



THE AUDITOR-GENERAL  
**ANNUAL REPORT**  
2011–2012



Australian National  
**Audit Office**

# HIGHLIGHTS

OF 2011-12

The Assurance Audit Program issued

# 266

**audit opinions**

of which 97 per cent were issued on the same day or within two days of the signing of the financial statements.

Following recommendations by the Joint Committee of Public Accounts and Audit (JCPAA), the *Auditor-General Act 1997* was amended to

## enhance the audit mandate

of the Auditor-General to undertake performance audits of Commonwealth partners and audits of entities' key performance indicators.

The Performance Audit Program tabled

# 52

## performance audit reports

dealing with significant areas of public administration.

The ANAO led an international team to

## conduct a peer review

of the performance audit function of the Indian Supreme Audit Institution, the Office of the Comptroller and Auditor-General of India (the review is expected to be finalised in September 2012).

The Auditor-General responded positively to a request from the JCPAA to undertake the

# FIRST

**performance audit of a Commonwealth partner** in relation to the Mersey Hospital in northern Tasmania.

A SURVEY OF OUR STAFF SHOWED THAT WE ARE

## PERFORMING BETTER THAN IN 2010-11

IN TERMS OF STAFF ENGAGEMENT, LOYALTY AND COMMITMENT, LEARNING AND DEVELOPMENT AND LIVING OUR VALUES.

# THREE

## BETTER PRACTICE GUIDES

WERE ISSUED DURING THE YEAR, PROVIDING GUIDANCE ON PUBLIC SECTOR AUDIT COMMITTEES, DEVELOPING AND MANAGING CONTRACTS, AND ENVIRONMENTAL SUSTAINABILITY IN AUSTRALIAN GOVERNMENT OPERATIONS.

The ANAO contributed to a wider appreciation of public sector auditing through its

## DEVELOPMENT COOPERATION

activities in Indonesia and Papua New Guinea, engagement with other supreme audit institutions and

## PRESENTATIONS

at seminars and to visiting international delegations.

THE 2011 SURVEY OF PARLIAMENTARIANS

## SHOWED STRONG SUPPORT

FOR THE ANAO, WITH JCPAA MEMBERS, COMMITTEE SECRETARIES AND PARLIAMENTARIANS RATING THE OFFICE HIGHLY FOR ITS INTEGRITY.



THE AUDITOR-GENERAL  
**ANNUAL REPORT**  
2011–2012



**Australian National  
Audit Office**

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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](http://www.anao.gov.au).



Auditor-General for Australia



11 September 2012

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 2012.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's homepage, [www.anao.gov.au](http://www.anao.gov.au).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee', is positioned above the printed name.

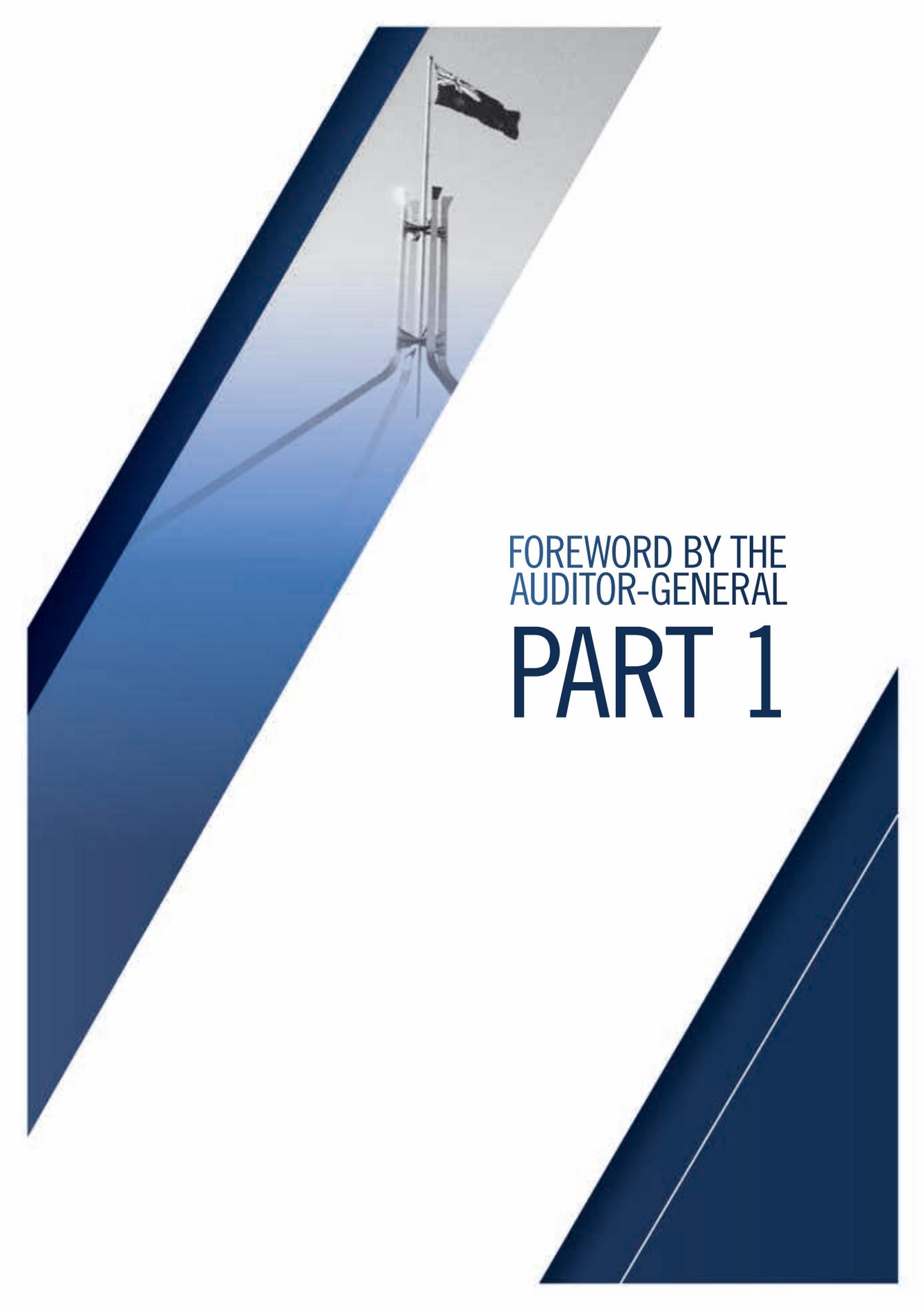
Ian McPhee  
Auditor-General



# CONTENTS

<b>PART 1—FOREWORD BY THE AUDITOR-GENERAL</b>	<b>1</b>
<b>PART 2—OVERVIEW</b>	<b>9</b>
Role	10
Vision	11
Organisation	11
Outcomes and programs framework	13
Financial summary	14
<b>PART 3—REPORT ON PERFORMANCE</b>	<b>15</b>
Performance structure	16
Program 1.1—Assurance Audit Services	17
Program 2.1—Performance Audit Services	27
Components common to programs 1.1 and 2.1	41
<b>PART 4—MANAGEMENT AND ACCOUNTABILITY</b>	<b>49</b>
Corporate governance	50
Management of human resources	60
Environmental protection and biodiversity conservation	75
Other management issues	78
<b>PART 5—FINANCIAL RESULTS</b>	<b>81</b>
Financial results	82
Independent auditor's report	86
Statement by the Auditor-General and Chief Finance Officer	88
2011–12 financial statements	89
<b>PART 6—APPENDIXES</b>	<b>133</b>
Appendix 1—Staffing statistics	134
Appendix 2—Summary of reports tabled in 2011–12	137
Appendix 3—Addresses by the Auditor-General and senior staff	164
Appendix 4—Advertising and market research	166
Appendix 5—Contact directory	167
<b>PART 7—REFERENCES</b>	<b>169</b>
Abbreviations list	170
Compliance index	172
Subject index	175





FOREWORD BY THE  
AUDITOR-GENERAL

# PART 1

While this past year has been a challenging and demanding one for the ANAO, I am pleased to report that the office has delivered well on its commitments for 2011–12.



Auditor-General Ian McPhee.

The ANAO provided audit opinions on the financial statements of 266 Australian Government controlled entities, an assurance audit report on major Defence projects and two biannual reports on the audits of the financial statements of major government entities; tabled 52 performance audit reports; and published three better practice guides.

The work of the ANAO has never been more important, with the challenges of agencies delivering a wide range of government programs with reduced resources and recent global events highlighting the importance of integrity in financial reporting by governments. Other important factors that have impacted or will impact on our work are:

- ▶ the amendments to the *Auditor-General Act 1997*, which represent the most significant changes in the Commonwealth's audit legislation since the Auditor-General Act replaced the *Audit Act 1901*
- ▶ the risks of payments not being made in accordance with legislative authority, recently brought to attention by legal advice and the decision of the High Court in *Williams v. Commonwealth of Australia*
- ▶ significant departmental restructures resulting from the changes to the Administrative Arrangements Orders
- ▶ ongoing changes to the Australian Accounting Standards, which are largely driven by developments in accounting standards internationally
- ▶ the Commonwealth Financial Accountability Review, with the discussion paper highlighting the potential for changes to the financial management framework.

The amendments to the *Auditor-General Act 1997* followed the tabling of the Joint Committee of Public Accounts and Audit (JCPAA) Report 419 and the Government agreeing to implement the committee's major recommendations. The committee's recommendations recognise developments since the 1997 legislation was enacted and the way in which the Commonwealth and the states and territories interact, and are expected to interact in the future.

I welcome the expanded mandate that provides the ANAO with specific authority to audit entities' key performance indicators and a 'follow the money' provision. The latter underlines the Parliament's need to be appropriately informed about the delivery of services by Commonwealth partners—other jurisdictions and private contractors that are specifically funded by the Commonwealth. The Parliament can now be better informed about the performance of programs funded by its appropriations and how effectively Commonwealth resources are being deployed.

In facing future challenges, including the same resource challenges as other Australian Government entities, the ANAO is committed to driving a sustainable improvement in public administration as well as providing assurance to the Parliament on financial and legal compliance.

## THE ANAO'S AUDIT WORK SUPPORTS THE PARLIAMENT

Over the past year the ANAO has continued to be seen as a trusted source of high-quality, independent advice and expertise to the Parliament. Indeed, the Parliament's continuing confidence in the way the ANAO undertakes its statutory responsibilities is built on the quality of our audit work and reports. A strong indication of the standing of the office and the value of the work it has undertaken over the years is the support shown by the JCPAA—the Parliament's audit committee—particularly in recommending the extension of the Auditor-General's mandate mentioned above.

This support was confirmed in the 2011 Survey of Parliamentarians which showed the ANAO attracting high ratings for the integrity of the office from all JCPAA members, committee secretaries and parliamentarians generally. We are using the feedback to improve the way in which we report our findings and recommendations to the Parliament and how we communicate with parliamentarians, their staff and committee secretaries. We also publicise the tabling of our reports using email updates and Twitter feeds.

The JCPAA plays an important supporting role by providing an added parliamentary focus to our audit findings by reviewing all our audit reports and conducting public inquiries into a selection of those reports.

## AUDIT PROGRAM

Our audit opinions and reports provide a positive stimulus to advancing public administration, enhancing accountability and providing assurance on legal and financial compliance.

In developing our audit program, the ANAO integrates the planning of its financial statement, performance and assurance audits to provide a balance between planning and delivering audits that address the key risks and challenges facing individual public sector entities as well as the Australian public sector generally. We publish our work program on an annual basis.

### Assurance audits

Quality financial reporting by governments and their agencies is important for good government in Australia. Hence, the ANAO's audits of financial statements assist entities to fulfil their annual accountability obligations under the *Financial Management and Accountability Act 1997*, the *Commonwealth Authorities and Companies Act 1997* or the *Corporations Act 2001*.

In addition to the audit opinion on the financial statements, the ANAO provides each audited entity with a report—a copy is provided to the responsible minister—on the findings of the financial statement audit and an assessment of the internal control regime for the entity's business and the accounting processes relevant to the preparation of its financial statements.

As mentioned above, for the 2010–11 financial year the ANAO issued 266 financial statement audit reports, of which none were qualified. Five audit reports contained an emphasis of matter, and 48 audit reports included a reference to 'other legal and regulatory requirements'.

The ANAO's audit report on the Government's 2010–11 Consolidated Financial Statements was issued on 30 November 2011 and expressed the opinion that the statements gave a true and fair view of the Australian Government's and the general government sector's financial position as at 30 June 2011 and their financial performance and cash flows for the same period.

The results of the 2011–12 interim audit phase reflected a continued reduction in the number of audit findings, reflecting the general stability and maturity of the control regimes in the majority of agencies. However, our audits continue to identify control weaknesses in areas such as human resource management processes, user access to key financial systems, IT security governance, and business continuity management arrangements for human resource management information systems.

## Performance audits

One important measure of our effectiveness over the years has been governments' willingness to act to improve public administration following the tabling of our performance audit reports. As in previous years, in 2011–12 the ANAO continued to focus on issues that matter in its performance audit reports.

In developing the work program, the ANAO is responsive to an ever-changing public sector environment, parliamentary and stakeholder requests, challenges to public sector administration and matters of public interest.

The ANAO tabled 52 performance audit reports during 2011–12, on topics such as the implementation of Indigenous programs, government procurement practices, government advertising, Centrelink payments, Defence procurement and management activities, grants administration, climate change related programs and taxation administration.

Where the ANAO observed performance weaknesses it commented on the underlying issues and systemic flaws in public administration and made recommendations for improvement. Two areas which continued to receive audit attention were:

- ▶ *The administration of grants*—Grant administration is an important activity for many government entities involving the payment of billions of dollars in public funds each year. The transparency, accountability and probity with which grant decisions are made have been of longstanding parliamentary and public interest. While the 2009 *Commonwealth Grant Guidelines* were a significant advance in public administration, our audits continue to highlight aspects of their implementation where there is room for improvement.
- ▶ *Government procurement*—Government entities enter into tens of thousands of contracts valued at tens of billions of dollars each year (79,000 contracts valued at \$36.6 billion in 2011–12). Given its importance, the ANAO has audited aspects of government procurement practice over the years, most recently reporting on the establishment and use of procurement panels and the administration of the Australia Network tender process. The ANAO found that agencies generally established procurement panels through sound tender processes but that there was considerable scope for agencies to employ more competitive arrangements when selecting suppliers from panels. The audit of the Australia Network tender process highlighted, amongst other things, the importance of: departments assisting government in establishing any formal role for ministers in tender processes; maintaining information security during tenders; adhering to conventional procurement arrangements; and effectively managing the range of risks involved in procurement processes.

## PROMOTING BETTER PRACTICE

It is the ANAO's longstanding practice to reinforce its audit findings and recommendations with the publication of better practice guides which are designed to provide practical, workable guidance to promote better practice in specific areas of public administration. The ANAO issued three guides in 2011–12, providing guidance on public sector audit committees, developing and managing contracts, and environmental sustainability in Australian Government operations. The guides, which draw on our audit experience, continue to be very well received and I see them continuing to have a positive impact on public administration.

## INTERNATIONAL ACTIVITIES

In December 2011 the United Nations General Assembly adopted UN Resolution A/66/209 'Promoting the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions'.

The resolution is the culmination of work by the International Organization of Supreme Audit Institutions (INTOSAI) to strengthen the independence of supreme audit institutions and to promote the role that national audit institutions play in improving public administration. INTOSAI is the international umbrella organisation for public sector audit bodies, and the ANAO has been a member since 1968.

A key aspect of the UN resolution is its emphasis on the independence of audit institutions. The resolution is expected to assist those INTOSAI members who still face challenges to their independence and encourages member states to continue cooperation to build the capacity of INTOSAI members. In this respect I am pleased that the ANAO continues to be active in assisting to build capacity in Australia's region and has developed close ties with our counterpart organisations in Indonesia and Papua New Guinea. I was pleased to host meetings with the Auditor-General of Papua New Guinea in June 2012 and to meet with the Deputy Chairman of the Indonesian Board of Audit (Badan Pemeriksa Keuangan or BPK) in February 2012.

In July 2011 I accepted an invitation from Chairman Hadi Poernomo to visit the BPK and share the ANAO's experiences in quality control with the board's management. I combined this visit with one to the National Audit Office of the People's Republic of China following their invitation. The audit offices of Indonesia and the People's Republic of China are key regional partners and have shown a great interest in the ability of the ANAO to deliver an effective audit program for a relatively modest resource cost.

The ANAO continues to contribute at international forums, to the extent that our work program permits. In this context I am pleased that my office has been asked to lead the international team for the peer review of the performance audit function of the Supreme Audit Institution of India.

The ANAO strives to be recognised as 'an international leader in the provision of independent public sector audit and related services' and we contribute to the international public sector audit community where we can add value.

## OUR RESOURCES

While the ANAO did not seek additional budget supplementation, it is facing a number of cost pressures relating to the cumulative effects of efficiency dividends and increased employee costs and contractor rates in addition to the costs associated with the increased requirements of the Australian Auditing Standards.

The expanded audit mandate, encompassing the auditing of key performance indicators and the power to ‘follow the money’, also add pressure to the ANAO’s budget outlook, which has been impacted by the cumulative effects of efficiency dividends as mentioned above. Nevertheless, I believe that the budget allocation for 2012–13, while tight, is sufficient to enable me to discharge my statutory obligations for the coming year. We face the same resource challenges as other government entities and we are committed to driving sustainable improvements in the way we work. The ANAO is looking to pursue further internal efficiencies while continuing to invest in our people, infrastructure and support arrangements. One of the lessons we are well aware of from prior periods of resource constraints is the importance of continuing to invest in the learning and development of our staff.

## OUR STAFF

The high regard with which the ANAO is held is due to the commitment and professionalism of my staff, and my senior leadership group—this was particularly noted in the responses to the 2011 Survey of Parliamentarians. Our work continues to enjoy wide parliamentary and community acceptance and reflects well on the solid work undertaken by the office.

We are in good shape for the coming year notwithstanding the challenges of managing an increasing workload associated with delivering a large audit work program in accordance with increasing professional requirements in an increasingly complex public sector environment.

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

Ian McPhee  
Auditor-General

# CASE STUDY

## ANAO celebrates its 110th anniversary

The office of the Auditor-General celebrated its 110th anniversary in 2011.

The anniversary was an opportunity to reflect on the significance of the office, to celebrate its achievements and to remember the important role it has played in contributing to improving public administration. It was also an opportunity to look forward, recognising changes to public administration and the way in which our role is evolving in response to the needs of the Parliament and the Australian community.

Our anniversary was celebrated in a number of ways, including at a celebratory gathering on 15 August 2011 at which the Minister for the Public Service and Integrity endorsed the ANAO's past and present roles:

*Both the Government and the Parliament are very supportive of the work done by the ANAO in highlighting areas where agencies, and at times governments, can do better; and importantly, in identifying the critical factors for success.*

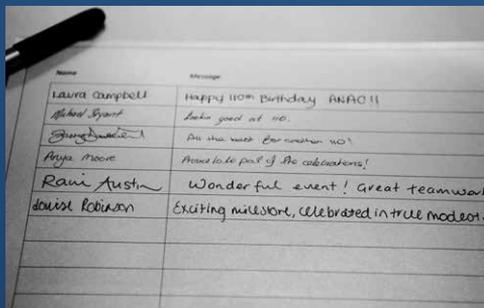
To mark the anniversary, each of the ANAO's conference rooms was named in honour of one of the 14 Auditors-General who held office between 1901 and 2005, and a commemorative medallion was issued to staff.

We were privileged to receive a letter of congratulation from the Prime Minister, the Hon. Julia Gillard MP, who said:

*Over 110 years of incredible social and economic change, the ANAO has consistently provided rigorous and independent assessments that have given Parliament and the wider community great confidence in the way public monies are spent ... the staff of the ANAO, past and present, have every reason to be proud of your role in building a transparent and resilient democracy in which every Australian can have trust.*



Minister for the Public Service and Integrity, the Hon. Gary Gray MP; Auditor-General Ian McPhee; and Rob Oakeshott MP, Chair of the Joint Committee of Public Accounts and Audit.



Governance and External Relations team with the Auditor-General and Deputy Auditor-General.





OVERVIEW  
**PART 2**



## ROLE

The ANAO is a specialist public sector agency that provides a full range of audit services to the Australian Parliament, the Australian Government and public sector entities.

The *Auditor-General Act 1997* provides a legislative framework for the role of the Auditor-General and the ANAO. Under the Act the Auditor-General is responsible for auditing the financial statements of Australian Government public sector entities, that is:

- ▶ agencies as described in the *Financial Management and Accountability Act 1997*
- ▶ authorities and companies (other than government business enterprises), and their subsidiaries, as described in the *Commonwealth Authorities and Companies Act 1997*.

The Auditor-General Act also authorises the Auditor-General to:

- ▶ conduct a performance audit, conduct an assurance review, or audit the performance indicators, of an Australian Government public sector entity
- ▶ conduct a performance audit or assurance review, or audit the performance indicators, of a government business enterprise, if requested by the Joint Committee of Public Accounts and Audit (JCPAA)
- ▶ conduct performance audits of Commonwealth partners as described in section 18B of the Act (audits of Commonwealth partners that involve a state or territory agency must be requested by the JCPAA)
- ▶ provide other audit services as required by other legislation or allowed under section 20 of the Act
- ▶ report directly to Parliament or to a minister on any important matter.

Through the delivery of an integrated range of high-quality audit reports and opinions that are timely, cost-effective and conducted in accordance with the ANAO's Auditing Standards, the ANAO aims to meet the needs and expectations of the Parliament, the Government and audit clients, and to add value to public sector performance and accountability. While financial statement audits and performance audits are our main focus, we also conduct a range of other audit and review activities as indicated above.

In addition, the ANAO plays a leadership role in improving public administration and audit capability in Australia and overseas, through:

- ▶ publishing high-quality information such as better practice guides
- ▶ participating in forums and seminars
- ▶ providing development opportunities, including secondments, for audit professionals
- ▶ deploying experienced staff to audit institutions in Indonesia and Papua New Guinea.

The Auditor-General Act establishes the Auditor-General as an Independent Officer of the Parliament—a title that symbolises the position's independence and unique relationship with the Parliament. The independence of the Auditor-General and the quality and objectivity of the ANAO's work form the foundation of the office's standing and reputation.



Deputy Auditor-General Steve Chapman and Auditor-General Ian McPhee.

## VISION

The ANAO's vision is to be an international leader in the provision of independent public sector audit and related services.

## 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. It includes the branches responsible for providing IT audit support and conducting assurance projects such as the annual Defence Materiel Organisation major projects report.
- ▶ The Performance Audit Services Group contributes to improved public sector administration and accountability by conducting performance audits of Australian Government entities and producing related publications.
- ▶ The Professional Services Branch provides professional services such as technical support, quality assurance, professional newsletters and technical seminars.
- ▶ The Corporate Management Branch provides administrative support, including the coordination of corporate governance activities, human resources, finance, external relations, IT support and building services.

The ANAO has one office, located in Canberra. We closed our small office in Sydney during the year, with the Canberra office now managing our audits of agencies that are based in Sydney.

The organisational and senior management structure of the ANAO at 30 June 2012 is shown in Figure 1.

FIGURE 1: ORGANISATIONAL AND SENIOR MANAGEMENT STRUCTURE AT 30 JUNE 2012



## OUTCOMES AND PROGRAMS FRAMEWORK

The ANAO's two planned outcomes, as set out in the 2011–12 Portfolio Budget Statements, are:

- ▶ *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.

The two outcomes are achieved through two programs, as illustrated in Figure 2 and described in detail in Part 3—Report on performance.

