted an overall improvement in agencies' incident and problem management. However, our audits identified a need for improvement in the management

of business continuity in human resource management information systems; and in the management of user access, particularly in relation to the logging and monitoring of user activities for privileged uses.

The results of our interim audits are reported to agency management, and summary reports are provided to relevant ministers.

The report noted that the most significant development in relation to Australian auditing standards in 2010–11 was the application, for the first time, of revised standards in 'clarity format' for most ANAO financial statement audits. This follows the release of revised and redrafted International Standards on Auditing (ISAs) in 2009 by the International Auditing and Assurance Board, and the Australian Auditing and Assurance Standards Board's subsequent issue of revised Australian auditing standards, in line with the ISAs, that are operative for audits of financial statements in Australia for reporting periods beginning on or after 1 January 2010.

# APPENDIX 5—ADDRESSES BY THE AUDITOR-GENERAL AND SENIOR STAFF

Name	Title of address	Forum	Place/date
McPhee, lan	Risk is all around	Risk Management Institution	Canberra
(Auditor-General)		of Australasia—ACT Chapter Conference	24 September 2010
	A year in the life of the	NSW Chapter Institute of	Canberra
	Auditor-General	Internal Auditors Australia	7 December 2010
	Effective risk management	Department of Parliamentary	Canberra
		Services	17 February 2011
	Public sector	CPA Australia International Public Sector Convention	Melbourne
	accountability		11 March 2011
	Aligning institutional	Conference of Commonwealth	Windhoek
	capacity and the performance of supreme	Auditors-General	12 April
	audit institutions		
Chapman, Steve	Auditing funded projects and grants	Institute of Internal Auditors	Canberra
(Deputy Auditor-General)		Public Sector Conference	22 July 2010
Additor-deficial)	Fallout from the global financial crisis and lessons arising	Global Working Group	Kerala
			22 March 2011
Cahill, Matt	Evolving models of	Criterion Conference	Canberra
	government and accountability		24 February 2011
	Less than alert on public	Institute of Chartered	Canberra
	administration	Accountants	4 March 2011
	Effective cross-agency	National Collaboration	Canberra
	agreements	Framework Information Seminar	15 April 2011
Cahill, Matt and	Lessons from recent	Parliament House staff	Canberra
Cass, Barbara	performance audit reports		20 May 2011
Frost, Mitchell	ANAO clients seminars in financial reporting	Financial accounting staff of public sector entities	Canberra
			18–23 March 2011
Jones, John and	Financial benefit of	Fifteenth Tokyo International	Tokyo
Rowe, Nicola	audit work	Meeting of Audit	7–8 December 2010
Kerr, Peter	Completion and review,	Australian National University	Canberra
	and the auditor's reporting obligations	Year Two Masters Students	6 May 2011

Name	Title of address	Forum	Place/date
Lack, Steven	Fraud control in Australian Government entities	Commonwealth Fraud Prevention Senior Executive	Canberra
		Service Seminar	13 April 2011
	Fraud control	Senior Executive Service Fraud Control Seminar	Canberra
			13 April 2011
Turnbull, Stuart	Performance auditing in	Procurement Discussion	Canberra
	the Australian National Audit Office	Forum	22 September 2010
	Presentation on	Procurement Discussion	Canberra
	Audit Report No.11 Forum 2010–11, Direct Source Procurement		24 November 2010
	Presentation on Senior Procurement Officials		Canberra
	Audit Report No.11 2010-11, Direct Source Procurement	Reference Group	30 November 2010
White, Peter	Planning and approving	Senior Executive Service	Canberra
	projects—better practice Centrelink Governance Foru guides		5 July 2010
White, Peter and	Key lessons from recent performance audit reports	Forum of Audit Committee Chairs	Canberra
Cahill, Matt			2 December 2010
Williamson, Nathan	An auditor's perspective of service delivery issues in the human services portfolio	Social Policy Implementation	Canberra
		and Service Delivery course, Crawford School of Economics and Government, Australian National University	23 July 2010

### 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 2010–11 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 Part 4 of the annual report (Management and accountability).

We published our annual procurement plan for 2011–12 on AusTender on 27 June 2011.

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* are contractually bound not to use any *Confidential Information* of the ANAO for any purpose other than the provision of the *Services*, or disclose any *Confidential Information* of the ANAO additionally, individuals may 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.

### **Exempt contracts**

No contract in excess of \$10,000 (inclusive of GST) or standing offer was exempted by the Auditor-General from being published in AusTender on the basis that it would disclose exempt matters under the *Freedom of Information Act 1982*.