**FIGURE 2: OUTCOMES AND PROGRAMS FRAMEWORK, 2011–12**

Outcomes	
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
Programs	
1.1: Assurance Audit Services	2.1: Performance Audit Services
The program delivers independent audit and assurance opinions and also shares ANAO expertise in advancing public sector auditing and assisting developing nations	The program deliverables inform the Parliament and the Executive of issues concerned with the administration of government programs or agencies, promote better practice and also share ANAO expertise in advancing public sector auditing and assisting developing nations
Components <sup>a</sup>	
Financial statement audit reports	Performance audit services
Other assurance reports	Other audit and related services
Assistance to Parliament	Better practice guides
National and international representations and developing nation support	Assistance to Parliament
	National and international representations and developing nation support

<sup>a</sup> In addition to these components, the ANAO administers a special appropriation for the remuneration of the Auditor-General.

## FINANCIAL SUMMARY

Our overall financial position continued to remain sound for 2011–12 with an operating surplus of \$0.406 million (down from an operating surplus of \$4.699 million in 2010–11). Increased supplier expenses and additional employee expenses arising from increased provisioning for employee entitlements were the main contributing factors to the lower surplus.

Our independent auditor found that our financial systems and controls were operating effectively and year-end financial statement preparation procedures were well organised and undertaken in an efficient and timely manner. Internal audit coverage during the year also found that our control environment was sound.

Our financial resources for 2011–12, on an outcome–program basis, are summarised in Table 15 and Table 16 in Part 5 of this report. The ANAO's financial statements for 2011–12, and a commentary on our financial performance for the year, are also set out in Part 5.



REPORT ON  
PERFORMANCE  
**PART 3**

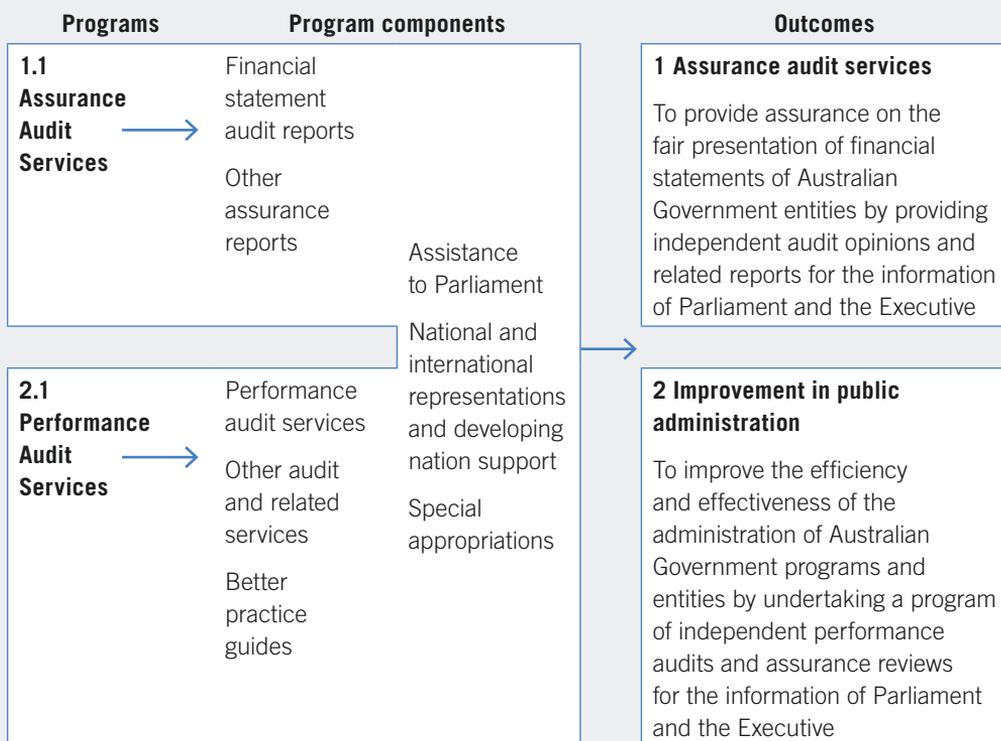


## PERFORMANCE STRUCTURE

This part of the annual report describes the ANAO's performance against the measures set out in the Portfolio Budget Statements and Business Plan for 2011–12.

In 2011–12, 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 2011–12**



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. 'Other assurance reports', undertaken by Program 1.1, contribute to deliverables that are included in Program 2.1. This includes the Major Projects Report.

## PROGRAM 1.1—ASSURANCE AUDIT SERVICES

To provide assurance that the financial statements of Australian Government entities have been prepared in accordance with the Government's financial reporting framework and give a true and fair view of entities' financial performance, the ANAO provides independent audit reports on those financial statements and related reports for Parliament and the Executive. A summary of the performance of Program 1.1 in 2011–12 is provided in Table 1.

**TABLE 1: PERFORMANCE AGAINST 2011–12 PORTFOLIO BUDGET STATEMENTS DELIVERABLES AND PERFORMANCE INDICATORS FOR PROGRAM 1.1**

<b>Objective</b>		
<i>To provide assurance on the fair presentation of financial statements of Australian Government entities by providing independent audit reports and related reports for the information of Parliament and the Executive.</i>		
	Target	Result
<b>Deliverables<sup>a</sup></b>		
Number of financial statement audit reports to be issued	250	266
Other regulatory assurance reports <sup>b</sup>	59	63
Financial statement related reports	2	2
<b>Key performance indicators<sup>a</sup></b>		
Percentage of ANAO delivered audit reports on financial statements received from all Australian Government entities that are subsequently tabled in the Parliament	100%	100%
<b>Gross cost of outcome</b>		
\$46.047 million (\$41.061 million in 2010–11).		

a Table 6 reports on an additional deliverable and an additional performance indicator, for components common to programs 1.1 and 2.1.

b The primary deliverable is financial statement audit reports in respect of mandated audits. Other regulatory assurance reports may be issued in respect of financial statements, but these are the result of additional voluntary arrangements entered into by the Auditor-General under section 20 of the *Auditor-General Act 1997*.

### Financial statement audits

The ANAO's audits of financial statements assist Australian Government entities to fulfil their annual accountability obligations under either 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 report 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 financial 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.

In addition to the audit report on the financial statements, the ANAO provides each audited entity with a report on the findings of the 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.

A risk-based methodology is used in auditing financial statements. It emphasises the need for a detailed understanding of the entity's organisation and associated business risks, and seeks to place reliance where possible on governance arrangements and business processes. The office's audit methodology is supported by customised technology and comprehensive training programs.

To ensure that the audit methodology is kept up to date, the Professional Services Branch performs an annual upgrade to the audit methodology. This upgrade incorporates all relevant changes to the audit, accounting, and legal frameworks.

### Developments in the auditing profession

The Australian Auditing and Assurance Standards Board's (AUASB's) work in 2012 included the release of a new Guidance Statement (GS) 020 *Special Considerations in Auditing Financial Instruments* that provides guidance on audit considerations relating to financial instruments.

The AUASB has commenced a range of activities that relate to the audit of financial statements, including:

- ▶ a project that involves working jointly with the Australian Institute of Company Directors and the Institute of Internal Auditors—Australia to revise its 2008 guide *Audit Committees: A Guide to Good Practice* to take account of significant developments relating to the role, responsibilities and operation of audit committees
- ▶ the development of a joint policy paper between the AUASB and the New Zealand Auditing and Assurance Standards Board (NZAuASB) regarding the harmonisation of AUASB and NZAuASB standards
- ▶ a project to revise the 2009 AUASB bulletin *Auditing Considerations in an Uncertain Economic Environment*
- ▶ a revision of ASA 610 *Using the Work of Internal Auditors* in line with the changes to the equivalent standard to provide a more robust framework for evaluating and using the work of an entity's internal audit function.

The AUASB will also continue to issue and revise existing guidance, particularly in relation to auditing grant acquittals, using the work of an actuary and investments in associates.

The International Auditing and Assurance Standards Board *Strategy and Work Program, 2012–2014* identifies a number of directions for the audit of financial statements, including a focus on auditor reporting, continued work on audit quality, and consideration of the auditing implications of having disclosures in financial statements that are highly relevant and more detailed, but which may be more subjective and less reliable.

Acting under section 29 of the *Auditor-General Act 1997*, the Auditor-General delegates responsibility for signing some financial statement audits to senior ANAO staff, in accordance with accountabilities under the annual work program.

Each year, the ANAO tables in Parliament two reports on its financial statements audit program: the final report on the audits of the financial statements for the previous financial year, tabled in December; and an interim report on the audits of the financial statements of major general government sector agencies for the current financial year, tabled in June.



Group Executive Director Assurance Audit Services Group, Michael Watson.

### Financial statement audits—2011

The report *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2011* was tabled in December 2011. This report summarised the final result of the audits of the 2010–11 financial statements of Australian Government entities and the consolidated financial statements of the Australian Government. It also provided information about audit findings and key governance and control activities, such as the certificate of compliance, and commented on key developments in the financial reporting and auditing framework that affect the Australian Government and its reporting entities.

The auditors' understanding of each entity, its environment and its internal controls and previous audit findings, helps the auditor design the work needed to respond to significant risks. An examination of such issues is designed to assess the reliance that can be placed on internal controls to produce complete and accurate information for financial reporting purposes.

Internal control issues identified by the ANAO during the final phase of the 2010–11 audits related to:

- ▶ 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
- ▶ business system processing controls, such as reconciliation controls.

These issues were consistent with audit findings in previous years. Generally, the final phase of the ANAO's audits for 2010–11 also found that entities had made good progress in addressing and resolving, where possible, issues identified during the 2010–11 interim audit phase.

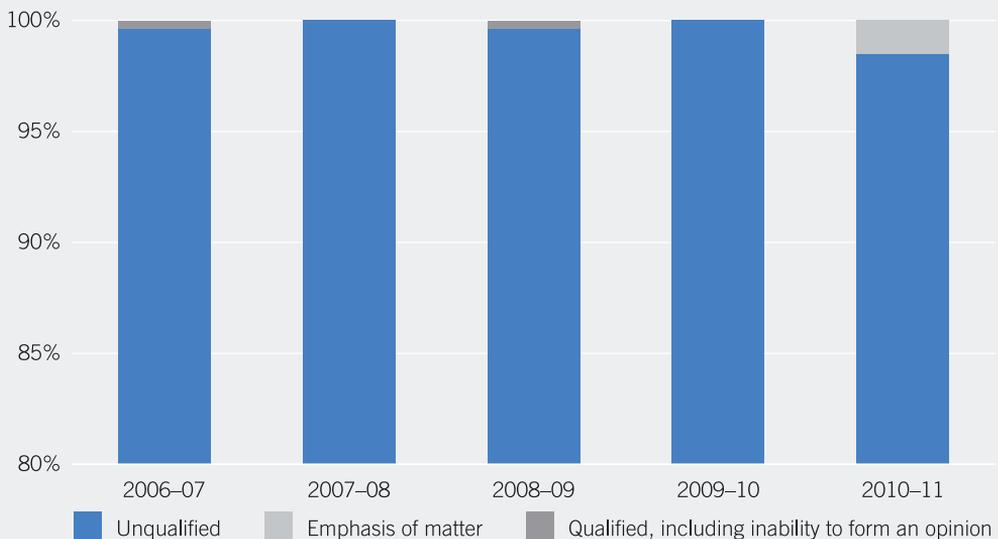
### FINANCIAL STATEMENT AUDIT REPORTS

Where an entity's financial statements have been prepared in accordance with the Government's financial reporting framework, and fairly represent its financial operations and position, the audit report is 'unqualified'. The need to qualify, or modify, the audit opinion in an audit report can arise for a number of reasons, including material misstatement of the final balances, or insufficient appropriate audit evidence to enable the Auditor-General to form an opinion. By developing and maintaining professional working relationships, the ANAO seeks to support initiatives by each entity's management to mitigate factors that may result in a qualified audit opinion.

For the 2010–11 financial year, 266 financial statement audit reports were issued, of which none were qualified. Five audit reports contained an emphasis of matter, and 48 audit reports included a reference to 'other legal and regulatory requirements'. Those reports referred to a risk of breaches of section 83 of the Constitution, or the need to undertake risk assessments, in relation to payments from special appropriations and special accounts. This matter is discussed further below in respect of the interim financial statement audits for the period ended 30 June 2012.

Figure 4 shows audit reports from 2006–07 to 2010–11.

**FIGURE 4: COMPARISON OF AUDIT REPORTS**



Note: The 'emphasis of matter' reference is 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.

### CLEARANCE DEADLINES

The ANAO plans financial statement audits so that audit clearance and audit reports are able to be issued in accordance with Australian Government timelines. In 2010–11, the Department of Finance and Deregulation (Finance) set 15 August 2011 as the audit clearance deadline for material entities (which comprise 99 per cent of revenues, expenses, assets and liabilities of the Australian Government). For non-material entities, the date was 31 August 2011.

Some 86 per cent of material entities and 63 per cent of non-material entities met their clearance deadlines. This was an improvement from 2009–10, when 76 per cent of material entities and 57 per cent of non-material entities met the deadlines. Overall, a large majority of entities' financial statements were completed within three months of the financial year end.

# CASE STUDY

## Department of Human Services

With the integration of Centrelink and Medicare Australia with the Department of Human Services (DHS) on 1 July 2011, DHS has become one of the largest Commonwealth organisations, providing access to social, health and other payments and services to all Australian citizens. As a service delivery agency, DHS operates with approximately 32,000 staff located in offices and shopfronts around Australia to process and deliver approximately \$148 billion worth of personal benefit payments on behalf of a number of other Commonwealth agencies. The department's IT operation, which is one of the largest in Australia, is managed and maintained in house.

The ANAO assigns considerable resources to DHS's financial statements audit. In 2011–12, the audit team consisted of up to 20 full-time staff, including IT specialist auditors. Each year, the ANAO, as part of its audit, assesses the key elements of the department's internal control environment that are relevant to the preparation of the department's financial statements. This year, the DHS audit team's challenge was to assess the foundations of its internal control environment following the consolidation of three separate financial management systems into one system when the three agencies were amalgamated.

The DHS audit team also provides assurance to other ANAO audit teams covering the Families, Housing, Community Services and Indigenous Affairs, Education, Employment and Workplace Relations, Health and Ageing, Veterans' Affairs, and Industry, Innovation, Science, Research and Tertiary Education departments, all of which are clients of DHS. Assurance includes reviewing the operations and controls relating to customer registration and delivery of benefit payments to the majority of Australian households, such as family tax benefits, the age pension, the child care rebate and health-related payments.

To access information and complete the DHS audit effectively in a changing environment, the audit team has needed to focus on building strong client relationships and developing their knowledge of the integrated department's business. The audit team has travelled nationally to perform audit activities in a decentralised environment and demonstrated a high degree of professionalism in dealing with the complexities and challenges of a vastly expanded organisation.

# CASE STUDY

## Department of Defence

The Department of Defence (Defence) is a large organisation with complex and diverse activities. Activities are conducted both onshore and offshore by a workforce consisting of civilian employees and the military. Defence is responsible for the management and administration of a significant asset base, including military assets, major infrastructure and real estate throughout Australia and in overseas military operations. Defence's logistics management is amongst the largest and most complex in the country.

Completing and auditing Defence's financial statements each year is a challenge for both Defence and the ANAO. The complex and diversified nature of Defence's operations translates to a uniquely challenging audit environment.

Each financial statements audit is planned and executed over 18 months: as one audit is being finalised, planning for the next audit is well underway. A core team of 22 auditors is supplemented by contractors and other ANAO staff, peaking with 34 auditors during the final phase of the audit.

A critical component of the audit involves the observation of Defence's stocktaking activities of military inventory and specialist military equipment and the performance of asset validation procedures across major Defence facilities in Australia. The work is challenging as Defence assets are unique and diverse, ranging from aircraft, submarines and torpedoes, armoured vehicles and explosive ordnance, through to small ammunitions.

Throughout these activities, the ANAO auditors work closely with Defence's diverse military and civilian workforce. They have the opportunity to see the scale and extent of Defence's on-shore operations and to enjoy a rewarding team experience that cannot be found in any other environment.

As methods of delivering defence capability are constantly evolving, new accounting and auditing issues arise regularly. The ANAO and Defence coordinate extensively on financial reporting issues unique to Defence, in addition to issues that impact on the wider public sector. At the same time, the ANAO continues to refine its audit approach to address Defence's unique, changing environment and maintain an effective and efficient audit.



Financial statement auditors Linda Mellett and Lorena Skipper at RAAF Base Pearce in Western Australia.

## CERTIFICATES OF COMPLIANCE

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

Finance advised that agencies reported a total of 15,262 breaches in 2010–11. This represents a decrease of 10 per cent since 2009–10, when 17,003 breaches were reported. The department also advised that the decrease in non-compliance reflects continuous improvement in both agency processes and the broader framework for financial reporting.

### Interim financial statement audit—period ended 30 June 2012

The report *Interim Phase of the Audits of the Financial Statements of Major General Government Sector Agencies for the Year Ending 30 June 2012* was tabled in June 2012. This report presented the results of the interim phase of the audits of the 2011–12 financial statements of 25 agencies that collectively represent some 95 per cent of total general government sector revenues and expenses.

The ANAO's interim audits of agencies encompass a review of governance arrangements related to agencies' financial reporting responsibilities, and an examination of relevant internal controls, including IT system controls.

The ANAO's June report indicated that the 2011–12 interim audits reflected a continuation of the reduction in the number of significant (Category A) and moderate (Category B) audit findings in recent years. The reduction reflected the general stability and maturity of the control regimes in the majority of agencies and the actions taken by agencies to address prior year audit findings. The audits continued to identify control weaknesses in a number of areas, particularly in human resource management processes, the management of user access to key financial systems, IT security governance and Human Resource Management Information System (HRMIS) business continuity management.

Section 83 of the Constitution provides that no amount may be paid out of the Consolidated Revenue Fund except under an appropriation made by law. Finance provided information to all agencies in 2011–12 regarding the need for risk assessments in relation to compliance with statutory conditions on payments from special appropriations, including special accounts. The possibility of this being an issue was reported in the notes to the 2010–11 financial statements and audit reports of 48 agencies, and each agency undertook to investigate the issue during 2011–12. Those agencies developed plans during the interim phase of 2011–12, based on the guidance provided by Finance, to review exposure to risks of not complying with statutory conditions on payments from appropriations. The ANAO also took into account the decision of the High Court in *Williams v. Commonwealth of Australia* [2012] HCA 23 in our audit work.

Machinery of government changes affected several portfolio departments and their programs in 2011–12 as a result of the Administrative Arrangements Orders of 19 October 2011 and 14 December 2011. The audits of the financial statements of the affected departments will consider a number of significant matters related to these changes, including the establishment of new delegations, and the transfer of appropriations and related financial reporting balances between departments. Notable amongst these are the transfer of the HECS–HELP loan program from the Department of Education, Employment and Workplace Relations to the Department of Industry, Innovation, Science, Research and Tertiary Education and the establishment of new agencies. For example, the ANAO will provide an audit report on the 30 June 2012 financial

statements of the Clean Energy Regulator. The financial statements audit team is focusing on the Clean Energy Regulator's early establishment of adequate internal control activities, and good governance and risk management arrangements.

### 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 received by the Auditor-General on behalf of the Commonwealth are not retained by the ANAO.

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 category. The costing model takes into account all relevant costs, including the attribution of overhead costs.

### Financial audits by arrangement

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

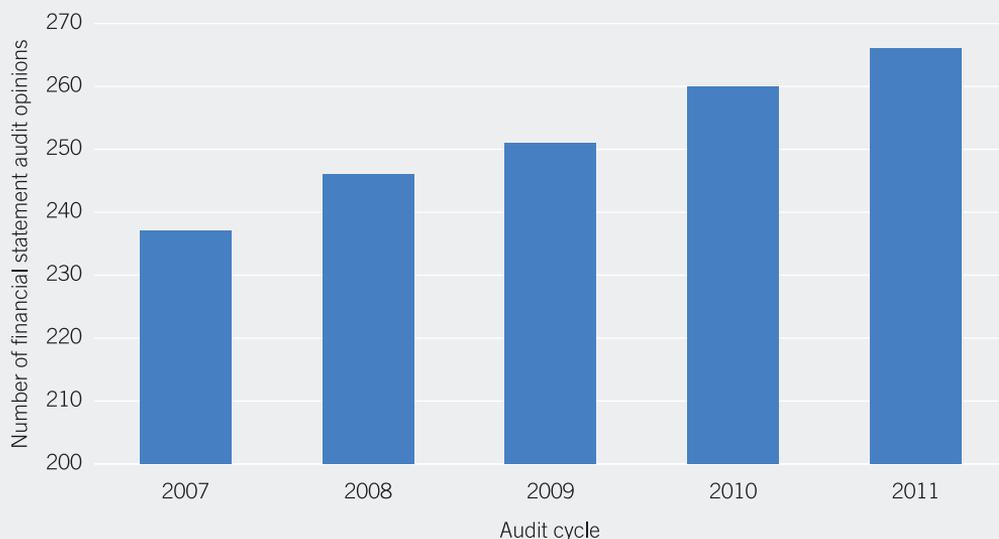
Ministers or entities can ask the ANAO to review activities on a cost-recovery basis, and a number of entities, as part of their corporate governance arrangements, seek reviews or audits of their half-year financial statements. Services also include grant acquittal certificates, performance information verification and other special purpose engagements. During 2011–12 the ANAO conducted 63 regulatory assurance engagements (compared to 62 in 2010–11).

### Performance measures

The following sections describe in more detail the ANAO's performance in providing audit reports on financial statements for 2010–11. The performance measures are the number, timeliness and quality of reports issued.

#### Number

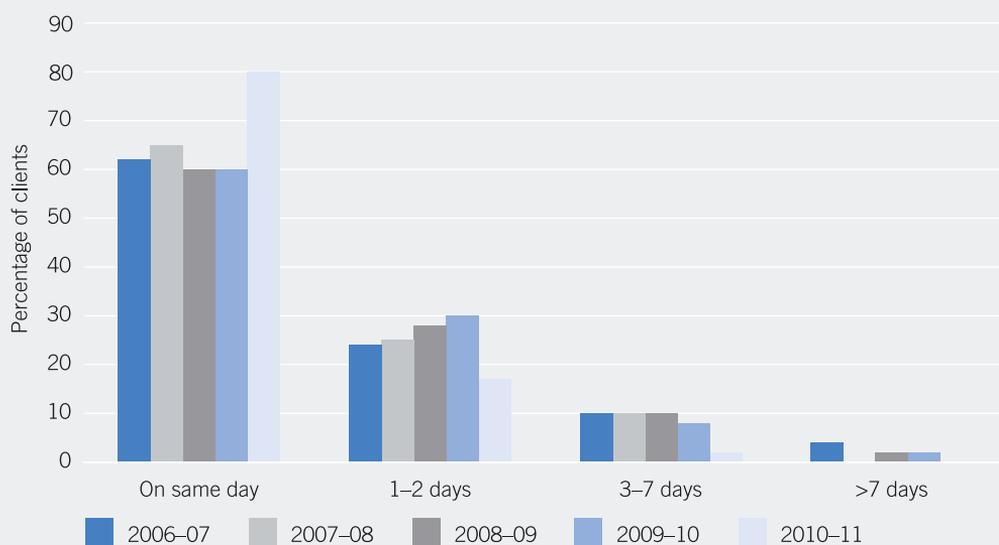
The number of audit reports issued depends on government and entity decisions on entity structures. Figure 5 shows the number of audit reports issued for the 2011 audit cycle in comparison to those for previous periods. In every period the ANAO issued audit reports on all relevant entities.

**FIGURE 5: FINANCIAL STATEMENT AUDIT REPORTS ISSUED**

### Timeliness

Issuing audit reports as soon as possible after the financial statements are signed assists entities to meet their management and annual reporting commitments. For the 2010–11 audit cycle, the ANAO issued 97 per cent of reports on the day the financial statements were signed or within two days of the signing, an increase from 90 per cent for the previous audit cycle. The improved timelines were the result of a number of factors, including improved coordination and transmission of final documentation during the signing process, particularly in respect of remote location clients; and the ANAO's strategy to spread the audit load by varying the signing deadlines for non-material audits.

Figure 6 shows the timeliness with which the ANAO issued audit reports over the past five years.

**FIGURE 6: TIMELINESS OF ISSUING AUDIT REPORTS**

## Quality assurance

The annual quality assurance (QA) review of financial statement audits and other assurance reports is a significant part of the quality control arrangements in the ANAO and, together with the QA review of performance audits, helps assess if ANAO audits are conducted in accordance with relevant standards.

### *2011–12 PROGRAM*

During 2011–12, the ANAO conducted a program of quality assurance reviews of a selection of completed 2010–11 financial statement audits and other assurance reports, in line with the office's 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 2011–12 program, which reviewed 15 financial statement audits and two audits by arrangement, did not identify major issues which would have been indicative of systemic, repetitive or other significant deficiencies. That said, the reviews highlighted areas for improvement, which are in part reflective of more specific audit requirements following a major revision to Australian Auditing Standards (with first effect in 2010–11) and additional check points in the Quality Assurance Review Program in response to changes in ANAO audit methodology. The results of the reviews were reviewed by senior management and disseminated to all financial statements audit staff. The results were also taken into account in the development of the financial audit learning and development program.

### *CLIENT SURVEY*

In 2012, an independent survey was conducted to gain feedback from entities on the conduct of the audit of their 2010–11 financial statements. The report presents the views of 159 agencies.

The survey results continue to be positive, indicating a high level of satisfaction with our performance in auditing agencies' financial statements. In particular:

- ▶ 91 per cent of respondents (92 per cent in 2010–11) agree that ANAO staff have the necessary understanding and skills to carry out audit work
- ▶ 88 per cent of respondents (88 per cent in 2010–11) acknowledge the value added by ANAO products and services.

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.

### *IT AUDIT CAPABILITY AND RESOURCING*

During 2011–12, the independent auditor undertook a performance audit of the ANAO's implementation of planned IT audit capability enhancements that are designed to support both assurance audit and performance audit services. The overall outcome of the performance audit confirmed the mature and well developed relationship between IT Audit and the assurance audit program.

## PROGRAM 2.1—PERFORMANCE AUDIT SERVICES

To contribute to improved public administration, the ANAO undertakes a program of independent performance audits and assurance reviews and the publication of better practice guides under Program 2.1. A summary of the performance of Program 2.1 in 2011–12 is provided in Table 2.

**TABLE 2: PERFORMANCE AGAINST 2011–12 PORTFOLIO BUDGET STATEMENTS DELIVERABLES AND PERFORMANCE INDICATORS FOR PROGRAM 2.1**

<b>Objective</b>		
<i>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</i>		
	<b>Target</b>	<b>Result</b>
<b>Deliverables<sup>a</sup></b>		
Number of performance audits to be produced	55	52
Number of reviews of Defence Materiel Organisation Major Projects Report	1	1
Number of better practice guides to be produced	5	3
Number of appearances and submissions to parliamentary committees	20	30
Number of annual audit work programs	1	1
<b>Key performance indicators<sup>a</sup></b>		
Percentage of public sector entities that acknowledge the value added by ANAO products and services	90%	91%
Percentage of audited entities that agreed with the recommendations included in performance audit reports	90%	95%
<b>Gross cost of outcome</b>		
\$ 31.604 million (\$30.290 million in 2010–11).		

<sup>a</sup> Table 6 reports on an additional deliverable and an additional performance indicator, for components common to programs 1.1 and 2.1.

### Performance audits

A performance audit is an examination of the administration of a program or the operations of an entity. The objectives of a performance audit are twofold:

- ▶ to provide Parliament with assurance relating to the administration of Australian Government entities and programs, including where these involve a Commonwealth partner
- ▶ to assist public sector managers by identifying and promoting better administrative and management practices. Agency-specific performance audits and cross-agency performance audits (of particular themes or common aspects of administration across a number of entities) can include an examination of one or more of the following
  - economy (minimising cost)
  - efficiency (maximising the ratio of outputs to inputs)
  - effectiveness (the extent to which intended outcomes are achieved)
  - legislative and policy compliance.

Performance audits cover a wide range of topics and commonly examine program governance arrangements, information systems, performance measures, client relationships, monitoring systems and legal compliance. Audits are conducted in accordance with ANAO auditing standards and are tabled in Parliament.

The *Auditor-General Act 1997* authorises the Auditor-General to conduct a performance audit of an entity, a Commonwealth authority or company, other than a government business enterprise (GBE) or any of its subsidiaries. The Auditor-General may conduct a performance audit of a fully owned GBE or its subsidiaries if the responsible minister, the Minister for Finance and Deregulation or the Joint Committee of Public Accounts and Audit (JCPAA) requests the audit. The Act also authorises the Auditor-General to conduct a performance audit of a Commonwealth partner, where the Commonwealth provides money for a Commonwealth purpose. Audits of Commonwealth partners that involve a state or territory agency must be requested by the JCPAA.

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 the report on performance for Program 2.1.

A total of 52 audit reports were tabled during 2011–12, against a target of 55, while two fewer better practice guides were published than anticipated. The delivery of the program as planned was affected by:

- ▶ several audits being more complex than originally anticipated and taking longer to complete
- ▶ staff movements during the year
- ▶ the need to respond to emerging priority topics and parliamentary audit requests.

A number of initiatives are being implemented to reduce the impact of these factors in future years. These initiatives include tighter management of audit scope, streamlining aspects of reporting processes and developing greater team flexibility across the Performance Audit Services Group.

Each year the ANAO develops an audit work program, which provides a portfolio-level view of the office's audit strategies and audits in progress at July, and a rolling program of potential audit topics. While not all the audits listed will be commenced, the publication assists Parliament and entities by providing a clear indication of the ANAO's areas of interest.

The work program is based on an assessment of the changing Australian public sector environment and the operations of entities, and the ANAO's understanding of the expectations of government and the views of parliamentary committees. This ensures that the ANAO's audit services meet the needs of the Parliament and public sector entities. When the ANAO prepares its work program it takes into account risks, financial materiality, program significance, audit impact, program visibility, the extent of recent audit and evaluation coverage, and broad themes derived from the audit planning process.

The Audit Work Program July 2011 was widely distributed, including to all parliamentarians, the JCPAA and agency heads. It is available on the ANAO's website.

Key environmental factors influencing the 2011–12 program included:

- ▶ 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 procurement and grants management.



Performance audit manager Sally Ramsey on fieldwork in the Northern Territory as part of the Administration of Northern Australia Quarantine Strategy audit.

In addition to the audits identified in the Audit Work Program, the ANAO may conduct a performance audit in response to a formal request from the Parliament or a parliamentarian. In 2011–12, two audits were tabled as a result of such requests:

- ▶ Audit Report No.12 2011–12, *Implementation of the National Partnership Agreement on Remote Indigenous Housing in the Northern Territory*, was conducted following a request from the Senate.
- ▶ Audit Report No.29 2011–12, *Administration of the Australia Network Tender Process*, was conducted following requests from the Minister for Broadband, Communications and the Digital Economy and the Deputy Leader of the Opposition.

In addition, the scope of Audit Report No.24 2011–12, *Administration of Government Advertising Arrangements: March 2010 to August 2011*, was extended following a request from the Leader of the Opposition on 29 July 2011 to include the Clean Energy Future campaign administered by the Department of Climate Change and Energy Efficiency.

The 2011–12 Audit Work Program involved all Australian Government portfolios. At 30 June 2012, audit reports had been tabled specifically covering agencies in 13 portfolios, and audit work was underway in the remaining five portfolios. The performance audits completed in 2011–12 are summarised by portfolio in Table A2.1 of Appendix 2 (audits that covered work in more than one portfolio are listed under Table A2.2, ‘Cross-portfolio audit reports’).

### Issues identified in audits undertaken in 2011–12

Key areas requiring the attention of entities in the audit reports completed in 2011–12 included:

- ▶ program implementation and delivery
- ▶ procurement and capability acquisition processes
- ▶ grants administration
- ▶ monitoring program progress and focusing on outcomes.

Some issues identified in those key areas are discussed below.

### PROGRAM IMPLEMENTATION AND DELIVERY

The implementation of government programs is one of the main responsibilities of public administration and is therefore an ongoing focus for the ANAO.

Audit Report No.7 2011–12, *Establishment, Implementation and Administration of the Infrastructure Employment Projects Stream of the Jobs Fund*, assessed the efficiency and effectiveness of the establishment, implementation and administration of the Infrastructure Employment Projects (IEP) stream of the Jobs Fund. The Government's objective in establishing the Jobs Fund was to support and create jobs and employment opportunities in communities affected by the global recession. The audit concluded that the policy development for the Jobs Fund, and aspects of the program design for the IEP stream, were undertaken effectively and with the urgency required for a stimulus measure. However, shortcomings in designing and implementing an effective means for identifying and assessing candidate construction projects meant that the IEP stream did not achieve the economic stimulus objectives set for it in the anticipated timeframe. The audit made two recommendations directed at improving the administration of grant programs that do not involve an open call for applications.

Audit Report No.11 2011–12, *Implementation and Management of the Housing Affordability Fund*, assessed the effectiveness of the administration of an initiative intended to support projects that would reduce the cost of infrastructure works associated with housing developments and encourage best practice in housing development assessment and planning processes. The audit concluded that there were serious shortcomings in the administration of the program. In particular, the assessment and selection arrangements were not applied consistently, meaning that not all applicants were treated equitably. The audit made three recommendations directed at improving the quality of advice to ministers and other decision-makers on the allocation of grant funding and improving arrangements for managing the performance of the approved projects.

Audit Report No.48 2011–12, *Administration of Mental Health Initiatives to Support Younger Veterans*, concluded that a more strategic and coordinated approach was required for the Department of Veterans' Affairs (DVA) to effectively plan and deliver mental health programs and services that met both the current and emerging needs of serving and former members of the Australian Defence Force. The audit made five recommendations to strengthen DVA's administration of mental health programs and services to better support younger veterans.

Audits during 2011–12 also identified program delivery and implementation projects which had been largely effective. For example, Audit Report No.33 2011–12, *Management of ePassports*, concluded that the Department of Foreign Affairs and Trade had effectively implemented biometric technology and met international requirements and standards for enhanced passport security; two recommendations were made to further strengthen the management of ePassports. Similarly, Audit Report No.23 2011–12, *Administration of the National Greenhouse and Energy Reporting Scheme*, concluded that the Department of Climate Change and Energy Efficiency had established a workable greenhouse gas and energy reporting scheme that provided a more accurate measurement of greenhouse gas emissions and energy use within Australia than the voluntary industry surveys and programs that were previously in place, though aspects of their administration required strengthening to improve the operation of the scheme.

### PROCUREMENT AND CAPABILITY ACQUISITION PROCESSES

Procurement and capability acquisition are core activities of government agencies and underpin agencies' ability to deliver services. Performance audits that review such activities provide assurance that agencies are making appropriate decisions about the use of government resources to develop capability and deliver outcomes, while identifying potential for agencies to improve their procurement processes.

In terms of specific procurement processes, Audit Report No.29 2011–12, *Administration of the Australia Network Tender Process*, reported on the administration of the Australia Network tender process and identified lessons learned from the conduct of the process to inform future procurement activities. The Australia Network is an Australian Government–funded international television service, and was the subject of a tender process in 2010 and 2011. Important lessons included: that clarity is necessary where it is intended that ministers or Cabinet have a formal role in a tender process; that information security is critically important to effective tender arrangements; and that all parties involved in the management of a tender process should have regard to the importance of adhering to conventional procurement arrangements and effectively managing the range of risks involved.

Audit Report No.34 2011–12, *Upgrade of the M113 Fleet of Armoured Vehicles*, identified that the project continued to suffer from various technical, administrative and contractual problems. The majority of upgraded M113 vehicles had been delivered and were an improvement on the older vehicles. However, a vehicle that was considered fit-for-purpose when the minor upgrade was first proposed 20 years ago now lags behind armoured infantry vehicles used by other armed forces, leaving Defence with an acknowledged capability gap. The ANAO made one recommendation aimed at improving the coordination of inputs to capability when developing or upgrading combat platforms.

Audit Report No.31 2011–12, *Establishment and Use of Procurement Panels*, reported that the agencies covered by the audit had generally established procurement panels through sound open tender processes, providing for efficient procurement from the panels in order to meet their business needs for property and services. However, in selecting preferred suppliers to undertake work under panel arrangements, there was considerable scope for the agencies to employ more competitive arrangements and better demonstrate value for money in their selection processes, consistent with the requirements of the *Commonwealth Procurement Guidelines*. The ANAO made two recommendations aimed at strengthening the accountability and transparency of panel procurement. A third recommendation was directed at improving the design and effectiveness of panel arrangements.

### GRANTS ADMINISTRATION

Grants administration is an important activity for many Commonwealth entities, involving the payment of billions of dollars of public funds each year. The selection of grant recipients and other aspects of grants administration are often matters of public interest. Performance audits continue to identify issues in regard to the administration of grants and the application of the enhanced grants administration framework.

Audit Report No.36 2011–12, *Development and Approval of Grant Program Guidelines*, assessed the implementation and effectiveness of the enhanced grants administration requirements relating to the development and approval of new grant guidelines and revision of existing grant guidelines. As part of the audit, the ANAO examined some 800 ministerial briefs relating to around 220 programs across 20 agencies. The audit concluded that, overall, the enhanced grants administration requirements relating to the development and approval of program guidelines had yet to be fully and effectively implemented. For example, the quality of grant program guidelines remained quite variable; more than one-third of the grant program guidelines examined by the ANAO which outlined the selection process that was to be employed indicated that a non-competitive process would be adopted; and more than half the guidelines developed in the two-and-a-half-year period examined by the ANAO had not been submitted for the required ministerial approval. The audit made three recommendations to agencies to promote transparency

and consistency in the administration of granting activities, and one recommendation to Finance relating to risk assessments of grant programs.

Audit Report No.39 2011–12, *Management of the National Solar Schools Program*, assessed the effectiveness of the design and management of the National Solar Schools Program. The program was intended to assist schools to take practical action on climate change through competitive merit-based grants for the purchase of rainwater tanks, renewable energy systems and energy efficiency items. Overall, there were early indications that the program had assisted schools to generate their own electricity and improve their energy efficiency. However, in the 2010–11 and 2011–12 funding rounds, a significant number of applications were approved for funding although they had received a low overall score against the assessment criteria, with no indication of how such applications could be seen to represent an efficient, effective and economical use of public money. The audit made two recommendations relating to the assessment and approval process.

#### *MONITORING PROGRAM PROGRESS AND FOCUSING ON 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 Outcomes and Programs Framework.

A broad overview was provided by Audit Report No.5 2011–12, *Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework*, which assessed how effectively entities had developed and implemented appropriate key performance indicators (KPIs) to support stated program objectives. In particular, the audit assessed effectiveness KPIs for 50 entities. The audit concluded that most of the entities examined had scope to improve the development of effectiveness KPIs and the reporting against them, in some cases significantly. The audit made two recommendations directed at improving KPI practice in agencies, and a further recommendation for Finance on assessing improvements in performance measurement and developing guidance material.

Audit Report No.12 2011–12, *Implementation of the National Partnership Agreement on Remote Indigenous Housing in the Northern Territory*, concluded that progress had been achieved in the number of houses constructed and refurbished, in land tenure arrangements, and in standardised tenancy agreements. However, in implementing the joint management approach with the Northern Territory Government less attention had been given to the development of robust program management systems. The ANAO recommended the development and public reporting of relevant outcome-based performance indicators in addition to the current reporting on program outputs. This would help to inform the Australian Parliament of progress towards the outcomes and objectives of the agreement.

Where sound performance indicators have been identified and measured, it is important for public accountability that the information be easily accessible. Audit Report No.10 2011–12, *Administration of the National Partnership on Early Childhood Education*, concluded that the Department of Education, Employment and Workplace Relations had effectively coordinated improvements in data to assess the progress of the National Partnership on Early Childhood Education (NPECE) and that much detailed information was available. However, it was not easy to access and readily understand NPECE performance information. The audit recommended that the department provide access to timely, consolidated and clearly presented NPECE performance information at national, state and territory levels, alongside relevant background information, to improve information for stakeholders and accountability.

# CASE STUDY

## Conducting performance audits

Within the typical audit process there is wide variation in the topics, scope and challenges of particular audits, as the following two recent examples demonstrate.

In September 2011, the ANAO presented to Parliament Audit Report No.5 2011–12, *Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework*.

The value of conducting targeted audits of key performance indicators (KPIs) of entities in the general government sector had been identified by the ANAO over several years and endorsed by the Joint Committee of Public Accounts and Audit (JCPAA) in its Report 419, *Inquiry into the Auditor-General Act 1997*.

The audit report was based on a wide range of evidence—reviewing the published KPIs for 89 programs across 50 entities, as well as a detailed analysis of the KPIs of four entities and an assessment of the role of the Department of Finance and Deregulation (Finance).

The results of the audit were reviewed by the JCPAA, which in turn reported and made its own recommendations. The Auditor-General's authority to conduct audits of KPIs was subsequently made explicit in amendments to the *Auditor-General Act 1997*. Work is underway to develop and pilot an audit methodology that would allow audits of KPIs in annual reports to be integrated with the annual audits of financial statements.

In November 2011, the ANAO presented Audit Report No.12 2011–12, *Implementation of the National Partnership Agreement on Remote Indigenous Housing in the Northern Territory*.

This audit was initiated by a request from the Australian Senate. The ANAO conducted preliminary research to frame the scope of the

audit to address the Senate's intent within the authority of the Auditor-General.

The audit was technically complex because the National Partnership Agreement is administered jointly by the Australian Government and the Northern Territory Government, and officers of the two governments work side by side to deliver the program. The audit, however, focused on the role of the Australian Government agency in the program.

Throughout the audit process, the ANAO worked closely with the Australian Government Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) and the relevant Northern Territory agencies, including the Auditor-General's Office and the Department of Housing, Local Government and Regional Services (DHLGRS). The audit also drew on specialist expertise from the construction industry.

The fieldwork component of the audit was extensive, including work at the offices of FaHCSIA in Canberra and DHLGRS in Darwin and visits to remote communities in the Northern Territory.

Both FaHCSIA and the Northern Territory department supported the audit recommendations. FaHCSIA commented that 'The recommendations made in the Report will assist the Department to further improve our delivery of this important government initiative'.

## Assurance reviews

In addition to performance and financial statement audits, the Auditor-General may undertake other assurance activities. These generally consist of reviews undertaken by agreement with the auditee, either at the request of the auditee or in response to requests from stakeholders such as ministers and parliamentary committees.

Since 2007–08, the ANAO has conducted an annual assurance review of the Defence Materiel Organisation's annual report on major projects of the Department of Defence (Defence). This arrangement was initiated and supported by committees of the Parliament as part of a cooperative effort to improve transparency and public accountability for major Defence acquisitions.

In 2011–12, the ANAO tabled Audit Report No.20, *2010–11 Major Projects Report*, the fourth review in the series. The report provided the ANAO's assessment and analysis of information provided by the Defence Materiel Organisation (DMO) on 28 major projects and comprehensive information on the status of projects as advised by the DMO. The report is summarised in Appendix 2.

## Better practice guides

Better practice guides contribute to improved public administration by providing a mechanism for recognising better practices and disseminating information on those to all Australian Government entities. This can include 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.

The ANAO's emphasis in developing better practice guides is on promoting good practices for the Australian public sector by providing new guidance in areas where improvements are warranted and maintaining up-to-date guides covering important common activities.

The better practice guides published in 2011–12 included new guidance for environmental management, and updated guidance on audit committees and contract management. Five guides were planned to be produced in 2011–12: three were published and the two remaining guides are expected to be published in 2012–13.

Table 3 provides a summary of the better practice guides published in 2011–12.

**TABLE 3: BETTER PRACTICE GUIDES PUBLISHED IN 2011–12**

Title	Description
<p><i>Public Sector Audit Committees</i> 31 August 2011</p>	<p>Audit committees play an important role in the governance of public sector entities by providing an independent source of assurance and advice to chief executives and boards of management. Recent deficiencies in the delivery of high-profile government programs resulted, in part, from a failure to implement robust control measures early in the life cycles of the programs. This highlights the value of having an independent and objective audit committee as a complement to management controls and accountabilities.</p> <p>The guide provides guidance on the operation of the audit committees of public sector entities. It is a reference document for chief executives, board members, members of audit committees and senior managers with responsibility for audit committee activities.</p> <p>This publication replaces the 2005 edition of this guide and complements the <i>Public Sector Internal Audit</i> better practice guide.</p>
<p><i>Developing and Managing Contracts</i> 29 February 2012</p>	<p>Contracting is an integral part of doing business in the public sector, and the delivery of many, if not most, government programs involves some contracting with private sector providers.</p> <p>This guide covers the process of developing a contract to provide an effective foundation for subsequent contract management; agency arrangements for contract management in general; and managing and ending individual contracts.</p> <p>This publication replaces the 2007 edition of this guide. The revised guide updates references to legislation and policy and includes an expanded section on panel procurement arrangements.</p>
<p><i>Public Sector Environmental Management</i> 27 April 2012</p>	<p>Over recent years there has been an increasing focus on improving the environmental performance of public sector entities, including growing expectations from governments and the community for more sustainable approaches to the delivery of goods and services. Against this background, the Australian Government has progressively introduced legislative, regulatory and policy requirements to improve the environmental sustainability of public sector operations.</p> <p>This guide provides public sector executives and environmental managers with practical implementation strategies, advice and insights to better position their organisations to: improve environmental management practices and reduce the environmental impacts of their operations; foster greater efficiencies and operational cost savings; and meet legislative, regulatory and policy requirements.</p>

## Performance measures

The following sections describe in more detail the ANAO's performance in providing performance audit services during 2011–12. Our primary performance measures relate to the number of performance audit reports and better practice guides produced, and the level of satisfaction that the Parliament, JCPAA and audited entities have with our reports and services. We also participate in regular quality assurance and peer review processes to monitor our performance and identify areas for improvement.

### Number, duration and cost

Table 4 summarises the ANAO's performance in terms of the number, duration and cost of performance audit reports.