### **Summary of consultancy information**

Table A6.1 lists the consultancies valued at \$10,000 or more that were let by the ANAO in 2010–11. 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 of \$10,000 or more let during 2010–11

Consultant name	Description	Contract price (\$)	Selection process <sup>a</sup>	Justification <sup>b</sup>
Allanson Consulting Pty Ltd	Audit services on the procurement use of panels, 2010–11 and 2011–12	20,000	Panel	В
Axiom Associates Pty Ltd	Actuarial services for 2010–11 Department of Immigration and Citizenship audit	18,000	Panel	С
Brooklands ACT Pty Ltd	Expert advice for Performance Audit: Australian Defence Force's Mechanisms for Capturing Lessons from Peacekeeping Operations	13,750	Direct	В
Compuware Asia-Pacific Pty Ltd	Project management coaching sessions for EL2s	55,440	Direct	А
Datacom Technical Security Services	OSCAR system and penetration test for the National Greenhouse and Energy Reporting Framework	45,000	Direct	В
Deloitte Touche Tohmatsu—ACT	Actuarial services for the Department of Environment, Water, Heritage and the Arts	15,000	Panel	В
Deloitte Touche Tohmatsu—ACT	Review and update of the Quality Control Review Program	123,600	Panel	В
Deloitte Touche Tohmatsu—ACT	2009–10 Performance Audit Service Group Quality Assurance Program	11,000	Panel	С
Deloitte Touche Tohmatsu—ACT	Assistance with the development of policy and guidance for assurance reviews	35,000	Panel	В
Ernst & Young	Actuarial services for 2009–10 Financial Statement Audits of the Department of Defence and Department of Finance and Deregulation	96,000	Panel	В

Consultant name	Description	Contract price (\$)	Selection process <sup>a</sup>	Justification <sup>b</sup>
Gartner Australasia Pty Limited	Gartner Services Renewal	35,640	Direct	С
KPMG Actuaries Pty Limited	Actuarial services for the 2009–10 Financial Statement Audit of the Department of Health	22,000	Panel	В
Mallesons Stephen Jaques	Policy Audit and Administration Manual	25,000	Panel	В
Mallesons Stephen Jaques	Legal Advice Matter 06-5503-9346	25,000	Panel	В
Martin Salkild	Expert professional opinion regarding government advertising	15,000	Direct	В
ORIMA Research	Survey of the Department of Families, Housing, Community Services and Indigenous Affairs and search results for the Department of Education, Employment and Workplace Relations and Department of Health and Ageing for the Capacity Development Performance Audit	22,300	Panel	C
ORIMA Research	Conduct the 2010–11 Agency Surveys	45,925	Panel	С
ORIMA Research	Conduct the AASG Annual Survey and Audit Chair Interviews	56,430	Panel	С
ORIMA Research	Conduct the 2011 ANAO Parliamentary Survey in 2010–11 and 2011–12	101,860	Panel	С
ORIMA Research	Services for conducting surveys for the Therapeutic Goods Regulation Performance Audit	21,910	Open	С
PricewaterhouseCoopers Actuarial Pty Limited	Actuarial review services for the Australian Taxation Office audit	12,000	Panel	В
PricewaterhouseCoopers Actuarial Pty Limited	Actuarial services for the Department of Veterans' Affairs	44,000	Panel	С
Reading Room Australia Pty Ltd	Website development and maintenance	161,500	Panel	В
Resolution Consulting Services	Services to improve the use of the ANAO's Project Management Systems	16,800	Panel	В
Resolution Consulting Services	Engagement of consultant to assist with AASG Strategic Planning	14,300	Panel	С
Robert Kerr	Performance Audit Methodology 2010–11 and 2011–12	34,030	Direct	С

Consultant name	Description	Contract price (\$)	Selection process <sup>a</sup>	Justification <sup>b</sup>
	•	•	•	
Stratsec.net Pty Ltd	Independent Review of IT Security in the ANAO	25,000	Select	С
Stratsec.net Pty Ltd	System Security Plan	24,200	Direct	В
Successfactors Inc	Supply of external labour market report	31,460	Direct	С
Synergy Group Australia as Trustee for Synergy Group Unit Trust	Engagement of consultant to assist with Learning and Development refresh project	46,500	Panel	С
Tanner James Management Consultant	P3M3 Assessment	41,920	Panel	С
Technology One Ltd	Technology One—FMIS User Training and Configuration Document	18,061	Direct	В
The Consulting Space	Review of the AASG's internal training materials	21,725	Select	С
Think Place Pty Ltd	Design service for Business Plan 2011–12	23,969	Direct	В

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 predetermined 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, 2010–11

Organisation	Service provided	Payments (\$)
Media advertising		
Adcorp	Graduate advertisement packs	13,631
	Advertising for Executive Director IT—Financial Review and the Canberra Times	14,907
Market research		
ORIMA Research	ANAO pulse staff survey	12,017
	Fieldwork associated with performance audit	15,207
	Indigenous service delivery arrangement survey	16,132
	PASG public entity survey 2010–11	22,962
	PASG public entity survey 2009–10	22,962
	Client survey—Audit Committee chairs <sup>a</sup>	28,215
	ANAO staff survey 2010	36,185

ANAO = Australian National Audit Office, PASG = Performance Audit Services Group

a Also included as a consultancy in Appendix 6.