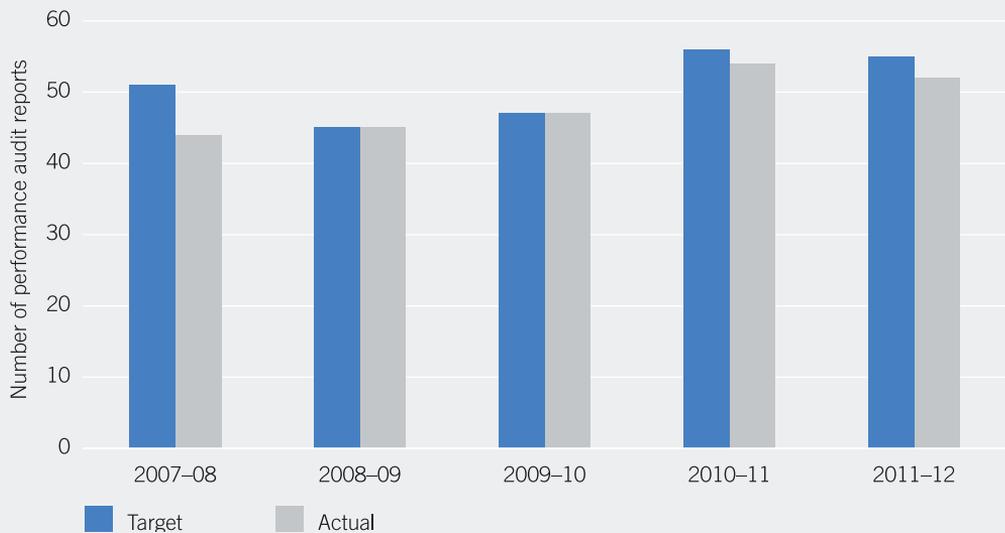
**TABLE 4: QUANTITATIVE PERFORMANCE MEASURES FOR PROGRAM 2.1, 2009–10 TO 2011–12**

	Number of performance audit reports		Time taken to complete reports (months)		Cost per report (\$m)	
	Target	Result	Average	Range	Average	Range
2011–12	55	52	12.3	4.5–19.8	0.46	0.2–0.9
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>

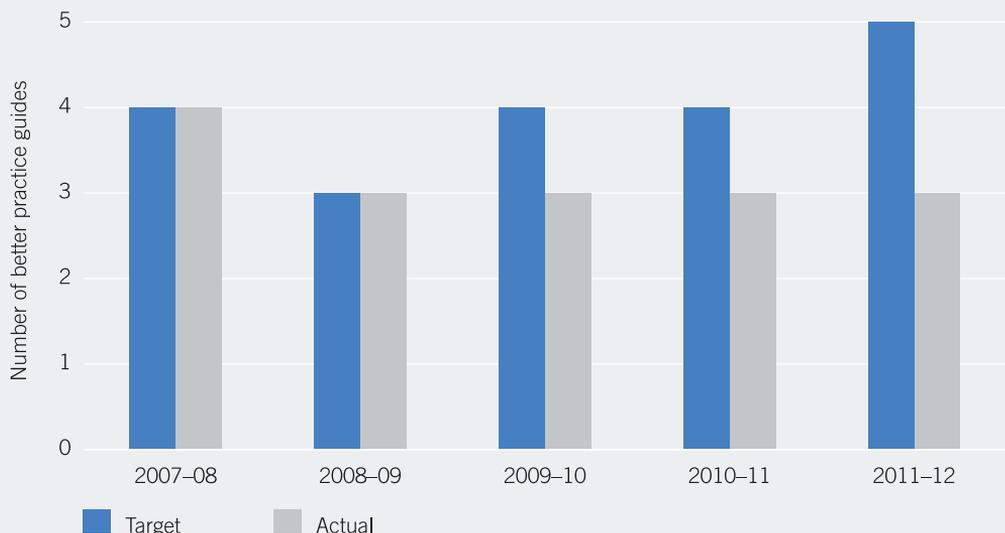
a Due to a transcription error, this appeared as '0.2–0.1' in the annual report for 2009–10.

Figure 7 shows the numbers of performance audit reports completed over the past five financial years, and Figure 8 shows the numbers of better practice guides published in that period.

**FIGURE 7: PERFORMANCE AUDIT REPORTS PUBLISHED, 2007–08 TO 2011–12**



**FIGURE 8: BETTER PRACTICE GUIDES PUBLISHED, 2007–08 TO 2011–12**



## FEEDBACK FROM PARLIAMENT

The contribution of performance audit services to the work of the Parliament is measured, in part, by the ANAO's appearances before and submissions to parliamentary committees. During 2011–12, the ANAO completed a total of 30 appearances before and submissions to parliamentary committees, against a target of 20. Parliamentary committee reviews of audit reports give entities an impetus to implement audit recommendations and contribute to the overall improvement of public administration resulting from performance auditing. In 2011–12, parliamentary committees continued to support audit conclusions and recommendations.

The ANAO also formally surveys parliamentary stakeholders every two years to seek their feedback and ensure the office is meeting their expectations. Further information on 'Assistance to Parliament' is in the following section of this report.

### 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 to 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 reports are available from the Parliament's website [www.aph.gov.au](http://www.aph.gov.au).



Auditor-General Ian McPhee, Group Executive Director Andrew Pope and Executive Director Stuart Turnbull at a public hearing of the JCPAA.

The JCPAA completed four reviews of Auditor-General's reports in 2011–12.

► *Report 423—Review of Auditor-General's Reports Nos 39 2009–10 to 15 2010–11* was tabled on 4 July 2011 and commented on:

- Audit Report No.2 2010–11, *Conduct by Infrastructure Australia of the First National Infrastructure Audit and Development of the Infrastructure Priority List*
- Audit Report No.3 2010–11, *The Establishment, Implementation and Administration of the Strategic Projects Component of the Regional and Local Community Infrastructure Program*
- Audit Report No.9 2010–11, *Green Loans Program*

- Audit Report No.11 2010–11, *Direct Source Procurement*
- Audit Report No.12 2010–11, *Home Insulation Program*.
- ▶ *Report 428—Review of Auditor-General's Reports Nos. 16 to 46 2010–11* was tabled on 24 November 2011 and commented on:
  - Audit Report No.22 2010–11, *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2010*
  - Audit Report No.30 2010–11, *Digital Education Revolution Program—National Secondary Schools Computer Fund*
  - Audit Report No.41 2010–11, *Maintenance of the Defence Estate*
  - Audit Report No.46 2010–11, *Management of Student Visas*.
- ▶ *Report 429—Review of the 2010–11 Defence Materiel Organisation Major Projects Report* was tabled on 21 May 2012 and commented on Audit Report No.20 2011–12, *2010–11, Major Projects Report*.
- ▶ *Report 430—Review of Auditor-General's Reports Nos. 47 (2010–11) to 9 (2011–12) and Reports Nos. 10 to 23 (2011–12)* was tabled on 21 May 2012 and commented on:
  - Audit Report No.5 2011–12, *Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework*
  - Audit Report No.7 2011–12, *Establishment, Implementation and Administration of the Infrastructure Employment Projects Stream of the Jobs Fund*
  - Audit Report No.21 2011–12, *Administration of Grant Reporting Obligations*.

A JCPAA review of two audit reports, numbers 29 and 31 of 2011–12, was in progress on 30 June 2012.

### 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 the ANAO makes genuine efforts to achieve that result. However, disagreement sometimes occurs. Entity comments are included in full in the final audit report.

In 2011–12, the ANAO made 144 recommendations in its audit reports to improve entity performance and accountability. Because recommendations are sometimes presented in parts for clarity, it is possible for entities to agree with parts of one recommendation and disagree with other parts. Of the 144 recommendations, 137 (95 per cent) were fully agreed in all parts. Seven recommendations (5 per cent) were agreed with some qualification. No recommendation was not agreed to. Table 5 provides more detail.

**TABLE 5: AGREEMENT TO RECOMMENDATIONS IN PERFORMANCE AUDIT REPORTS, 2009–10 TO 2011–12**

	<b>Recommendations fully agreed (%)</b>	<b>Recommendations agreed with some qualification (%)</b>	<b>Recommendations not agreed (%)</b>
2011–12	95.1	4.9	0.0
2010–11	95.1	4.2	0.7
2009–10	93.1	6.2	0.7

### 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 of the audited entity.

The survey is an important business tool for improving the quality and effectiveness of performance audit services. Survey results provide an insight into the effectiveness of current practice and inform the development of new audit practices and approaches. The survey is completed by a firm of consultants that is engaged by the ANAO but independent of the performance audit teams. Key matters on which feedback is sought include the audit process; audit reporting; and the value of the ANAO's performance audit services more generally.

The response rate from auditees surveyed for the 2011–12 reporting period was 75 per cent, a decrease from 87 per cent in 2010–11. The proportion of respondents that acknowledged the value added by ANAO services was 91 per cent (up from 86 per cent in 2010–11). The percentage of respondents that considered the auditors had demonstrated the professional knowledge and audit skills required to conduct the audit was 85 per cent (down from 91 per cent in 2010–11).

### Quality assurance

The annual quality assurance (QA) review of performance audits and other assurance reports is an important and longstanding part of the quality control arrangements in the ANAO and, together with the QA reviews of financial statement audits, helps assess whether ANAO audits are conducted in accordance with relevant standards. The program is managed by the Professional Services Branch under the authority of the Deputy Auditor-General.



Linda Gorrell from Professional Services Branch.

### *2011–12 PROGRAM*

The 2011–12 quality assurance program comprised a review of five performance audits. The reviews identified that the audits were substantially compliant with the auditing standards and ANAO policies. Areas identified that warrant ongoing attention include the completeness of documentation contained in the audit file; and the completion of documentation relating to independence, project management of audits, management of the audit and quality control requirements, including management sign-offs.

The results of the QA reviews are 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 2011–12, the New Zealand Audit Office reviewed two ANAO audits and concluded that they had been conducted in accordance with the ANAO Auditing Standards and policies and contained findings and conclusions supported by appropriate evidence. The reviews identified a small number of opportunities for improvement relating to the presentation of key findings, the ongoing management of risks to the successful completion of audits and documentation relating to the skills, competence and knowledge of the audit team.

## 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 representations and developing nation support*—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.

Table 6 provides a summary of the performance of the shared program components in 2011–12.<sup>1</sup> The delivery of the components is described in more detail in the following sections.

**TABLE 6: PERFORMANCE AGAINST 2011–12 PORTFOLIO BUDGET STATEMENTS DELIVERABLES AND PERFORMANCE INDICATORS COMMON TO PROGRAMS 1.1 AND 2.1**

	Target	Result
<b>Deliverables</b>		
Number of engagements that contribute to public sector auditing and support developing nations	40	45
<b>Key performance indicator</b>		
Percentage of parliamentarians surveyed that expressed satisfaction with ANAO products and services directed towards improving public sector administration	90%	86%

### Assistance to Parliament

In 2011–12, the ANAO 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.

In particular, the ANAO continued to provide assistance to the JCPAA. The purpose of the JCPAA has remained essentially unchanged since it was first established in 1913: to hold Commonwealth agencies to account for the lawfulness, efficiency and effectiveness with which they use public monies. Among its responsibilities, the committee is the formal link between the Parliament and the Auditor-General. The JCPAA is required to examine all ANAO reports which are tabled in Parliament and to report its findings to Parliament; more information on this activity in 2011–12 is provided in the report on performance for Program 2.1. In 2011–12, officers of the ANAO attended private briefings and public hearings as part of the JCPAA's review of audit reports.

<sup>1</sup> 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 Part 5).



Executive Director Stuart Turnbull at a JCPAA public hearing.

In addition to the ANAO's work with the JCPAA, the office assisted other parliamentary committees during 2011–12, appearing before or providing other assistance to the:

- ▶ Parliamentary Joint Committee on the Australian Commission for Law Enforcement Integrity
- ▶ House of Representatives Standing Committee on Agriculture, Resources, Fisheries and Forestry
- ▶ Senate Standing Committee on Foreign Affairs, Defence and Trade.

The ANAO undertakes a parliamentary survey every two years. The survey provides valuable information that assists it to continue to meet the needs of parliamentarians and the staff of parliamentary committees.

A survey was conducted in 2011–12. The main findings were:

- ▶ ANAO officers were rated highly for their accessibility and responsiveness and the extent to which the advice or information they provided addressed the needs of parliamentarians and committee staff.
- ▶ Survey respondents valued the work and role of the ANAO. Many remarked that the ANAO plays a vital role in keeping government departments accountable.
- ▶ Nearly all parliamentarians surveyed (98 per cent) agreed with the statement that the ANAO has integrity as an organisation.
- ▶ Although the ANAO's target of 90 per cent of respondents expressing satisfaction with its services directed towards improving public sector administration was not met, a strong majority of respondents (86 per cent) perceived that the ANAO produces high-quality reports and guides and is independent and non-partisan.

The survey identified some areas in which the ANAO could improve. In response, the ANAO has developed a number of initiatives that will be implemented during 2012–13. We will develop a communications plan to guide our engagement with members of Parliament. We will also develop a more concise brochure to outline the objectives and key findings of each performance audit,

and consider other approaches to better express the key themes and findings of an audit and reduce the complexity in our reports.

## National representation

The Auditor-General 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 Papua New Guinea (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.

The ANAO contributes 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 March 2012 the Auditor-General and Deputy Auditor-General attended a forum on public sector audit convened by ACAG and the Canadian Conference of Legislative Auditors. Staff from the ANAO were also active on a number of ACAG subcommittees, including the:

- ▶ Performance Audit Group
- ▶ Audit Quality Assurance Panel
- ▶ Practice Management Group
- ▶ Interjurisdictional Information Systems Audit Group.

## International representation and support to developing nations

The ANAO has made a commitment to deliver engagements that contribute to public sector auditing and support developing nations. In 2011–12, the ANAO delivered 45 engagements across its range of international activities to meet this commitment, exceeding its target of 40.

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

The ANAO's international activities are broadly classified into four streams:

- ▶ engagement with supreme audit institutions (SAIs)
- ▶ development cooperation
- ▶ visitor program
- ▶ peer reviews.

## International engagement with supreme audit institutions

Engagement with other SAIs allows the ANAO to share knowledge and information and contribute to international dialogue about best practice public administration and developments in public sector auditing.

The ANAO is a member of the International Organization of Supreme Audit Institutions (INTOSAI), and maintains representation on two regional groupings:

- ▶ the Asian Organization of Supreme Audit Institutions (ASOSAI)
- ▶ the Pacific Association of Supreme Audit Institutions (PASAI).

The ANAO also responds to requests from SAIs directly, including by hosting delegations, providing information and participating in surveys.

In 2011–12, the Auditor-General visited Jakarta and Beijing to meet with the heads of the Indonesian and Chinese SAIs, respectively, and attended the Global Working Group (GWG) meeting in Sweden. The GWG is an international forum of Auditors-General who meet annually to hold organised but informal discussions on current and emerging issues of concern to members, and to explore opportunities to share information and work closely together.

During the year, staff from the ANAO also:

- ▶ attended the INTOSAI Working Group on Environmental Audit meeting in Argentina; the INTOSAI Working Group on IT Audit meeting in Malaysia; and the Fourteenth PASAI congress in Tonga
- ▶ participated in the ASOSAI XII Conference in India; and the Organisation for Economic Co-operation and Development (OECD) study of the Audit of Year-End Government Accounts of the Federal Government of Brazil
- ▶ responded to surveys and requests for information from other SAIs and working groups.

### International development cooperation

Through a Strategic Partnership Agreement with the Australian Agency for International Development (AusAID), the ANAO participates in Australia's international aid program to assist and support other SAIs to build their institutional capacity. The agreement recognises the Australian Government's strategic whole-of-government approach to enhancing good governance as an integral part of meeting development challenges, reducing poverty and protecting Australia's national interests. The ANAO participates in AusAID-funded programs in Indonesia and PNG.

#### *INDONESIA*

The Australia Indonesia Government Partnerships Fund (GPF) is a whole-of-government program that facilitates and strengthens government-to-government partnerships and policy dialogue between Australia and Indonesia, in the pursuit of economic and public sector development. The ANAO and the Indonesian Board of Audit (BPK) participate in the GPF program.

Through the GPF, the ANAO provides assistance to the BPK to contribute to strengthening the BPK's performance and financial statement audit capacity. We have an SES officer deployed to the BPK to offer performance audit support and advice. We also offer some support to the Indonesian Parliament's Audit Committee, the BAKN (equivalent to the JCPAA in Australia). ANAO activities under the GPF are targeted through four streams: institutional leadership engagement, senior management engagement, technical assistance, and support for the BAKN finance accountability committee.

In 2011–12, the Auditor-General visited the BPK, and the Deputy Chairman of the BPK visited the ANAO. In addition, we:

- ▶ hosted a study tour on fraud and corruption prevention
- ▶ provided expert advice on the BPK e-audit project, in association with staff from the Office of the Auditor General for Western Australia
- ▶ provided training that assisted with capacity development in performance auditing and quality assurance.



Auditor-General Ian McPhee with BPK Chairman Hadi Poernomo and colleagues in Jakarta in July 2011.

### *PAPUA NEW GUINEA*

The ANAO has maintained linkages with the PNG Auditor-General's Office (PNG AGO) since the 1970s. Currently, the ANAO participates in two AusAID-funded programs in PNG:

- ▶ the Strongim Gavman Program
- ▶ the Papua New Guinea–Australia Audit Office Twinning Scheme.

Through the Strongim Gavman Program, the ANAO has been providing financial audit and corporate/audit strategy advisers to the PNG AGO since 2004. This has involved the deployment of a Senior Executive Officer to PNG AGO in a corporate advisory role. In May 2012, in response to the PNG AGO's request for assistance to develop its performance audit capacity, the ANAO deployed an additional adviser under the program. The role of the additional adviser is to assist the PNG AGO's performance audit area and to provide strategic advice on performance auditing to the PNG Auditor-General.

The goal of the Papua New Guinea–Australia Audit Office Twinning Scheme is to improve governance in PNG by strengthening the performance of the PNG AGO. The activities delivered under the scheme in 2011–12 were:

- ▶ secondment of four PNG AGO graduates to the graduate programs of the ANAO and the Audit Office of New South Wales, for a period of 10 months
- ▶ secondment of two PNG AGO middle-managers to the Queensland Audit Office, for two periods of approximately six weeks
- ▶ provision of support and assistance for performance and financial statement audits in PNG, and assistance to develop the IT capability of the PNG AGO.

# CASE STUDY

## An ANAO officer's experience in Papua New Guinea

In conjunction with AusAID and the Department of Foreign Affairs and Trade, the ANAO supports programs to strengthen governance in developing nations. As the experience of Wayne Jones demonstrates, as well as assisting countries in the region, those activities can be valuable development opportunities for the ANAO officers involved.

In early 2011, Wayne was posted to the PNG Auditor-General's Office (PNG AGO) in Port Moresby. The ANAO has a longstanding connection with the PNG AGO and since the country achieved independence in 1975, ANAO officers have served in various advisory roles in the PNG AGO. Several officers of the PNG AGO have participated in the ANAO's graduate program.

Wayne's strategic role is to provide advice to PNG's Auditor-General on corporate strategy, organisational governance structure, stakeholder relationships, and external engagement. On an operational level, he coordinates a support program for the PNG AGO that helps to build audit capability, provides a quality assurance function and assists with planning.

Wayne explains that the ANAO's role is to provide support:

*The nature of our relationship is very much about cooperation. The AGO here sets the priority and agenda then asks for support in areas where it believes that it cannot reasonably achieve on its own.*



Visit by Papua New Guinea Auditor-General, Philip Nauga and staff. (L to R): Michael Kupa, Andrew Pope, Ian McPhee, Philip Nauga, Steve Chapman, Andy Vui and Wayne Jones.

Life in PNG has presented many challenges, from frequent earth tremors and a highway collapse, to political action that cut off the water and electricity supplies throughout the city. However, Wayne welcomes the opportunity to live in a different environment, and finds that the posting has many benefits:

*I am enjoying the intellectual challenge of working through a great range of work issues. I won't necessarily have all the answers, but I enjoy working in a complex environment. I am learning about myself in terms of strategies for coping and dealing with issues. I have to do things in a different way. My posting is teaching me about culture and relationships. I've found it refreshing ... this is a great opportunity to be part of Australia's overseas aid program and to have the opportunity to contribute in a meaningful way. While the posting challenges me personally and professionally, it also offers me great rewards.*

## International visits

The ANAO hosts visits from international delegations, including groups from other SAIs, foreign government organisations and members of the INTOSAI community.

During 2011–12, the ANAO hosted visits of senior officials from Canada, Iraq, Japan, South Africa, New Zealand and Vietnam. The ANAO also delivered the Assessment of the Performance of Indigenous Programs workshop, which included participants from New Zealand and Canada.



Participants in the Assessment of the Performance of Indigenous Programs workshop held during July 2011.

## Peer reviews

The ANAO is pleased to contribute to auditing at an international level by leading and participating in peer reviews. Peer reviews provide an opportunity for SAIs to share ideas and experiences of best practice, benefitting both the review team and the institution under review. Participation in international peer reviews also assists us to support best practice and quality assurance.

Over recent years the ANAO has been involved in peer reviews of the audit offices of Canada and New Zealand.

During 2011–12, the ANAO was asked to lead an international team to undertake a peer review of the performance audit function of the Indian SAI, the Office of the Comptroller and Auditor-General of India. The team comprises representatives from the audit offices of Canada, Denmark, the Netherlands and the United States. The peer review is due to be completed in September 2012.

## Information services

In addition to the ANAO's primary role of providing independent assurance and advice to the Parliament, it supports and advises audit clients on matters that complement its primary role and fall within its area of expertise.

As part of this work the ANAO conducts seminars to advise on topical and emerging issues, with a focus on improved financial reporting. Client seminars cover changes to the Accounting

Standards, the *Corporations Act 2001*, the FMA Act and the CAC Act. The seminars, which generate a great deal of interest, were well received by attendees in 2011–12.

The five client seminars that the ANAO conducted in 2011–12, in Canberra, Melbourne and Sydney, attracted a total attendance of 515 representatives of government entities. Over 93 per cent of attendees who provided feedback indicated that the seminars met course objectives; over 97 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 3.

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

- ▶ *AUDITFocus* captures lessons from audit work that are likely to be of general interest and application to entities. The two editions published in 2011–12 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 2011–12.

Both newsletters are available from the ANAO's website.

The ANAO maintains an extranet site to support firms providing audit services to it. The extranet provides contractors with relevant ANAO policies, templates and guidance material. This year, the ANAO also conducted two technical information sessions for contractors, incorporating aspects of the client seminars and highlighting specific audit issues. The first was held at the ANAO office, and the other was via a live online training session (webinar) to contractors outside Canberra, including firms in Sydney, Adelaide and Darwin.

During the year the ANAO also contributed to the Commonwealth Financial Accountability Review being undertaken by Finance. The ANAO provided feedback on a series of issues papers prepared by Finance and prepared a submission on the discussion paper *Is Less More? An important part of the Australian Government's Better Government agenda, the review is examining the current financial framework to identify options for reform that will support high-quality resource management and performance now and into the future.*



MANAGEMENT AND  
ACCOUNTABILITY

# PART 4

## CORPORATE GOVERNANCE

The delivery of the ANAO's outcomes is supported by a structured corporate governance framework that facilitates the effective management of business initiatives and other corporate activities. Key elements of the ANAO's 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 the Corporate Plan, and assists the Auditor-General to meet his statutory responsibilities under the *Auditor-General Act 1997*, the *Financial Management and Accountability Act 1997* (FMA Act) and the *Public Service Act 1999*. The board is responsible for setting and monitoring the ANAO's strategic directions, overseeing key business opportunities and risks, and managing its budget and workforce.

The board meets each month. At 30 June 2012, the board's membership comprised:

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

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



The Executive Board of Management. Front (L to R): Warren Cochrane, Michael Watson, Steve Chapman, Ian McPhee. Back (L to R): Ian Goodwin, Anya Moore, Barbara Cass, Tom Ioannou and Mitchell Frost. Absent: Andrew Pope.

## Audit Committee

The objective of the Audit Committee is to provide independent assurance and assistance to the Auditor-General and the Executive Board of Management on the ANAO's risk, control and compliance framework, and its financial statement responsibilities.

The Audit Committee fulfils the requirements of section 46 of the FMA Act, which requires each chief executive to establish and maintain an audit committee.

The Audit Committee met four times in 2011–12. At 30 June 2012, its membership comprised:

- ▶ Bruce Jones (Chair), external independent member
- ▶ Steve Chapman, Deputy Auditor-General
- ▶ Warren Cochrane, Group Executive Director, Assurance Audit Services
- ▶ Mark Harradine, Executive Director, Performance Audit Services.

Observers at 30 June 2012 included Geoff Wilson, independent auditor; Peter Bell, internal auditor (Ernst & Young); Anya Moore, Executive Director, Corporate Management Branch; Brandon Jarrett, Executive Director, Professional Services Branch; Ben Sladic, Senior Director, Corporate Management Branch; Mitchell Frost, Chief Finance Officer (acting); and Linda Gorrell, Senior Director, Professional Services Branch.

## Information Strategy Committee

The Information Strategy Committee advises the Executive Board of Management on business systems and IT strategic directions. The Information Strategy Committee also provides strategic direction and funding to the IT Projects Governance Group, which is responsible for the implementation of all ICT projects and the alignment of IT service delivery with business requirements.

The committee met eight times in 2011–12. At 30 June 2012, its membership comprised:

- ▶ Steve Chapman (Chair), Deputy Auditor-General
- ▶ Ian Goodwin, Group Executive Director, Assurance Audit Services
- ▶ Tom Ioannou, Group Executive Director (acting), Performance Audit Services
- ▶ Anya Moore, Executive Director, Corporate Management Branch
- ▶ Lysandra Schmutter (Observer), Unisys Strategic Advisor.

Representatives from the support branches attend the meetings as observers and provide secretariat support.

## People and Remuneration Committee

The People and Remuneration Committee advises the Executive Board of Management in relation to remuneration policy and human resource management policies and practice. The committee also makes decisions about salary advancement and performance pay recommendations.

The committee met four times in 2011–12. At 30 June 2012, the committee's membership comprised:

- ▶ Steve Chapman (Chair), Deputy Auditor-General
- ▶ Ian Goodwin, Group Executive Director, Assurance Audit Services

- ▶ Barbara Cass, Group Executive Director, Performance Audit Services
- ▶ Anya Moore, Executive Director, Corporate Management Branch.

Other group executive directors attended the committee's annual meeting to determine staff salary advancement and performance pay ratings. Representatives from the support branches attend the meetings as observers and provide secretariat support.

### **Learning and Development Committee**

The Learning and Development Committee advises the Executive Board of Management on learning and development priorities, programs and strategic directions.

The committee met four times in 2011–12. At 30 June 2012, the committee's membership comprised:

- ▶ Ian Goodwin (Chair), Group Executive Director, Assurance Audit Services
- ▶ Anya Moore (Deputy Chair), Executive Director, Corporate Management Branch
- ▶ Rebecca Reilly, Executive Director, Assurance Audit Services
- ▶ David Gray, Executive Director, IT Audit
- ▶ Brandon Jarrett, Executive Director, Professional Services Branch
- ▶ Mark Simpson, Executive Director, Performance Audit Services.

Representatives from the support branches attend the meetings as observers and provide secretariat support.

### **International Steering Committee**

The International Steering Committee assists the Executive Board of Management by providing strategic oversight and coordination of the ANAO's AusAID-funded capacity building activities relating to Indonesia and PNG, and by monitoring all international interactions undertaken by the ANAO. The committee is sponsored by the Deputy Auditor-General.

The committee meets quarterly with additional meetings as required; it met five times in 2011–12. At 30 June 2012, the committee's membership comprised:

- ▶ Andrew Pope (Chair), Group Executive Director, Performance Audit Services
- ▶ Stuart Turnbull, Executive Director, Performance Audit Services
- ▶ Puspa Dash, Executive Director, Assurance Audit Services
- ▶ Anya Moore, Executive Director, Corporate Management Branch
- ▶ Mitchell Frost, Chief Finance Officer (acting)
- ▶ Ben Sladic, Senior Director, Corporate Management Branch
- ▶ Penelope Edwards, Director, Corporate Management Branch.

Representatives from the support branches also attend the meetings as observers and provide secretariat support.

## Security Committee

The Security Committee provides independent assurance and assistance to the Auditor-General and the Executive Board of Management on the ANAO's security framework.

The committee met five times in 2011–12. At 30 June 2012, the committee's membership comprised:

- ▶ Anya Moore (Chair), Executive Director, Corporate Management Branch
- ▶ Ben Sladic, Agency Security Adviser
- ▶ Robert Douros, Assistant Agency Security Adviser (acting)
- ▶ Gary Pettigrove, Information Technology Security Adviser.

Representatives from service groups and support branches also attend each meeting of the Security Committee as observers.

## Environmental Management Committee

The Environmental Management Committee monitors the implementation of the ANAO's Environmental Management Strategy to ensure that the ANAO is progressing as planned against its targets and any specific initiatives.

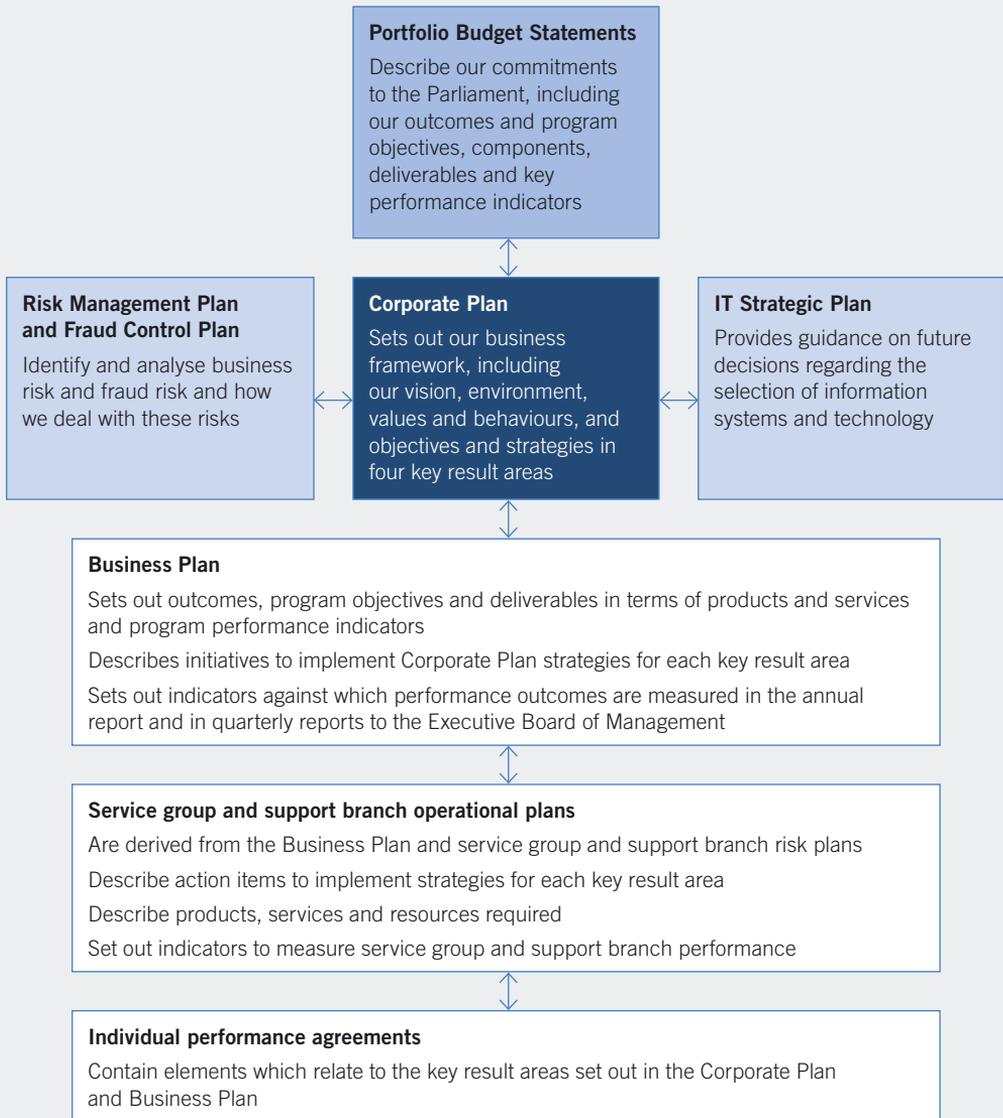
The committee met four times in 2011–12. At 30 June 2012, the committee's membership comprised:

- ▶ Anya Moore (Chair), Executive Director, Corporate Management Branch
- ▶ Ben Sladic, Senior Director, Corporate Management Branch
- ▶ Peter Kerr, Executive Director, Assurance Audit Services
- ▶ Christina Bagot, Director, Performance Audit Services
- ▶ Robert Douros, Operations Manager (acting).

## Strategic planning framework

Key elements of the ANAO's strategic planning framework are presented in Figure 9.

FIGURE 9: STRATEGIC PLANNING FRAMEWORK



### Corporate Plan

The 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 the ANAO's 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 an annual planning document, derived from the Corporate Plan. The plan outlines the ANAO's Portfolio Budget Statements commitments and key initiatives in support of Corporate Plan strategies. All action items from the 2011–12 Business Plan either were completed or are ongoing activities.

## Risk management framework

The ANAO's risk management framework comprises an overarching 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.

Our risk plans are reviewed and updated annually to identify risks associated with our business objectives, at both strategic and operational levels. 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 particular, we consider:

- ▶ Is our vision and direction appropriate?
- ▶ Do our services meet client needs and expectations?
- ▶ Do we have sufficient resources and capacity to deliver our services?

Our reputation for integrity and ethical behaviour is a highly valued corporate attribute, and all significant business risks identified in the Risk Management Plan are considered in the context of reputational risk.

The Executive Board of Management reviews any serious risk incidents each month, and any risk assessed as 'high' or above is monitored as a standard agenda item. All our business risks are reviewed at least annually. There were no serious risk incidents in 2011–12, and all risks with controls in place were assessed as 'medium'.

The ANAO takes part in the annual Comcover Risk Management Benchmarking Survey to independently assess our risk management arrangements. In the 2012 survey the ANAO scored 7.9 (the same as the score for 2011), against a peer group survey average of 6.6. Our risk management regime was assessed as 'structured'. In 2012 the ANAO received a 6 per cent discount on its Comcover premium, based on the quality of its risk management; this compares with a 7.3 per cent discount in 2011.

## Fraud control framework

The ANAO maintains a comprehensive fraud control framework, based on a 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 the risk management framework and consolidates our fraud prevention and detection initiatives in one document.

Having particular regard to the risk to the ANAO's 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.

There were no known incidents of fraud in 2011–12. All fraud risks were assessed and appropriate controls are in place.

The Auditor-General's fraud control certification follows.



Auditor-General for Australia

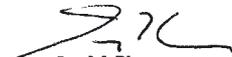


13 June 2012

**Annual Report 2011-12 – 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

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## Information Technology Strategic Plan

The IT Strategic Plan is a three-year plan to guide decisions relating to the selection and management of information services and technology. It is linked to the Corporate Plan and Business Plan, and identifies initiatives from the Business Plan that require technology support to facilitate the delivery of operational benefits.

The ANAO continues to invest in ICT capability, including trialling emerging technologies to support its mobile workforce. During 2011–12, the office upgraded its standard operating environment, replaced all desktops and laptops and commenced a two-year project to provide offsite data archiving facilities and disaster recovery arrangements (this is particularly important given the increasing reliance on electronic audit working papers). The office also continued to enjoy a strong working relationship with Unisys, its provider of outsourced IT support services.

The ANAO participated in the Australian Government Information Management Office data and cost management survey which assessed the ANAO's maturity level as 'Level 5–optimised process', the highest possible assessment in the benchmarking process.

In line with government policy, a portfolio, program and project management maturity model (P3M3) assessment was conducted in June 2012 (the previous assessment was in February 2011) by an independent, accredited consulting firm. P3M3 provides a framework for the ANAO to assess its capability in IT portfolio, program and project management and to develop a targeted improvement plan. The overall maturity assessment ratings for June 2012 were levels 3 and 2. The ratings were identical to those of the February 2011 assessment, although improvements were observed in the distribution of interview response scores in the majority of the areas being assessed. Outcomes from the assessment in February 2011 indicate that the trend is positive and improving.

## 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 ANAO employees in carrying out their responsibilities, including interacting with clients, fellow employees and other stakeholders. The guide is framed around the central theme of the 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.

Two in-house conferences were conducted for SES officers during 2011–12, in October 2011 and April 2012. Both conferences focused on business planning.

The October conference also considered initial insights from the Survey of Parliamentarians which the ANAO conducted during September to November 2011. The April conference included presentations from:

- ▶ Stephen Sedgwick, Australian Public Service Commissioner, speaking on the key challenges confronting the APS
- ▶ Stein Helgeby, Deputy Secretary, Financial Management Group, Department of Finance and Deregulation, speaking on the collaboration between the ANAO and the department, and the status of the Commonwealth Financial Accountability Review recommendations.

## External and internal scrutiny

In 2011–12, there were a number of external and internal reviews of the ANAO's operations, processes and reports.

### External audit

Part 7 of the *Auditor-General Act 1997* provides for the appointment of an independent auditor who undertakes the audit of the ANAO's financial statements and carries out selected performance audits. The independent auditor position is a part-time statutory appointment for a period of at least three years and not more than five years.

Geoff Wilson, National Managing Partner, KPMG Audit and Risk Advisory Services, was reappointed as the independent auditor in 2009.

The ANAO received an unqualified audit opinion on its financial statements for the year ended 30 June 2012.

The independent auditor completed a performance audit, entitled *IT Audit Capability and Resourcing*, in June 2012. The objective of the audit was to consider the ANAO's implementation of the IT audit capability enhancements enabled by the New Policy Proposal funding provided in 2009. The report concluded that the ANAO had achieved three of the four objectives identified in the New Policy Proposal, but the fourth objective, increasing the number of permanent APS staff, was behind schedule. While this has not prevented the ANAO from delivering on its business outcomes for financial statements and performance auditing, it has resulted in a reliance on contractors to supplement the permanent IT audit workforce.

The report made four recommendations to enhance current practice. They related to:

- ▶ quarterly reporting to the Executive Board of Management
- ▶ the development of a separate IT Audit Branch operational plan
- ▶ the identification of specific performance indicators and timeframes for each initiative and strategy in the IT Audit Branch operational plan
- ▶ greater involvement by IT audit staff in performance audit planning sessions and discussions at the group and branch levels.

The ANAO accepted and implemented the recommendations.

## 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 on key aspects of the integrity of our ANAO systems and processes and identifying opportunities for improvement.

In 2011–12, the ANAO's internal audit program included audits of:

- ▶ financial controls and compliance
- ▶ compliance with Australian Government information security requirements
- ▶ management reporting frameworks
- ▶ contract management
- ▶ key performance indicator (KPI) processes
- ▶ compliance with intellectual property principles for Australian Government agencies
- ▶ management of work health and safety (WHS) requirements.

The completed audits found that, overall, the audited activities were operating satisfactorily. The reports made a number of recommendations designed to improve performance; all recommendations were accepted by the ANAO and addressed to the satisfaction of the internal auditor.

## Parliamentary committees

The Joint Committee of Public Accounts and Audit (JCPAA) reviews all reports tabled in the Parliament by the Auditor-General. This is discussed further in the report on performance for Program 2.1.

In 2011–12, the ANAO attended three Senate Estimates hearings before the Senate Committee on Finance and Public Administration. The committee showed particular interest in specific performance audits. The ANAO also provided responses to a broad range of questions on notice, issued to all agencies, in relation to corporate management matters.

## Decisions by courts and tribunals

No decisions by courts or tribunals affected the ANAO during 2011–12.

## Commonwealth Ombudsman

The Commonwealth Ombudsman made no reports to the ANAO under sections 15, 16 or 19 of the *Ombudsman Act 1976* during 2011–12.

## MANAGEMENT OF HUMAN RESOURCES

The key elements of our people management approaches are outlined in this section. The ANAO's whole-of-life approach to its staff starts with marketing to attract the right people. The ANAO focuses on supporting and developing staff, on providing a supportive work environment and on recognising and rewarding achievements and successes. The ANAO places great importance on feedback from its staff.

The ANAO's strategic and operational planning framework, which has a strong human resources management focus and is underpinned by data from surveys and other human resource metrics, enables the ANAO to measure the success of its human resource management.

### Staff surveys

The ANAO measures staff engagement through annual surveys. In 2011–12, a full survey of staff was conducted in June. ANAO staff surveys provide an important source of information on staff expectations, views and perceptions about a range of matters, including job satisfaction, engagement, career advancement, and professional development. Survey results and trends are evaluated to develop a broad spectrum of activities and initiatives that are reflected in key documents such as the ANAO's Business Plan, service group business plans and policies and procedures

Table 7 shows that in 2011–12 staff responses to key indicators of engagement improved, particularly in relation to the indicator 'Proud to work for the ANAO'.

**TABLE 7: RESPONSES TO INDICATORS OF STAFF ENGAGEMENT IN THE ANNUAL STAFF SURVEY, 2010–11 AND 2011–12**

Indicator	Target	2010–11 result (%)	2011–12 result (%)
Willing to put in extra effort	97	95	97
Motivated to do one's best	85	76	78
Proud to work for the ANAO	80	73	84

The 2011–12 survey also showed very strong results in relation to learning and development, which rose to 78 per cent from 63 per cent in 2010–11, and loyalty and commitment, which rose to 84 per cent from 73 per cent in 2010–11. In addition, 77 per cent of staff agreed that ANAO values and behaviours were exhibited in the workplace, up from 72 per cent in 2010–11.

### Workforce planning

Workforce planning is integrated into the ANAO's business planning framework; the office establishes strategic workforce planning priorities when developing the 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 the ANAO's ability to attract and retain skilled staff is an important element of its approach.

At least twice a year the Executive Board of Management receives reports on workforce planning which include an in-depth analysis of the state of the office's 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 recruitment and retention

### Recruitment

In 2011–12, the ANAO advertised and conducted 37 individual recruitment rounds: 16 single positions, 20 bulk rounds and the annual graduate program. On average the office received 16 applications per position for single vacancies, and 28 applications per position for bulk rounds (excluding the graduate program, which attracted more than 600 applications). Measured from the closing date for applications to the date of the delegate's decision, the average recruitment process took 38 working days to complete for single positions and 39 working days for bulk rounds.

Recruitment order of merit lists are maintained for general vacancies and are used to fill both ongoing and non-ongoing vacancies. Positions are also filled using the ANAO's temporary employment register. The office also conducts targeted recruitment programs to attract graduates and undergraduates.

Recruitment and selection training is provided to staff who express an interest in participating on recruitment panels. This assists the ANAO to conduct efficient and effective recruitment and selection processes.

The Executive Board of Management established the Recruitment and Retention Taskforce in July 2011 to reinvigorate recruitment strategies and to identify areas for improvement to increase staff retention. The taskforce included a cross-section of staff in the ANAO.

Barriers to attraction and recruitment include the need for the ANAO to compete for financial statement and IT auditors in a very competitive market, the requirement for all staff to be Australian citizens and have at least base-level security clearances, and the known skills shortage in the fields of finance and accounting.

### Graduate and undergraduate programs

The ANAO's graduate program is open to university students who are completing their final year of study and or have completed a degree within the past five years. In 2012, the ANAO attracted a large pool of applicants from which 23 graduates were recruited. The graduates started work with the ANAO in January 2012; 15 were placed in roles in the Assurance Audit Services Group, and eight were placed in the Performance Audit Services Group.

During the 12-month program, the graduates undertake:

- ▶ either financial statements audits or performance audits, in small teams with graduates working side-by-side with experienced auditors
- ▶ an intensive learning and development program, including technical, people management and general training and skill development
- ▶ one short-term rotation within the organisation, to enhance their overall development and give them an appreciation of the ANAO's broader operations.

At the end of the year, all graduates are encouraged to apply, and be assessed on merit, for promotion to the APS 4 Level in the ANAO.

In 2011–12, the ANAO also hosted two Papua New Guinean graduates to participate in the graduate development program through the Papua New Guinea–Australia Audit Office Twinning Scheme. This AusAID-funded scheme is in place to develop governance capacity in Papua New Guinea.

The ANAO's undergraduate employment program provides paid part-time practical work experience to people studying accounting at university in Canberra. During 2011–12, the ANAO continued to foster productive relationships with the Australian National University, the University of Canberra, CPA Australia and the Institute of Chartered Accountants in Australia to recruit students for the program.

Six students took part in the program during 2011–12. The program is an effective way for transitioning undergraduates into the ANAO graduate program. One undergraduate was advanced into the 2012 graduate intake.



Auditor-General Ian McPhee with the ANAO's 2012 graduate program participants.

### Indigenous recruitment

In 2010, the ANAO committed to a target of 2.7 per cent Indigenous representation in its workforce by 2015. During 2011–12, the office began developing an employment strategy that will focus on recruiting, developing and retaining Indigenous employees.

The ANAO collaborates with other Australian Government agencies so that it can better understand the employment needs of Indigenous Australians. The ANAO participates in the Australian Public Service Commission's Pathways recruitment initiatives for Indigenous graduates, and in the Indigenous Australian Government Development Program. In 2011–12, the ANAO had two employees who identified as Indigenous.

# CASE STUDY

## An ANAO graduate's experience

Lucy Deemal is an Indigenous graduate, one of the 25 talented individuals to join the ANAO's graduate program in 2012.

Lucy graduated in accounting and management at the Queensland University of Technology in December 2011. During her tertiary studies, she worked as a cadet with Indigenous Business Australia, analysing Indigenous business loans. On graduation, Lucy was offered graduate positions at several agencies, but chose the ANAO because of its good reputation and relevance to her career interests.

Lucy, who grew up in Cairns, says that she is happy in Canberra. She has made friends among the social network of new graduates employed across the public and private sectors: 'We're all in the same boat. Most of us have moved to Canberra and had to start over again, making new friends. We're lucky in the ANAO to have a large cohort of graduates.'

Over the 12-month program, ANAO graduates have opportunities to work in several areas of the ANAO and participate in audits. Lucy is enjoying taking part in a financial statements audit and has completed her rotation to our Indigenous programs area. She says, 'I like it. I like the work—the structure to it, and the level of responsibility given to us as graduates. I feel as though I am actually doing work, not just "work experience".'

Lucy hopes to stay at the ANAO after her graduate year, and to complete a CPA qualification. In the longer term she would like to return to Queensland and use her skills to make a contribution to her family's community at Hopevale.

Lucy's recruitment as an Indigenous graduate was coordinated through the Australian Public

Service Commission's Pathways program.

The commission coordinates the recruitment of Aboriginal and/or Torres Strait Islander graduates for employment with over 40 Australian Public Service (APS) agencies, and provides additional learning and development programs and networking opportunities to the graduates during their APS employment.

The ANAO has participated in the commission's Indigenous graduate program for more than three years. However, Lucy is the first Indigenous Graduate to join the ANAO as part of this program. It is an important part of our commitment to building capability in the ANAO and the wider profession by providing opportunities for new graduates.



Lucy Deemal, 2012 ANAO graduate.

### Staff induction

Effective induction of new starters is a key factor in retaining staff. The ANAO is committed to ensuring that the induction processes for new staff assist them to become productive and integrated members of the organisation in as short a time as practicable.

Prior to commencement, new starters are provided with an induction pack, including a comprehensive Induction Manual and, where relevant, information about moving to Canberra. Every three months, human resources staff, in conjunction with senior staff members from other areas, conduct a half-day structured induction workshop for recent recruits. All new starters participate in a face-to-face workshop within three months of commencing work.

New graduates are provided with a five-day induction program, are assigned buddies, participate in a number of introductory manager and buddies events, and are given membership of the Social Network of Graduates to assist with their transition to Canberra.

In 2011–12, the ANAO developed an e-induction module to supplement its induction activities. The ANAO is continuing to refine the e-induction module to link it to a suite of e-learning modules, which have already been produced, covering the topics of workplace diversity and respect, the APS Code of Conduct, workplace health and safety, and security.

### Staff turnover

Most staff who leave the ANAO do so to move to other APS agencies, often for promotional prospects. Traditionally, the ANAO has had higher staff turnover than other APS agencies (however, our turnover is in line with that in the accounting profession). This trend continued in 2011–12, with staff turnover around 20.2 per cent (ongoing staff only), and average length of tenure for staff of 5.3 years. This result is consistent with staff turnover in 2010–11, which was around 22 per cent, and average length of tenure for staff of 5.3 years. Table 8 highlights the differences in length of tenure across the various classifications for ANAO staff.

**TABLE 8: AVERAGE LENGTH OF TENURE BY CLASSIFICATION (ONGOING STAFF) AT 30 JUNE 2012**

Classification	Average length of tenure (years)
Australian Public Service 1–3	7.8
Australian Public Service 4–6	3.4
Executive Level 1–2	6.4
Senior Executive Service	11.4

The staff survey in 2012 showed that staff perceptions and attitudes to working in the ANAO were in the main positive and that results are generally on a par with medium-sized agencies in the APS.