### APPENDIX 8—CONTACT DIRECTORY

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### ABBREVIATIONS AND ACRONYMS

AACAP Army Aboriginal Community Assistance Program

AASG Assurance Audit Services Group
AAT Administrative Appeals Tribunal
ABG Australian Broadband Guarantee

ACAG Australasian Council of Auditors-General

ADF Australian Defence Force
AFP Australian Federal Police

AGD Attorney-General's Department

AGPT Australian General Practice Training

ANAO Australian National Audit Office

APS Australian Public Service

ASIC aviation security identification card

ASIO Australian Security Intelligence Organisation
ASOSAI Asian Organization of Supreme Audit Institutions

ATAPS Access to Allied Psychological Services

ATO Australian Taxation Office

BCR benefit-to-cost ratio

BPK Badan Pemeriksa Keuangan, the Indonesian Board of Audit

CAC Act Commonwealth Authorities and Companies Act 1997

CASA Civil Aviation Safety Authority

CEWH Commonwealth Environmental Water Holder
CFAR Commonwealth Financial Accountability Review

CFOs chief finance officers

Citizenship Act

Australian Citizenship Act 2007

COAG

Council of Australian Governments

CPGs

Commonwealth Procurement Guidelines

CPP Close Personal Protection

CSIRO Commonwealth Scientific and Industrial Research Organisation

Customs Australian Customs and Border Protection Service

CWC Client Contact–Work Management–Case Management system

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
DER Digital Education Revolution

DEWHA Department of the Environment, Water, Heritage and the Arts

DFAT Department of Foreign Affairs and Trade

DGR deductible gift recipient

DHS Department of Human Services

DIAC Department of Immigration and Citizenship
DIT Department of Infrastructure and Transport

DMO Defence Materiel Organisation

DOHA Department of Health and Ageing

EC exceptional circumstances

EEGO energy efficiency in government operations

EGCS Energy Grants Credits Scheme

EO Services Contract Explosive Ordnance Services Contract ecologically sustainable development

FaHCSIA Department of Families, Housing, Community Services

and Indigenous Affairs

FHBH Fixing Houses for Better Health

Finance Department of Finance and Deregulation

FMA Act Financial Management and Accountability Act 1997

FRCs family relationship centres

FSANZ Food Standards Australia New Zealand

GBE government business enterprise
GBM Government Business Manager

GGS general government sector

GPET General Practice Education and Training Limited

GST goods and services tax
HIP Home Insulation Program

HOIL Home Ownership of Indigenous Land

HR human resource

HSMAs health and safety management arrangements

IBA Indigenous Business Australia

ICT information and communications technology

INCOSAI International Congress of Supreme Audit Institutions
INTOSAI International Organization of Supreme Audit Institutions

ISAs International Standards on Auditing

IT information technology

JCPAA Joint Committee of Public Accounts and Audit

LCT luxury car tax

LMR Lost Members Register

MACS multifunctional Aboriginal children's services

MSIC maritime security identification card

NCCC National Character Consideration Centre

NPC Non-Profit Centre
NPI new policy initiative

NRAC National Rural Advisory Council

NSH National Security Hotline

NSSCF National Secondary Schools Computer Fund
NTER Northern Territory Emergency Response
OAG Office of the Auditor-General of Canada

OH&S occupational health and safety
OTS Office of Transport Security

PASAI Pacific Organisation of Supreme Audit Institutions

PASG Performance Audit Services Group

PBS Portfolio Budget Statements
PDSS project data summary sheet

PGPPP Prevocational General Practice Training Placements Program

PIP Practice Incentives Program

PNG Papua New Guinea

PNG AGO Papua New Guinea Auditor-General's Office

QA quality assurance

RLCIP Regional and Local Community Infrastructure Program

RtB Restoring the Balance

SES Senior Executive Service

SGP Strongim Gavman Program

SMSs safety management systems

SSAT Social Security Appeals Tribunal

TFN tax file number
UP Uniform Protection

XX INCOSAI Twentieth International Congress of Supreme Audit Institutions

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