This year the level of staff satisfaction improved: 71 per cent of staff responded positively (the KPI target was 70 per cent), while in 2011, 62 per cent indicated job satisfaction.

Factors contributing to higher staff turnover and lower retention include fewer career and promotion prospects within our small agency and perceptions that SES leadership capability needs to be improved and that there is insufficient evidence of a culture of reward and recognition.

In 2012–13, the ANAO will pursue a number of initiatives to address the identified barriers and adverse factors, including:

- ▶ leadership calibre—to improve the leadership performance of all managers, inclusive of the SES and supervisors
- ▶ ANAO values and behaviour—to ensure the leadership group works harder to build a culture where people treat each other with respect and cordiality
- ▶ staff recognition and feeling valued—to build a culture where supervisors and colleagues supplement the more formal rewards and recognition initiatives by acknowledging people's contributions
- ▶ career progression—to help staff to see and access the career progression opportunities available within the ANAO.

## Workforce management

### Enterprise agreement

After an initial consultation process, in August 2011 staff rejected a proposed replacement for the ANAO's Enterprise Agreement 2009–2011. Negotiations recommenced in late August 2011, and a second proposed agreement was offered to staff, and accepted, in October 2011. The ANAO's Enterprise Agreement 2011–2014 came into effect on 14 November 2011.

### 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 three staff-elected representatives, three union representatives and three management-appointed representatives. In 2011–12, the forum met formally on two occasions to discuss and consider a range of employment-related issues, including a review of the performance assessment scheme and the remuneration model.

# CASE STUDY

## A flexible work environment

The ANAO offers a range of flexible working arrangements to assist staff members to balance their personal needs with the needs of the organisation. By agreement between the staff member and their supervisor, arrangements may include:

- ▶ *Flexible working hours.* Employees have the option to work part time, or to adjust their working day—for example, one staff member starts at 7:30 am and finishes at 3:00 pm.
- ▶ *Flexible leave arrangements.* Leave can be purchased, and annual leave can be extended if taken at half pay—for example, one staff member who is a single parent takes her annual leave at half pay so that she can be with her children during school holidays.
- ▶ *Leave for special purposes.* Maternity leave is available to maximise the time that mothers can spend with their newborns, and personal leave is available to help staff members with family responsibilities—for example, one staff member took several weeks of personal leave to travel to the United Kingdom to care for her ill mother.
- ▶ *Support for working from home.* Employees who need to be at home for a period of time but are able to continue working effectively can be supplied with laptops that are connected to the ANAO IT systems—for example, one staff member worked from home for a short period while caring for a spouse who had been injured.

Flexible working arrangements have been operating in the ANAO for a number of years. They are becoming more significant and more sophisticated, in response to the changing needs of the increasingly diverse workforce.

Good responses in staff surveys show that ANAO staff appreciate flexible working arrangements. Performance targets are reliably met, and experience suggests that people are generally more productive when they are able to balance their personal and professional responsibilities.

The benefits to the organisation are also clear. The ANAO must compete to attract and retain highly skilled staff—staff who are highly desirable to employers in both the private sector and the public sector. Effective working arrangements that meet both individual and organisational needs help to make the ANAO an employer of choice.

## Performance assessment and performance pay

The ANAO's performance assessment scheme provided for two levels of performance pay in 2011–12. 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 9. Graduates, non-ongoing staff and ongoing staff with less than six months employment during the performance cycle were not eligible for a performance bonus.

**TABLE 9: SUMMARY OF PERFORMANCE RATINGS FOR THE PERIOD ENDING 31 OCTOBER 2011**

Rating	Outstanding	More than fully effective	Fully effective	Unsatisfactory	Total
ANAO Bands 4 and 5 (EL 1 and 2)	5	61	61	2	129
ANAO Bands 1 to 3 (APS 1–6)	4	47	98	2	151
Total	9	108	159	4	280
Proportion of total	3%	39%	57%	1%	

APS = Australian Public Service, EL = Executive Level

In 2011–12, a total of \$0.547 million in performance bonuses was paid to eligible staff (\$0.553 million in 2010–11). Aggregated information on performance pay is set out in Appendix 1, Table A1.8.

Changes were made to our performance assessment scheme and financial benefits as part of negotiations for a new enterprise agreement in late 2011. The new arrangements replace performance pay with a salary advancement model applicable to most staff and an Outstanding Performers Award regime. These new arrangements will take effect in November 2012.

## Senior executive remuneration

The salary ranges for 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 11 of our financial statements. Our SES officers are covered by common law contracts.

## Professional development

### Learning and development

As a professional organisation, the ANAO places high priority on the learning and development of staff.

In 2011–12, a blended curriculum of technical and general training was delivered, complemented by the release of a major new initiative: the ANAO Professional Development Opportunities Package.

The package provides a broad framework for professional development activities for ANAO staff, including a new studies assistance policy, secondment policy and guidelines, and leadership programs. Expressions of interest are sought twice a year from staff, and all applications are considered on merit by the People and Remuneration Committee.

While acknowledging that existing leadership programs have served the ANAO well over the past three years, in 2011–12 we approached the market for proposals to refresh our suite of leadership programs (including for staff at the APS 5/6, EL1/2 and SES classifications) in order to enhance our capabilities. The new programs will start in January 2013.

The ANAO's commitment to transition to e-learning was evident through the development of four corporate modules: Respect and Diversity; Workplace Health and Safety; APS Code of Conduct; and Security—all of which will soon be made available to staff.

In January 2012, in recognition of the ANAO's strong commitment to learning and development, CPA Australia awarded the ANAO Recognised Employer Partner Status (Knowledge Level). In accepting the award, the Auditor-General emphasised the importance the ANAO places on its staff being appropriately qualified and acknowledged the excellent relationship that the ANAO has enjoyed with both CPA Australia and the Institute of Chartered Accountants in Australia over many years.

During 2011–12, the ANAO released a handbook for graduates, and other less experienced staff, to facilitate 'on-the-job' learning. It also delivered two separate series of short-course programs for executive level and support staff to provide further insights and learning in relation to strategic and people management, leadership and client service delivery. A program on personal efficiency, which underpins sound project management and leadership skills, was provided to the ANAO's financial statement auditors.

To help the ANAO better understand the success of its learning and development program it measures both staff and management perceptions of the office's learning and development activities and the hours dedicated to learning. Our 2012 Staff Survey demonstrated the positive response staff had to the initiatives outlined above, with staff recording positive ratings against most aspects of learning and development in the ANAO. For example, the survey showed that over three-quarters of staff agreed that the learning and development and training activities that they had undertaken in the previous 12 months had helped them do their job better or perform their job requirements.

In 2012–13, under the guidance of the Learning and Development Committee, the ANAO will focus on establishing a new senior executive leadership program and a new approach to in-house mentoring, while continuing to build project management skills and capability.

### **Secondment and exchange program**

The secondment and exchange program provides an opportunity for 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.

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 10.

**TABLE 10: SECONDMENT AND EXCHANGE PROGRAM PARTICIPANTS IN 2011–12**

Exchange type	Organisation	Participant
ANAO staff working in other organisations	Office of the Auditor-General of Canada	Roger Cobcroft
	Office of the Auditor-General of Canada	Rahul Tejani
	Office of the Auditor-General of Papua New Guinea	Ray The
	Office of the Auditor-General of Papua New Guinea	Paul Howe
	Joint Committee of Public Accounts and Audit	Emilia Schiavo
	Senate Committee on Foreign Affairs, Defence and Trade	Michael Kozakos
Staff from other organisations working in the ANAO	Korean Board of Audit and Inspection	Jae Hyuk Choi
	Office of the Auditor-General of Papua New Guinea	Dalles Kila
	Office of the Auditor-General of Papua New Guinea	Mary-Anne Sakarias

### Representation

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

- ▶ Ian McPhee is a member and deputy chair of the Australian Accounting Standards Board.
- ▶ Peter Kerr is a member of the CPA Australia ACT Divisional Council.
- ▶ Brandon Jarrett is a member of the OECD Audit Committee.
- ▶ David Gray is a member of the INTOSAI Working Group on IT Audit.
- ▶ Nathan Williamson is a member of the INTOSAI Sub-Committee on Performance Audit.
- ▶ Mark Simpson is a member of the INTOSAI Working Group on Environmental Auditing.
- ▶ Carla Jago is the Public Sector Representative on the Audit Advisory Committee for the Institute of Chartered Accountants Australia.

A list of papers and presentations by the Auditor-General and other senior staff members is set out in Appendix 3.

### Professional qualifications and studies assistance

During 2011–12, the ANAO supported 59 staff members to undertake study programs: 47 are participating in the Institute of Chartered Accountants in Australia or CPA Australia programs, and 12 are undertaking postgraduate university studies. Table 11 lists staff members who successfully completed ANAO-supported studies during 2011–12.

**TABLE 11: SUMMARY OF STUDIES COMPLETED BY STAFF MEMBERS IN 2011–12**

Qualification	Staff member
Bachelor of Administrative Leadership	Niki Strachan
Bachelor of Commerce	Douglas Johnson
Bachelor of Finance—Honours (Accounting)	Fiona Sheppard
Certified Public Accountant (CPA) Australia—CPA Program	Kara Ball, Thomas Cho, April Le, Franklin Martin, Muhammad Qureshi, Agnes Tuiai
Diploma of Government (Procurement and Contracting)	David Evans
Institute of Chartered Accountants (CA) in Australia—CA Program	Tooba Anaam, Kylie Jackson, Elizabeth King, Imran Pasha, Natalie Seal, Sotera Sueng
Library and Information Services—Certificate 3	Rebecca Thompson
Masters in Legal Studies	Elizabeth Cusack

### Awards and recognition

The ANAO supports an awards system that recognises and rewards individual staff and teams who make a significant contribution to achieving its 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, celebrated in June; the National Australia Day Council’s Australia Day Achievement Medallions, celebrated in January; and the Auditor-General’s Certificate of Appreciation, which is celebrated throughout the year at service group and branch levels.

Table 12 lists the recipients of achievement awards and medallions in 2011–12.



Auditor-General Ian McPhee with Australia Day Award recipients (L to R): Tamie Plant, Andrew Huey and John Jones. Absent: John Hawley.



2012 recipients of the Auditor-General's Annual Awards for Outstanding Achievement (L to R): David Beard, Christina Bagot, Lesa Craswell, Joel Godwin and Elizabeth King.

**TABLE 12: RECIPIENTS OF AWARDS IN 2011–12**

Award	Recipient	Reason
Auditor-General's Annual Awards for Outstanding Achievement	David Beard	For his excellent service to ANAO staff, performing his duties to a very high level of performance and delivering improved business outcomes, client satisfaction and project deliverables.
	Christina Bagot	For her outstanding individual performance in the concurrent delivery of a performance audit and a better practice guide during the year, and for her considerable corporate contribution.
	Lesa Craswell	For her contributions to branch, group and corporate activities through a positive attitude and the application of sound technical auditing and staff management practices.
	Joel Godwin and Elizabeth King	For their achievement in promoting the Assurance Audit Services Group workforce plan and their involvement in providing regular support to sustain Teammate.
Australia Day Achievement Medallions	Andrew Huey	For his significant contribution to the effective integration of the Indigenous program into the ANAO, his building of productive working relationships with federal and territory departments, and his professionalism in managing performance audits.
	John Hawley	For his significant contribution to the professional standing of the ANAO through his leadership, delivery of quality corporate services, and conduct in fulfilling the role of Senior Strongim Gavman Program Advisor to the Papua New Guinea Auditor-General's Office.
	John Jones	For his outstanding work as Signing Officer for seven years on the Australian Taxation Office audit, his coaching and mentoring of developing officers, and his leadership of several recruitment campaigns for Assurance Audit Services Group.
	Tamie Plant	For her commitment to process improvement within the AusAID-funded Papua New Guinea–Australia Audit Office Twinning Scheme, and the professional manner in which she has undertaken a wide range of diverse tasks within the Governance and External Relations Section's work program.

## Work 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 work health and safety (WHS) policies. The ANAO reviewed the HSMAs and its policies and procedures to comply with the requirements that came into effect on 1 January 2012 under the *Work Health and Safety Act 2011*.

As a 'person conducting a business or undertaking' under the Work Health and Safety Act, the ANAO has a primary duty of care to ensure the health and safety of workers. The Auditor-General and all ANAO officers are accountable for WHS outcomes and the actions taken to implement WHS policies and guidelines.

The ANAO is committed to ensuring that all workers are safe from injury and risk to health while at work and protecting the health and safety of workers and other people at or near the workplace. The ANAO integrates 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 WHS best practice. Managers and supervisors play an important role in implementing ANAO health and safety policies and practices.

### Health and safety management arrangements

The ANAO's HSMAs provide a comprehensive framework for the ANAO's commitment and actions in relation to the safety and welfare of its workers. The HSMAs aim to:

- ▶ enable effective cooperation between the ANAO and its workers in promoting and developing measures to ensure that workers are healthy and safe at work
- ▶ provide adequate mechanisms for informing workers about the arrangements
- ▶ provide adequate mechanisms for reviewing the effectiveness of the arrangements, and varying the arrangements in consultation with workers
- ▶ provide a dispute resolution mechanism to deal with disputes arising in the course of consultations between the ANAO and its workers.

The Workplace Health and Safety Committee is responsible for monitoring and reviewing the HSMAs and advising the ANAO on WHS 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 2011–12.

Health and safety representatives are nominated and elected by ANAO staff in accordance with the HSMAs and WHS guidelines. In addition to attending committee meetings, they perform quarterly walkthroughs of their workgroups and provide further WHS support. All health and safety representatives are required to attend appropriate, accredited training.

### Initiatives

WHS was promoted widely throughout the office in 2011–12. A dedicated site on the intranet includes the minutes of the meetings of the Workplace Health and Safety Committee, support material for ANAO officers (within the meaning of the Act), managers and staff, and information on general WHS awareness.

A number of additional initiatives were taken during the year to ensure the health, safety and welfare of workers who carry out work for the ANAO and included steps to:

- ▶ strengthen the WHS framework through a gap analysis of our existing occupational health and safety policies and procedures against the new WHS requirements, updating as required our WHS policies and procedures, increasing the visibility of WHS reporting to the Executive Board of Management and providing specialist training for health and safety representatives
- ▶ improve staff awareness of WHS through general awareness sessions and discussion at induction sessions, targeted training for ANAO support and procurement staff, and developing an e-learning module which assists staff to understand the new WHS legislation and the individual's and the ANAO's responsibilities for maintaining a healthy and risk-free workplace.

The ANAO provided ongoing support to staff, including new starters, by offering them ergonomic work station assessments and completing 78 assessments. All staff were offered influenza vaccinations and health assessments.

### Incidents

There were no notifiable incidents reported in 2011–12 under the Work Health and Safety Act. The ANAO was not subject to any WHS investigations that related to business or undertakings, nor did the ANAO receive any notices given under Part 10 of the Work Health and Safety Act.

### Employee Assistance Program

The Employee Assistance Program provides access to free confidential professional counselling services to assist staff and their families with any personal or work-related problems.

The service was used less in 2011–12 than in previous years. In 2011–12, members of staff and their families used the service for both work-related and personal circumstances, with counselling support being predominantly for non-work related matters.

The service also offers guidance and advice to managers on staff management. The service can be accessed by staff on secondments to other audit offices overseas.

Staff and managers are actively encouraged to use the service. The program is promoted as part of the induction for new staff, and our monthly staff newsletter includes a regular feature on the program. Information on the program can be accessed from the ANAO intranet.

### Workplace diversity

The ANAO is committed to promoting and supporting social inclusion, equity and diversity in the ANAO and achieves 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. The ANAO's policy 'Respect and Diversity in the ANAO' provides guidelines for managing harassment, bullying and discrimination in the workplace.

The ANAO's Workplace Diversity Program was revised and updated during 2011–12. Key priority areas for the next three years are:

- ▶ supporting cultural diversity through awareness-raising workshops and celebrations of the ANAO's diversity

- ▶ recognising and appreciating staff at different stages of their working lives in formal ways (accommodating staff preferences through flexible working arrangements) and informal ways (appreciating the range of experiences and backgrounds individuals bring to the workplace)
- ▶ increasing our efforts to recruit staff from Aboriginal and Torres Strait Islander backgrounds through our graduate and non-graduate recruitment strategies.

The ANAO has targets in place to increase the representation of Indigenous people and people with a disability in our workforce. Currently, only 0.6 per cent of our staff have identified as Indigenous and we have set a target of 2.7 per cent by 2015, in line with the APS target. Staff with disabilities represent 0.3 per cent of our workforce and we aim to increase that to 3.0 per cent by 2015.

The ANAO participates in the Australian Public Service Commission's Indigenous graduate recruitment drive and has one identified graduate position. We have been successful in attracting an Indigenous graduate and will continue to participate in Australian Public Service Commission initiatives (including through the implementation of an Indigenous Employment Strategy) to increase the number of Indigenous employees in the ANAO.

Our workforce is characterised by the strong representation of employees from linguistically and culturally diverse backgrounds, with 22.0 per cent of our workforce having identified as such compared to 5.1 per cent in the APS generally. The ANAO workforce is also on average younger than the broader APS workforce, though we also have a cohort of mature staff with significant tenure at the ANAO. The ANAO will continue to support its diverse workforce through a range of initiatives that will form part of the ANAO's Workplace Diversity Strategy 2012–14.

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 2011–12, to share information and discuss recent developments.

Awareness of workplace diversity is an important part of our induction training. 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. In 2011–12 we developed an e-learning module 'Respect and Diversity', which will be available to all staff.

## 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, its audit reports make an indirect contribution by improving accountability and providing independent assessments of Australian Government programs to Parliament.

The ANAO does not administer any programs or legislation that explicitly mention ESD. However, some of its performance audits of agencies and programs are associated with environmental issues. In 2011–12, the ANAO produced three reports on the administration of programs that have a direct influence on environmental outcomes:

- ▶ Audit Report No.23 2011–12, *Administration of the National Greenhouse and Energy Reporting Scheme*
- ▶ Audit Report No.38, *Administration of the Private Irrigation Infrastructure Operators Program in New South Wales*
- ▶ Audit Report No.39 2011–12, *Management of the National Solar Schools Program.*

The ANAO also published a better practice guide on public sector environmental management in April 2012.

### Environmental strategy

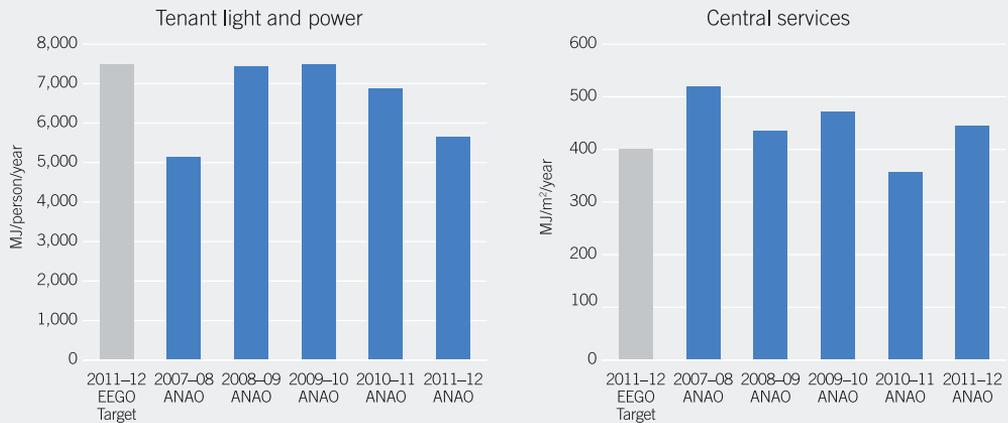
The ANAO has developed an internal environmental strategy based on an Environmental Policy that outlines governance arrangements for the environmental management system and environmental responsibilities, monitoring and reporting. We continue to seek improvement when the opportunity arises through the ongoing revision of the strategy. An Environmental Management Committee has been formed to oversee the implementation of the strategy.

### Effect of our activities on the environment

The activities of the ANAO affect the environment by consuming resources such as energy, water, paper and office supplies and equipment.

#### Energy

Figure 10 compares the ANAO's tenant light and power use and central services (water and waste disposal) with the Energy Efficiency in Government Operations (EEGO) target figures.

**FIGURE 10: TENANT LIGHT AND POWER AND CENTRAL SERVICES**

EEGO = Energy Efficiency in Government Operations; MJ = megajoules

Note: Tenant light and power figures are calculated by dividing the energy used in the ANAO's tenanted areas by the average number of occupants for the past financial year. Central services figures are calculated by dividing the energy used to run the building's plant machinery by the number of tenanted square metres.

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.

During 2011–12, tenant light and power use averaged 5,674 megajoules per person, which was 1,826 megajoules per person below the target of 7,500 megajoules.

The ANAO's central services energy usage was 443 megajoules per square metre. This was an increase of around 86 megajoules per square metre compared to 2010–11, but was in line with average usage during the previous three financial years.

The ANAO leases its office premises and works with the lessor to improve its environmental performance.

## Water

Based on occupied building floor area, the ANAO's building water use intensity was 0.47 kilolitres per square metre in 2011–12, which equates to a 4-star National Australian Built Environment Rating System (NABERS) water rating. This represents an increase, compared with the result for 2010–11, of 0.32 kilolitres per square metre, which also equated to a 4-star NABERS water rating. A 4-star NABERS water rating is considered 'Above Average Performance'.

## Waste

The waste collection provider measures the weight of paper sent for recycling and the organic material collected. The volume of co-mingled waste sent for recycling and the volume of general waste sent to landfill are calculated by annual full bin collections. Table 13 shows the three-year trend in disposal of the ANAO's waste.

**TABLE 13: ANAO WASTE, QUANTITY AND DISPOSAL, 2009-10 TO 2011-12**

Type of waste	2011-12	2010-11	2009-10
Paper (recycling)	16,849 kg	18,205 kg	18,664 kg
Co-mingled (recycling)	121 m <sup>3</sup>	66 m <sup>3</sup>	52 m <sup>3</sup>
General (landfill)	450 m <sup>3</sup>	495 m <sup>3</sup>	411 m <sup>3</sup>
Organic (recycling)	2.34 tonnes	2.13 tonnes	2.02 tonnes

The increase in co-mingled waste sent to be recycled was largely due to the additional hopper collections that were needed for the packaging for our replacement desktops and laptops during 2011-12. The ANAO also increased its co-mingled hopper collections and decreased its waste to landfill collections during 2011-12.

## OTHER MANAGEMENT ISSUES

We undertake a range of other management activities and services in support of our primary audit functions.

### Procurement

All tenders and contractual arrangements undertaken in 2011–12 were carried out in accordance with the *Commonwealth Procurement Guidelines*. Additionally, the ANAO's purchasing activities conducted during the year adhered to the requirements set out in the Auditor-General's Instructions and associated procedural rules on procurement.

The ANAO's procedures are designed to meet our business needs, achieving high-quality goods and services that provide value-for-money solutions for the ANAO's business requirements.

The major competitive tendering and contracting activities in 2011–12 included:

- ▶ major financial statements audits—we contracted firms to assist with a number of financial statement audits, such as those for ASC Pty Ltd (PricewaterhouseCoopers), Airservices Australia (Crowe Horwath) and the Australian Office of Financial Management (KPMG)
- ▶ printing—a contract was established for the printing of the ANAO audit reports and better practice guides (CanPrint Communications)
- ▶ information technology—Infront Systems Pty Ltd was contracted to provide a secondary data centre and enable improved business continuity and disaster recovery; the ANAO also procured and updated IT equipment via the whole-of-government hardware and associated services panel and telecommunications panel.

During 2011–12, 48 new consultancy contracts were entered into involving total actual expenditure of \$1.401 million (including GST). In addition, 17 ongoing consultancy contracts were active during 2011–12, involving a total actual expenditure of \$0.456 million (including GST).

The ANAO published its Procurement Plan 2012–13 on AusTender on 6 June 2012.

The ANAO uses 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's procedural rules and Auditor-General's Instructions are designed to meet business needs and ensure accountability and transparency in procurement activities, as well as achieving value for money for the Australian Government. During 2011–12, they were updated to comply with the *Commonwealth Procurement Rules*, which will be introduced on 1 July 2012.

To help ensure that the ANAO's tender evaluation processes are fair and equitable and that all potential suppliers have the opportunity to compete for our business, before proceeding to a substantive evaluation the ANAO undertakes a check of the tenders received to confirm that they comply with all conditions of participation, minimum content and format requirements, and

essential requirements. These mandatory requirements are listed in the tender documentation. Tenders that do not comply with all of the requirements are excluded from further evaluation.

Our standard form tender documents, including contracts, were redeveloped in conjunction with the update of the Auditor-General's Instructions. Where necessary, staff can readily adapt those documents to suit individual circumstances.

The ANAO participates in a number of collaborative procurement arrangements with other agencies, such as the Design, Print and Distribution Program led by the Department of Human Services, and the Legal Services Multi-Use List run by the Attorney-General's Department.

No contracts in excess of \$10,000 (inclusive of GST) or standing offer were 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*.

Information about actual expenditure on contracts for consultancies is available on the AusTender website ([www.tenders.gov.au](http://www.tenders.gov.au)).

## Freedom of information

*The Freedom of Information Act (1982)* provides the Auditor-General with an exemption. 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. These reports are available at [www.apsc.gov.au](http://www.apsc.gov.au). Since 2010–11, departments and agencies have not been required to report on these functions.

The Commonwealth Disability Strategy has been overtaken by a new National Disability Strategy which sets out a 10-year national policy framework for improving life for Australians with disability, their families and carers. A high-level report to track progress for people with disability at a national level will be produced by the Standing Council on Community, Housing and Disability Services for the Council of Australian Governments and will be available at [www.fahcsia.gov.au](http://www.fahcsia.gov.au). The Social Inclusion Measurement and Reporting Strategy agreed by the Government in December 2009 will also include some reporting on disability matters in its regular *How Australia is Faring* report and, if appropriate, in strategic change indicators in agency annual reports. More detail on social inclusion matters can be found at [www.socialinclusion.gov.au](http://www.socialinclusion.gov.au).

## Assets management

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

## Purchasing policies and procedures

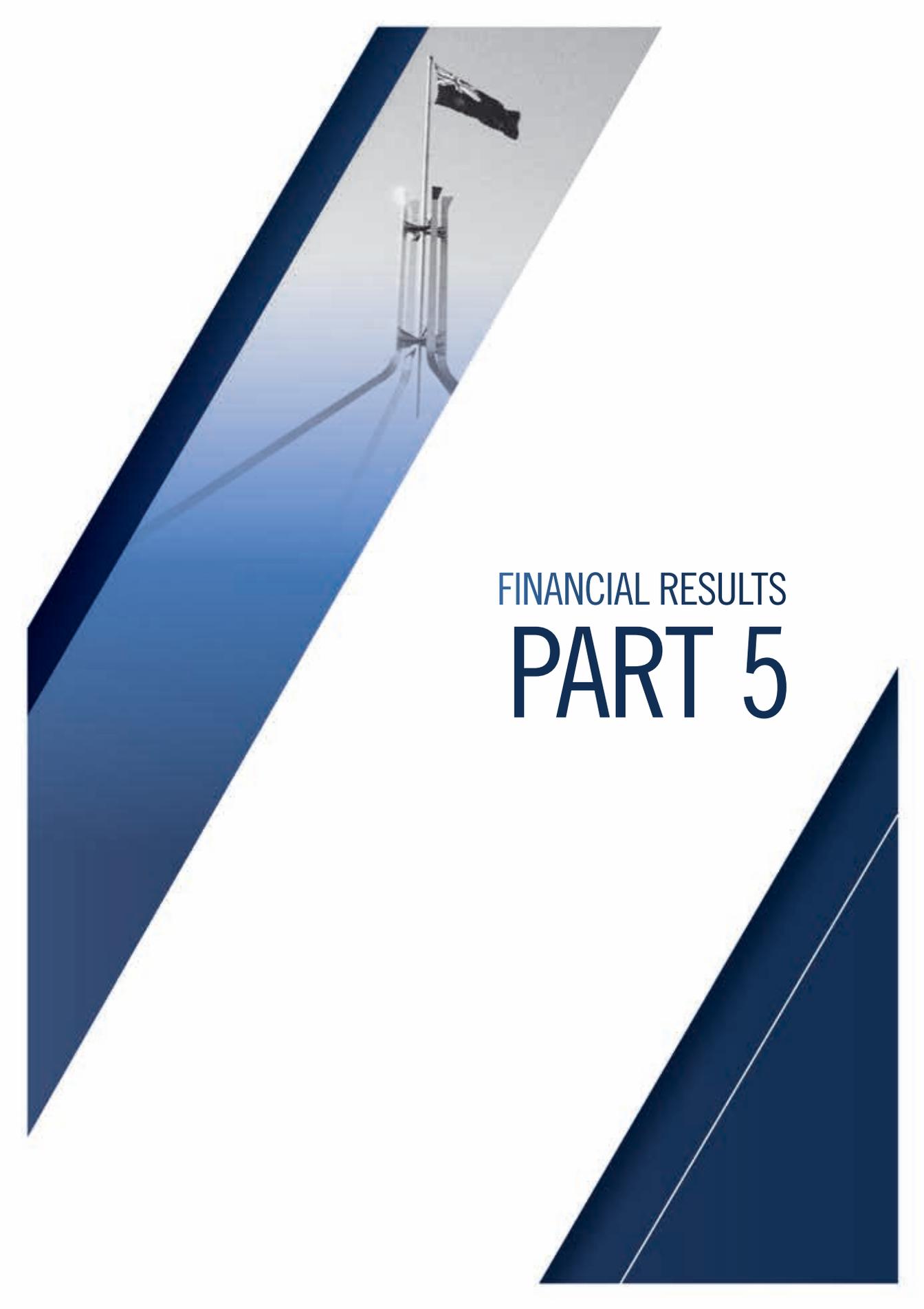
The ANAO's procurement guidelines are set out in the Auditor-General's Instructions and supporting procedural rules, which are derived directly from the *Commonwealth Procurement Rules*. All purchasing is bound by the procedural rules under the underlying principle of value for money and is routinely the subject of internal audit. In addition, all contractual performance is subject to evaluation. The ANAO's procurement practices are designed to protect the interests of the Australian Government.

## Emergency and business continuity plans

The ANAO has a comprehensive Business Continuity Plan which establishes policies, procedures and responsibilities to ensure the survival and continuance of key business activities in the event of a business disruption.

## Advertising and market research

The ANAO only undertakes media advertising campaigns as part of recruitment and other non-campaign advertising. In 2011–12, all advertising was placed with Adcorp Australia Limited and cost \$120,988 (inclusive of GST). Payments over \$11,900 (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 4. The ANAO did not make any payments to direct mail organisations or polling organisations.



FINANCIAL RESULTS  
**PART 5**

## 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 \$0.406 million for the year ending 30 June 2012 (compared to the surplus of \$4.699 million in 2010–11) is the result of a 3 per cent increase in revenues and a 9 per cent increase in expenses. Increased supplier expenses and additional employee expenses arising from increased provisioning for employee entitlements were the main contributing factors to the lower surplus. The ANAO has continued to strengthen its balance sheet despite cost pressures during 2011–12 and continues to have sufficient assets to meet ongoing liabilities and commitments.

Table 14 summarises our financial position.

**TABLE 14: SUMMARY OF FINANCIAL PERFORMANCE**

	2011–12 \$'000	2010–11 \$'000	Variance \$'000	Variance %
<b>Statement of comprehensive income</b>				
Total own source revenue	3,166	3,241	(75)	(2)
Total revenue from Government	74,891	72,809	2,082	3
Total expenses	77,651	71,351	6,300	9
Net surplus	406	4,699	(4,293)	(91)
<b>Balance sheet</b>				
Total assets	38,389	34,024	4,365	13
Total liabilities	19,449	16,799	2,650	16
Net assets	18,940	17,225	1,715	10
Equity	18,940	17,225	1,715	10

## 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 15 details the resources available to the ANAO during 2011–12.

**TABLE 15: AGENCY RESOURCE STATEMENT, 2011–12**

	Actual available appropriations for 2011–12 \$'000	Payments made 2011–12 \$'000	Balance remaining 2011–12 \$'000
<b>Ordinary annual services</b>			
Departmental appropriation <sup>1</sup>	101,992	74,800	27,192
<b>Total ordinary annual services</b>	<b>101,992</b>	<b>74,800</b>	<b>27,192</b>
<b>Other services<sup>2</sup></b>			
<b>Departmental non-operating</b>			
Equity injections <sup>3</sup>	398	398	-
<b>Total</b>	<b>398</b>	<b>398</b>	<b>-</b>
<b>Total other services</b>	<b>398</b>	<b>398</b>	<b>-</b>
<b>Special appropriations</b>			
Auditor-General remuneration and expense— <i>Auditor-General Act 1997</i> , Schedule 1, sections 3 and 7		474	
<b>Total special appropriations</b>		<b>474</b>	
<b>Total resourcing and payments</b>	<b>102,390</b>	<b>75,672</b>	<b>27,192</b>

1 Appropriation Bill (No. 1) 2011–12, prior year departmental appropriations and section 31 receipts.

2 Appropriation Bill (No. 2) 2011–12.

3 Appropriation Bill (No. 2) 2010–11 equity injection funding applied in 2011–12.

## Resources for outcomes

The ANAO's total resourcing summary by outcome is set out in Table 16.

**TABLE 16: EXPENSES FOR OUTCOMES, 2011–12**

	Budget <sup>1</sup> 2011–12 '000	Actual expenses 2011–12 '000	Variation 2011–12 '000
<b>Outcome 1: To provide assurance on the fair presentation of financial statements of Australian Government entities by providing independent audit opinions and related reports for the information of Parliament and the executive</b>			
<b>Program 1.1: Assurance Audit Services</b>			
<b>Departmental expenses</b>			
Departmental appropriation <sup>2</sup>	46,369	44,735	1,634
Special appropriation	237	284	(47)
Expenses not requiring appropriation in the Budget year	1,121	1,028	93
<b>Total for program 1.1</b>	<b>47,727</b>	<b>46,047</b>	<b>1,680</b>
<b>Total expenses for Outcome 1</b>	<b>47,727</b>	<b>46,047</b>	<b>1,680</b>
<b>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</b>			
<b>Program 2.1: Performance Audit Services</b>			
<b>Departmental expenses</b>			
Departmental appropriation <sup>2</sup>	31,372	30,535	837
Special appropriation	237	190	47
Expenses not requiring appropriation in the Budget year	565	879	(314)
<b>Total for program 2.1</b>	<b>32,174</b>	<b>31,604</b>	<b>570</b>
<b>Total expenses for Outcome 2</b>	<b>32,174</b>	<b>31,604</b>	<b>570</b>
<b>Total Outcomes 1 and 2</b>	<b>79,901</b>	<b>77,651</b>	<b>2,250</b>
		<b>2010–11</b>	<b>2011–12</b>
<b>Average staffing level (number)</b>		<b>340</b>	<b>339</b>

1 Full year budget, including any subsequent adjustment made to the 2011–12 Budget.

2 Departmental appropriation combines 'Ordinary annual services (Appropriation Bill No. 1)' and 'Revenue from independent sources (s. 31)'.

## 2011–12 FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

STATEMENT BY THE AUDITOR-GENERAL AND CHIEF FINANCE OFFICER

STATEMENT OF COMPREHENSIVE INCOME

BALANCE SHEET

STATEMENT OF CHANGES IN EQUITY

CASH FLOW STATEMENT

SCHEDULE OF COMMITMENTS

ADMINISTERED SCHEDULE OF COMPREHENSIVE INCOME

ADMINISTERED SCHEDULE OF ASSETS AND LIABILITIES

ADMINISTERED RECONCILIATION SCHEDULE

ADMINISTERED CASH FLOW STATEMENT

TABLE OF CONTENTS – NOTES

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## INDEPENDENT AUDITOR'S REPORT



### INDEPENDENT AUDITOR'S REPORT

#### For the Australian National Audit Office

#### Report on the Financial Statements

I have audited the accompanying financial statements of Australian National Audit Office for the year ended 30 June 2012, 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 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 is necessary to enable the preparation of the financial statements that give a true and fair view and 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 have conducted my audit in accordance with 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.

Liability limited by a scheme approved under Professional Standards Legislation.



***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 2012 and of its financial performance and cash flows for the year then ended.

A handwritten signature in black ink, appearing to read 'Geoff Wilson'.

Geoff Wilson  
*Independent Auditor*

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

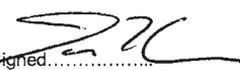
Canberra,  
22 August 2012

## STATEMENT BY THE AUDITOR-GENERAL AND CHIEF FINANCE OFFICER

**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 2012 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*.

Signed 

Ian McPhee  
Auditor-General

22 August 2012

Signed 

Mitchell Frost  
Chief Finance Officer

22 August 2012

**Statement of Comprehensive Income for Australian National Audit Office**  
*for the year ended 30 June 2012*

	Notes	2012 \$'000	2011 \$'000
<b>EXPENSES</b>			
Employee benefits	3A	41,807	39,341
Suppliers	3B	33,897	30,274
Depreciation and amortisation	3C	1,907	1,601
Write-down and impairment of assets	3D	40	135
<b>Total expenses</b>		<u>77,651</u>	<u>71,351</u>
<b>LESS:</b>			
<b>OWN-SOURCE INCOME</b>			
<b>Own-source revenue</b>			
Sale of goods and rendering of services	4A	2,997	3,097
Rental income	4B	169	144
<b>Total own-source income</b>		<u>3,166</u>	<u>3,241</u>
<b>Net cost of services</b>		<b>74,485</b>	68,110
Revenue from Government	4C	74,891	72,809
<b>Surplus</b>		<u>406</u>	<u>4,699</u>
<b>OTHER COMPREHENSIVE INCOME</b>			
Changes in asset revaluation surplus		136	341
<b>Total other comprehensive income</b>		<u>136</u>	<u>341</u>
<b>Total comprehensive income</b>		<u>542</u>	<u>5,040</u>

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

**Balance Sheet for Australian National Audit Office***as at 30 June 2012*

	Notes	2012 \$'000	2011 \$'000
<b>ASSETS</b>			
<b>Financial Assets</b>			
Cash and cash equivalents	5A	787	1,187
Trade and other receivables	5B	27,907	22,898
Other financial assets	5C	382	218
<b>Total financial assets</b>		<b>29,076</b>	<b>24,303</b>
<b>Non-Financial Assets</b>			
Land and buildings	6A,C	5,348	6,038
Plant and equipment	6B,C	1,531	853
Intangibles	6D,E	1,632	1,820
Other non-financial assets	6F	802	1,010
<b>Total non-financial assets</b>		<b>9,313</b>	<b>9,721</b>
<b>Total assets</b>		<b>38,389</b>	<b>34,024</b>
<b>LIABILITIES</b>			
<b>Payables</b>			
Suppliers	7A	4,125	3,402
Operating lease	7B	1,311	1,472
Other payables	7C	1,229	1,063
<b>Total payables</b>		<b>6,665</b>	<b>5,937</b>
<b>Provisions</b>			
Employee provisions	8A	12,784	10,822
Other provisions	8B	-	40
<b>Total provisions</b>		<b>12,784</b>	<b>10,862</b>
<b>Total liabilities</b>		<b>19,449</b>	<b>16,799</b>
<b>Net assets</b>		<b>18,940</b>	<b>17,225</b>
<b>EQUITY</b>			
Contributed equity		7,775	6,602
Reserves		626	490
Retained surplus		10,539	10,133
<b>Total equity</b>		<b>18,940</b>	<b>17,225</b>

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

**Statement of Changes in Equity for Australian National Audit Office  
for the year ended 30 June 2012**

	Retained earnings		Asset revaluation surplus		Contributed equity/capital		Total equity	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Opening balance</b>	<b>10,133</b>	<b>5,434</b>	<b>490</b>	<b>149</b>	<b>6,602</b>	<b>5,037</b>	<b>17,225</b>	<b>10,620</b>
<b>Comprehensive income</b>								
Other comprehensive income	-	-	136	341	-	-	136	341
Surplus for the period	406	4,699	-	-	-	-	406	4,699
<b>Total comprehensive income</b>	<b>406</b>	<b>4,699</b>	<b>136</b>	<b>341</b>	<b>-</b>	<b>-</b>	<b>542</b>	<b>5,040</b>
<b>Transactions with owners</b>								
<b>Contributions by owners</b>								
Equity injection - Appropriations	-	-	-	-	-	650	-	650
Departmental capital budget	-	-	-	-	1,173	915	1,173	915
<b>Sub-total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,173</b>	<b>1,565</b>	<b>1,173</b>	<b>1,565</b>
<b>Closing balance as at 30 June</b>	<b>10,539</b>	<b>10,133</b>	<b>626</b>	<b>490</b>	<b>7,775</b>	<b>6,602</b>	<b>18,940</b>	<b>17,225</b>

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

**Cash Flow Statement for Australian National Audit Office***for the year ended 30 June 2012*

	Notes	2012 \$'000	2011 \$'000
<b>OPERATING ACTIVITIES<sup>1</sup></b>			
<b>Cash received</b>			
Appropriations		73,547	68,323
Sales of goods and rendering of services		2,885	3,537
Net GST received		2,806	2,744
<b>Total cash received</b>		<b>79,238</b>	<b>74,604</b>
<b>Cash used</b>			
Employees		39,705	37,979
Suppliers		36,333	32,539
Section 31 receipts transferred to OPA		3,913	3,537
<b>Total cash used</b>		<b>79,951</b>	<b>74,055</b>
<b>Net cash from (used by) operating activities</b>	9	<b>(713)</b>	<b>549</b>
<b>INVESTING ACTIVITIES</b>			
<b>Cash used</b>			
Purchase of buildings - leasehold improvements		20	12
Purchase of plant and equipment		895	300
Purchase of intangibles		620	552
<b>Total cash used</b>		<b>1,535</b>	<b>864</b>
<b>Net cash used by investing activities</b>		<b>(1,535)</b>	<b>(864)</b>
<b>FINANCING ACTIVITIES</b>			
<b>Cash received</b>			
Contributed equity		1,848	804
<b>Total cash received</b>		<b>1,848</b>	<b>804</b>
<b>Net cash from financing activities</b>		<b>1,848</b>	<b>804</b>
<b>Net increase (decrease) in cash held</b>		<b>(400)</b>	<b>489</b>
Cash and cash equivalents at the beginning of the reporting period		1,187	698
<b>Cash and cash equivalents at the end of the reporting period</b>	5A	<b>787</b>	<b>1,187</b>

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

<sup>1</sup> Comparative information has been adjusted to show cash flows inclusive of GST where applicable.

**Schedule of Commitments for Australian National Audit Office**  
as at 30 June 2012

	2012	2011
	\$'000	\$'000
<b>BY TYPE</b>		
<b>Commitments receivable</b>		
Sublease rental income <sup>1</sup>	424	198
Net GST recoverable on commitments	<u>4,802</u>	<u>4,772</u>
<b>Total commitments receivable</b>	<u>5,226</u>	<u>4,970</u>
<b>Commitments payable</b>		
<b>Capital commitments</b>		
Property, plant and equipment	175	17
Intangibles	<u>111</u>	<u>143</u>
<b>Total capital commitments</b>	<u>286</u>	<u>160</u>
<b>Other commitments</b>		
Operating leases <sup>2</sup>	24,957	28,670
Other <sup>3</sup>	<u>27,998</u>	<u>23,865</u>
<b>Total other commitments</b>	<u>52,955</u>	<u>52,535</u>
<b>Total commitments payable</b>	<u>53,241</u>	<u>52,695</u>
<b>Net commitments by type</b>	<u>48,015</u>	<u>47,725</u>
<b>BY MATURITY</b>		
<b>Commitments receivable</b>		
<b>Operating lease income</b>		
One year or less	192	183
From one to five years	<u>232</u>	<u>15</u>
<b>Total operating lease income</b>	<u>424</u>	<u>198</u>
<b>Other commitments receivable</b>		
One year or less	2,132	1,605
From one to five years	2,204	2,371
Over five years	<u>466</u>	<u>796</u>
<b>Total other commitments receivable</b>	<u>4,802</u>	<u>4,772</u>
<b>Total commitments receivable</b>	<u>5,226</u>	<u>4,970</u>
<b>Commitments payable</b>		
<b>Capital commitments</b>		
One year or less	278	99
From one to five years	<u>8</u>	<u>61</u>
<b>Total capital commitments</b>	<u>286</u>	<u>160</u>
<b>Operating lease commitments</b>		
One year or less	3,710	4,085
From one to five years	16,120	15,827
Over five years	<u>5,127</u>	<u>8,758</u>
<b>Total operating lease commitments</b>	<u>24,957</u>	<u>28,670</u>
<b>Other Commitments</b>		
One year or less	19,642	13,652
From one to five years	8,356	10,213
<b>Total other commitments</b>	<u>27,998</u>	<u>23,865</u>
<b>Total commitments payable</b>	<u>53,241</u>	<u>52,695</u>
<b>Net commitments by maturity</b>	<u>48,015</u>	<u>47,725</u>

**Schedule of Commitments for Australian National Audit Office**  
*as at 30 June 2012 (Cont'd)*

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Note: Commitments are GST inclusive where relevant.

<sup>1</sup> Sublease income is rental income derived from the sublease of office accommodation at the ANAO's premises in the ACT. In 2011-12 a new lease agreement was entered into extending the sublease until 30 September 2014.

<sup>2</sup> Operating leases included for 2011-12 are non-cancellable and comprise:

Nature of lease	General description of leasing arrangements
Lease for office accommodation	The ANAO has one current accommodation lease in the ACT. The 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 a contribution of \$1 million from the landlord towards refurbishment of the premises, which is being recognised progressively over the lease as a reduction in rent expense.

<sup>3</sup> Other commitments comprise: contract audit services \$14,909,025 (2010-11 \$13,712,942), provision of IT services \$4,230,734 (2010-11 \$4,597,364) and other corporate contracts totalling \$8,858,584 (2010-11 \$5,554,694).

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

**Administered Schedule of Comprehensive Income for Australian National Audit Office**  
*for the year ended 30 June 2012*

	Notes	2012 \$'000	2011 \$'000
<b>OWN-SOURCE INCOME</b>			
<b>Own-source revenue</b>			
Rendering of services	15A	<u>9,713</u>	<u>8,282</u>
<b>Total own-source revenue administered on behalf of Government</b>		<u>9,713</u>	<u>8,282</u>
<b>Net contribution by services</b>		<u>9,713</u>	<u>8,282</u>
<b>Total comprehensive income</b>		<u>9,713</u>	<u>8,282</u>

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

**Administered Schedule of Assets and Liabilities for Australian National Audit Office**  
*as at 30 June 2012*

	Notes	2012 \$'000	2011 \$'000
<b>ASSETS</b>			
<b>Financial assets</b>			
Cash and cash equivalents	16A	<u>438</u>	<u>-</u>
Trade and other receivables	16B	<u>3,901</u>	<u>3,260</u>
Other financial assets	16C	<u>2,218</u>	<u>1,011</u>
<b>Total financial assets</b>		<u>6,557</u>	<u>4,271</u>
<b>Total assets administered on behalf of Government</b>		<u>6,557</u>	<u>4,271</u>
<b>LIABILITIES</b>			
<b>Payables</b>			
GST payable	17A	<u>385</u>	<u>268</u>
<b>Total payables</b>		<u>385</u>	<u>268</u>
<b>Total liabilities administered on behalf of Government</b>		<u>385</u>	<u>268</u>
<b>Net assets</b>		<u>6,172</u>	<u>4,003</u>

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

**Administered Reconciliation Schedule for Australian National Audit Office**

	2012 \$'000	2011 \$'000
<b>Opening administered assets less administered liabilities as at 1 July</b>	<u>4,003</u>	<u>2,976</u>
Surplus items:		
Administered income	<u>9,713</u>	<u>8,282</u>
Administered transfers to the Australian Government		
Transfers to the Official Public Account	<u>(7,544)</u>	<u>(7,255)</u>
<b>Closing administered assets less administered liabilities as at 30 June</b>	<u>6,172</u>	<u>4,003</u>

**Administered Cash Flow Statement for Australian National Audit Office**  
*for the year ended 30 June 2012*

	Notes	2012 \$'000	2011 \$'000
<b>OPERATING ACTIVITIES<sup>1</sup></b>			
<b>Cash received</b>			
Rendering of services		8,835	7,878
<b>Total cash received</b>		<u>8,835</u>	<u>7,878</u>
<b>Cash used</b>			
Net GST paid		853	623
<b>Total cash used</b>		<u>853</u>	<u>623</u>
<b>Net cash flows from operating activities</b>	18	<u>7,982</u>	<u>7,255</u>
<b>Net increase in Cash Held</b>		<u>7,982</u>	<u>7,255</u>
Cash and cash equivalents at the beginning of the reporting period		-	-
Cash to Official Public Account for:			
- Appropriations		7,544	7,255
<b>Cash and cash equivalents at the end of the reporting period</b>	16A	<u>438</u>	<u>-</u>

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

<sup>1</sup> Comparative information has been adjusted to show cash flows inclusive of GST where applicable.

**Table of Contents - Notes**

Note 1: Summary of Significant Accounting Policies
Note 2: Events After the Reporting Period
Note 3: Expenses
Note 4: Income
Note 5: Financial Assets
Note 6: Non-Financial Assets
Note 7: Payables
Note 8: Provisions
Note 9: Cash Flow Reconciliation
Note 10: Contingent Assets and Liabilities
Note 11: Senior Executive Remuneration
Note 12: Remuneration of Auditors
Note 13: Financial Instruments
Note 14: Financial Assets Reconciliation
Note 15: Administered - Income
Note 16: Administered - Financial Assets
Note 17: Administered - Payables
Note 18: Administered - Cash Flow Reconciliation
Note 19: Administered - Contingent Assets and Liabilities
Note 20: Administered - Financial Instruments
Note 21: Appropriations
Note 22: Special Accounts
Note 23: Compensation and Debt Relief
Note 24: Reporting of Outcomes
Note 25: Net Cash Appropriation Arrangements
Note 26: Compliance with Statutory Conditions for Payments from the Consolidated Revenue Fund

**Australian National Audit Office**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**for the year ended 30 June 2012**

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

**1.1 Objectives of the ANAO**

The Australian National Audit Office (ANAO) is an Australian Government not-for-profit 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 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.

The continued existence of the ANAO in its present form and with its present programs is dependent 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 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.

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.

The ANAO conducts the following administered activities: 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 2011; 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 executory 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.

**Australian National Audit Office  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
for the year ended 30 June 2012**

**Note 1 - Summary of Significant Accounting Policies (Cont'd)**

**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 is assessed at market value or depreciated replacement cost as determined by an independent valuer.
- Leave provisions involve actuarial assumptions based on the expected tenure of existing staff, patterns of leave claims and payouts, future salary movements and future discount rates. During 2011-12 there was a movement in the Commonwealth bond rate from 5.21% in 2011 to 3.04% in 2012 which resulted in an increase in the carrying value of employee provisions.

No accounting assumptions or estimates have been identified that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next reporting period. However, as indicated above, employee provisions in particular are affected by movements in the Commonwealth bond rate.

**1.4 New Australian Accounting Standards**

**Adoption of New Australian Accounting Standard Requirements**

No accounting pronouncement has been adopted earlier than the application date as stated in the standard or interpretation.

No new or revised pronouncements were issued prior to finalisation of the financial statements, were applicable to the current reporting period and had a financial impact on the entity.

**Future Australian Accounting Standard Requirements**

No new or revised pronouncements were issued by the Australian Accounting Standards Board prior to the finalisation of the financial statements which are expected to have a material financial impact on the entity in future reporting periods.

**1.5 Revenue**

Revenue from the sale of goods is recognised when:

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

- a) the amount of revenue, stage of completion and transaction costs incurred can be reliably measured; and
- b) 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. 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 appropriations for the year (adjusted for any formal additions and reductions) are recognised as Revenue from Government when the ANAO gains control of the appropriation. Appropriations receivable are recognised at their nominal amounts.

**Australian National Audit Office**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**for the year ended 30 June 2012**

**Note 1 - Summary of Significant Accounting Policies (Cont'd)**

**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 in that year.

**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 the amounts 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 apply 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 43.2 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), PSS accumulation plan (PSSap) or other elected defined contribution scheme.

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 in the Department of Finance and Deregulation's administered schedules and notes.

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 2012.

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

**Australian National Audit Office  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
for the year ended 30 June 2012**

**Note 1 - Summary of Significant Accounting Policies (Cont'd)**

**1.10 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.

**1.11 Financial Assets**

**Loans and Receivables**

Trade receivables 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.

**Effective Interest Method**

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**

Loans and receivables are assessed for impairment at the end of each reporting period.

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.

**1.12 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).

**1.13 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 a 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 2012, the ANAO had no contingent liabilities or contingent assets.

**1.14 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.

**Australian National Audit Office**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**for the year ended 30 June 2012**

**Note 1 - Summary of Significant Accounting Policies (Cont'd)**

**1.15 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).

**Initial cost**

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:

<b>Asset Class</b>	<b>Fair value measures at:</b>
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 by the Australian Valuation Office each year to determine if a significant change in the value of the assets has occurred during the financial year.

Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation surplus 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 lease term.

Depreciation rates (useful lives), residual values and methods are reviewed at each reporting date and necessary adjustments are made 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:

	<b>2012</b>	<b>2011</b>
Leasehold improvements	<b>Lease term</b>	Lease term
Plant and Equipment	<b>3 to 100 years</b>	3 to 100 years

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

**Australian National Audit Office**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**for the year ended 30 June 2012**

**Note 1 - Summary of Significant Accounting Policies (Cont'd)**

**Impairment**

All assets were assessed for impairment at 30 June 2012. Refer to Note 6B for results of current period independent valuation. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment loss recognised if the asset's recoverable amount is less than its carrying amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset's availability to generate future cash flows, and the asset would be replaced if the entity were deprived of the asset, its value in use is taken to be its depreciated replacement cost.

**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.

**1.16 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 comprise 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 (2010-11: 3 to 5 years).

All software assets were assessed for indications of impairment as at 30 June 2012. No impaired software assets were identified.

**1.17 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.

**1.18 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.

**Australian National Audit Office**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**for the year ended 30 June 2012**

**Note 1 - Summary of Significant Accounting Policies (Cont'd)**

**1.19 Reporting of Administered Activities**

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 1.1. Details of activities planned for the year can be found in the Prime Minister and Cabinet Portfolio Budget Statement for 2011-12, which was tabled in the Parliament.

Administered revenues, expenses, assets, liabilities and cash flows are disclosed in the administered schedules 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. These transfers to the OPA are adjustments to the administered cash held by the entity on behalf of the Government and reported as such in the schedule of administered cash flows and in the administered reconciliation schedule.

**Revenue**

All administered revenues are revenues relating to ordinary activities performed by the ANAO but which are controlled by the Australian Government. 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 in the Administered Schedule of Comprehensive Income.

**Note 2 - Events After the Reporting Period**

**Departmental**

No events have occurred after balance date that should be brought to account or noted in the 2011-12 financial statements.

**Administered**

No events have occurred after balance date that should be brought to account or noted in the 2011-12 financial statements.

**Australian National Audit Office**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**for the year ended 30 June 2012**

**Note 3: Expenses**

	2012	2011
	\$'000	\$'000
<b>Note 3A: Employee Benefits</b>		
Wages and salaries	30,487	29,146
Superannuation:		
Defined contribution plans	2,093	1,635
Defined benefit plans	3,101	3,474
Leave and other entitlements	6,005	4,882
Other employee expenses	121	204
<b>Total employee benefits</b>	<b>41,807</b>	<b>39,341</b>
<b>Note 3B: Suppliers</b>		
<b>Goods and services</b>		
Contractors	18,295	15,943
Information and communication technology	3,512	2,824
Consultants	1,688	1,395
Travel	1,580	1,352
Professional development	1,188	1,028
Printing	772	854
Stationery	368	355
Recruitment	729	586
Other	2,227	2,319
<b>Total goods and services</b>	<b>30,359</b>	<b>26,656</b>
<b>Goods and services are made up of:</b>		
Provision of goods – external parties	407	356
Rendering of services – government entities	1,310	802
Rendering of services – external parties	28,642	25,498
<b>Total goods and services</b>	<b>30,359</b>	<b>26,656</b>
<b>Other supplier expenses</b>		
Operating lease rentals – external parties:		
Minimum lease payments	3,045	3,101
Contingent rentals	397	388
Workers compensation expenses	96	129
<b>Total other supplier expenses</b>	<b>3,538</b>	<b>3,618</b>
<b>Total supplier expenses</b>	<b>33,897</b>	<b>30,274</b>
<b>Note 3C: Depreciation and Amortisation</b>		
<b>Depreciation:</b>		
Property, plant and equipment	260	184
Buildings - leasehold improvements	839	807
<b>Total depreciation</b>	<b>1,099</b>	<b>991</b>
<b>Amortisation:</b>		
Intangibles - computer software	808	610
<b>Total amortisation</b>	<b>808</b>	<b>610</b>
<b>Total depreciation and amortisation</b>	<b>1,907</b>	<b>1,601</b>

**Australian National Audit Office**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

**Note 3: Expenses (Cont'd)**

	2012	2011
	\$'000	\$'000
<b>Note 3D: Write-Down and Impairment of Assets</b>		
<b>Asset write-downs and impairments from:</b>		
Impairment of property, plant and equipment	10	113
Disposals	30	22
<b>Total write-down and impairment of assets</b>	<u>40</u>	<u>135</u>

**Note 4: Income**

	2012	2011
	\$'000	\$'000
<b>OWN-SOURCE REVENUE</b>		

**Note 4A: Sale of Goods and Rendering of Services**

Rendering of services - government entities	2,642	3,048
Rendering of services - external parties	350	48
Provision of goods - government entities	5	1
<b>Total sale of goods and rendering of services</b>	<u>2,997</u>	<u>3,097</u>

**Note 4B: Rental Income**

<b>Operating lease:</b>		
Lease income - external parties	169	144
<b>Total rental income</b>	<u>169</u>	<u>144</u>

**REVENUE FROM GOVERNMENT**

**Note 4C: Revenue from Government**

<b>Appropriations:</b>		
Departmental appropriations	74,417	72,339
Departmental special appropriations	474	470
<b>Total revenue from Government</b>	<u>74,891</u>	<u>72,809</u>

**Australian National Audit Office**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**for the year ended 30 June 2012**

**Note 5: Financial Assets**

	2012	2011
	\$'000	\$'000
<b>Note 5A: Cash and Cash Equivalents</b>		
Cash on hand or on deposit	787	1,187
<b>Total cash and cash equivalents</b>	<b>787</b>	<b>1,187</b>
<b>Note 5B: Trade and Other Receivables</b>		
<b>Goods and Services:</b>		
Goods and services - government entities	444	190
Goods and services - external parties	75	-
<b>Total receivables for goods and services</b>	<b>519</b>	<b>190</b>
<b>Appropriations receivable:</b>		
For existing programs	26,405	21,824
<b>Total appropriations receivable</b>	<b>26,405</b>	<b>21,824</b>
<b>Other receivables:</b>		
GST receivable from the Australian Taxation Office	610	449
AusAID and other reimbursements	373	435
<b>Total other receivables</b>	<b>983</b>	<b>884</b>
<b>Total trade and other receivables (gross)</b>	<b>27,907</b>	<b>22,898</b>
<b>Less impairment allowance account:</b>		
Goods and services	-	-
<b>Total impairment allowance account</b>	<b>-</b>	<b>-</b>
<b>Total trade and other receivables (net)</b>	<b>27,907</b>	<b>22,898</b>
Total receivables are expected to be recovered in:		
No more than 12 months	27,907	22,898
<b>Total other non-financial assets</b>	<b>27,907</b>	<b>22,898</b>

All receivables have credit terms of net 30 days (2011: 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.

	2012	2011
	\$'000	\$'000
<b>Receivables are aged as follows:</b>		
Not overdue	27,894	22,884
Overdue by:		
0 to 30 days	3	-
31 to 60 days	1	8
61 to 90 days	-	6
More than 90 days	9	-
<b>Total receivables (gross)</b>	<b>27,907</b>	<b>22,898</b>

**Australian National Audit Office**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**for the year ended 30 June 2012**

**Note 5: Financial Assets (Cont'd)**

	2012	2011
	\$'000	\$'000
<b>Note 5C: Other Financial Assets</b>		
Work in progress - audit related services	382	218
<b>Total other financial assets</b>	<u>382</u>	<u>218</u>
Total other financial assets - are expected to be recovered in:		
No more than 12 months	382	218
<b>Total other financial assets</b>	<u>382</u>	<u>218</u>

**Note 6: Non-Financial Assets**

	2012	2011
	\$'000	\$'000
<b>Note 6A: Land and Buildings</b>		
<b>Leasehold improvements:</b>		
Fair value	5,348	6,072
Accumulated depreciation	-	(34)
<b>Total leasehold improvements</b>	<u>5,348</u>	<u>6,038</u>
<b>Total land and buildings</b>	<u>5,348</u>	<u>6,038</u>

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**

<b>Plant and equipment:</b>		
Fair value	1,531	853
Accumulated depreciation	-	-
<b>Total plant and equipment</b>	<u>1,531</u>	<u>853</u>

All impairment for plant and equipment was recognised as at 30 June 2012. No further indicators of impairment were found.

No plant or equipment is expected to be sold or disposed of within the next 12 months.

**Revaluations of non-financial assets**

All revaluations were conducted in accordance with the revaluation policy stated at Note 1. On 30 June 2012, an independent valuer conducted the revaluations.

A revaluation increment of \$88,767 for leasehold improvements (2011: increment of \$327,617) and an increment of \$46,538 for plant and equipment (2011: increment of \$14,409) were credited to the asset revaluation surplus by asset class and included in the equity section of the balance sheet. Revaluation decrements of \$9,684 for property, plant and equipment were expensed (2011: \$112,975 expensed).

Australian National Audit Office  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

**Note 6: Non-Financial Assets (Cont'd)**

**Note 6C: Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment 2012**

	Leasehold Improvements \$'000	Plant & equipment \$'000	Total \$'000
<b>As at 1 July 2011</b>			
Gross book value	6,072	853	6,925
Accumulated depreciation and impairment	(34)	-	(34)
<b>Net book value 1 July 2011</b>	<b>6,038</b>	<b>853</b>	<b>6,891</b>
Additions - by purchase	69	922	991
Revaluations and impairments recognised in other comprehensive income	89	47	136
Impairments recognised in the operating result	-	(10)	(10)
Depreciation expense	(839)	(260)	(1,099)
Disposals	(9)	(21)	(30)
<b>Net book value 30 June 2012</b>	<b>5,348</b>	<b>1,531</b>	<b>6,879</b>
<b>Net book value as of 30 June 2012 represented by:</b>			
Gross book value	5,348	1,531	6,879
Accumulated depreciation and impairment	-	-	-
<b>Net book value 30 June 2012</b>	<b>5,348</b>	<b>1,531</b>	<b>6,879</b>

**Note 6C (Cont'd): Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment 2011**

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

**Note 6D: Intangibles**

**Computer software:**

Purchased	4,484	3,864
Accumulated amortisation	(2,852)	(2,044)
<b>Total computer software</b>	<b>1,632</b>	<b>1,820</b>
<b>Total intangibles</b>	<b>1,632</b>	<b>1,820</b>

No indicators of impairment were found for intangible assets.

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

**Australian National Audit Office**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

**Note 6: Non-Financial Assets (Cont'd)**

**Note 6E: Reconciliation of the Opening and Closing Balances of Intangibles 2012**

	Computer software purchased \$'000	Total \$'000
<b>As at 1 July 2011</b>		
Gross book value	3,864	3,864
Accumulated amortisation and impairment	(2,044)	(2,044)
<b>Net book value 1 July 2011</b>	<b>1,820</b>	<b>1,820</b>
Additions - by purchase	620	620
Amortisation	(808)	(808)
Disposals	-	-
<b>Net book value 30 June 2012</b>	<b>1,632</b>	<b>1,632</b>
<b>Net book value as of 30 June 2012 represented by:</b>		
Gross book value	4,484	4,484
Accumulated amortisation and impairment	(2,852)	(2,852)
<b>Net book value 30 June 2012</b>	<b>1,632</b>	<b>1,632</b>

**Note 6E (Cont'd): Reconciliation of the Opening and Closing Balances of Intangibles 2011**

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

**Note 6F: Other Non-Financial Assets**

Prepayments	802	1,010
<b>Total other non-financial assets</b>	<b>802</b>	<b>1,010</b>
Total other non-financial assets - are expected to be recovered in:		
No more than 12 months	802	1,010
<b>Total other non-financial assets</b>	<b>802</b>	<b>1,010</b>

Australian National Audit Office  
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
 for the year ended 30 June 2012

**Note 7: Payables**

	2012 \$'000	2011 \$'000
<b>Note 7A: Suppliers</b>		
Trade creditors and accruals	4,125	3,402
<b>Total suppliers payables</b>	<b>4,125</b>	<b>3,402</b>
<b>Suppliers payables expected to be settled within 12 months:</b>		
Government entities	94	59
External parties	4,031	3,343
<b>Total</b>	<b>4,125</b>	<b>3,402</b>
All supplier payables are expected to be settled within 30 days.		
<b>Note 7B: Operating lease</b>		
Operating lease incentives	1,311	1,472
<b>Total operating lease payable</b>	<b>1,311</b>	<b>1,472</b>
<b>Total operating lease payables are expected to be settled in:</b>		
No more than 12 months	196	196
More than 12 months	1,115	1,276
<b>Total operating lease payables</b>	<b>1,311</b>	<b>1,472</b>
<b>Note 7C: Other Payables</b>		
Wages and salaries	1,093	942
Superannuation	136	121
<b>Total other payables</b>	<b>1,229</b>	<b>1,063</b>
<b>Total other payables are expected to be settled in:</b>		
No more than 12 months	1,229	1,063
<b>Total other payables</b>	<b>1,229</b>	<b>1,063</b>

**Australian National Audit Office**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

**Note 8: Provisions**

	2012 \$'000	2011 \$'000
<b>Note 8A: Employee Provisions</b>		
Leave	12,784	10,822
<b>Total employee provisions</b>	<b>12,784</b>	<b>10,822</b>
<b>Employee provisions are expected to be settled in:</b>		
No more than 12 months	4,356	3,792
More than 12 months	8,428	7,030
<b>Total employee provisions</b>	<b>12,784</b>	<b>10,822</b>
<b>Note 8B: Other Provisions</b>		
Provision for restoration obligations	-	40
<b>Total other provisions</b>	<b>-</b>	<b>40</b>
<b>Other provisions are expected to be settled in:</b>		
No more than 12 months	-	40
<b>Total other provisions</b>	<b>-</b>	<b>40</b>

	Provision for restoration \$'000
Carrying amount 1 July 2011	40
Amounts used	(40)
<b>Closing balance 2012</b>	<b>-</b>

**Australian National Audit Office**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

**Note 9: Cash Flow Reconciliation**

	2012 \$'000	2011 \$'000
<b>Reconciliation of cash and cash equivalents per Balance Sheet to Cash Flow Statement</b>		
<b>Cash and cash equivalents per:</b>		
Cash flow statement	787	1,187
Balance sheet	787	1,187
<b>Difference</b>	<u>-</u>	<u>-</u>
<b>Reconciliation of net cost of services to net cash from operating activities:</b>		
Net cost of services	(74,485)	(68,110)
Add revenue from Government	74,891	72,809
	406	4,699
<b>Adjustments for non-cash items</b>		
Depreciation / amortisation	1,907	1,601
Net write down of non-financial assets	10	113
Loss on disposal of assets	30	22
<b>Changes in assets / liabilities</b>		
Increase in net receivables	(5,686)	(7,387)
Decrease / (increase) in prepayments	208	(90)
Increase in other financial assets	(164)	(95)
Increase in supplier payables	649	809
Increase in other payable	166	97
Decrease in operating lease payments	(161)	(165)
Increase in employee provisions	1,962	945
Decrease in other provisions	(40)	-
<b>Net cash from (used by) operating activities</b>	<u>(713)</u>	<u>549</u>

**Note 10: Contingent Assets and Liabilities**

**Quantifiable Contingencies**

There were no quantifiable contingent assets or liabilities as at 30 June 2012 (2011: Nil).

**Unquantifiable Contingencies**

There were no unquantifiable contingent assets or liabilities as at 30 June 2012 (2011: Nil).

**Significant Remote Contingencies**

There were no remote contingent assets or liabilities as at 30 June 2012 (2011: Nil).

**Note 11: Senior Executive Remuneration****Note 11A: Senior Executive Remuneration Expenses for the Reporting Period**

	2012	2011
	\$	\$
<b>Short-term employee benefits:</b>		
Salary	5,716,850	5,638,628
Annual leave accrued	142,612	(78,042)
Performance bonuses	213,194	211,659
Motor vehicle and other allowances <sup>3</sup>	209,788	235,954
<b>Total short-term employee benefits</b>	<b>6,282,444</b>	<b>6,008,199</b>
<b>Post-employment benefits:</b>		
Superannuation	816,749	882,201
<b>Total post-employment benefits</b>	<b>816,749</b>	<b>882,201</b>
<b>Other long-term benefits:</b>		
Long-service leave <sup>4</sup>	744,343	196,430
<b>Total other long-term benefits</b>	<b>744,343</b>	<b>196,430</b>
<b>Total employment benefits</b>	<b>7,843,536</b>	<b>7,086,830</b>

**Notes:**

- Note 11A is prepared on an accrual basis (therefore the performance bonus expenses disclosed above may differ from the cash 'Bonus paid' in Note 11B)
- Note 11A excludes acting arrangements and part-year service where total remuneration expensed for a senior executive was less than \$150,000.
- Includes motor vehicle, parking and overseas living allowances.
- The increase in long service leave expense is mainly due to the change in discount rate applied to the long service leave provision. Refer Note 1.3 for further information.

**Note 11: Senior Executive Remuneration (Cont'd)**

**Note 11B: Average Annual Reportable Remuneration Paid to Substantive Senior Executives During the Reporting Period**

Average annual reportable remuneration <sup>1</sup>	2012					
	Senior Executives No.	Reportable salary <sup>2</sup> \$	Contributed superannuation <sup>3</sup> \$	Reportable allowances <sup>4</sup> \$	Bonus paid <sup>5</sup> \$	Total \$
<b>Total remuneration (including part-time arrangements):</b>						
less than \$150,000	5	73,401	24,170	-	750	98,321
\$150,000 to \$179,999	2	150,257	18,640	55	4,083	173,035
\$180,000 to \$209,999	9	159,533	30,788	50	7,003	197,374
\$210,000 to \$239,999	10	174,960	39,231	-	6,500	220,691
\$240,000 to \$269,999	3	195,080	46,504	-	11,833	253,417
\$270,000 to \$299,999	2	224,836	49,285	-	12,000	286,121
\$360,000 to \$389,999	1	267,876	95,837	-	-	363,713
\$510,000 to \$539,999	1	420,260	118,022	-	-	538,282
<b>Total</b>	<b>33</b>					

Average annual reportable remuneration <sup>1</sup>	2011					
	Senior Executives No.	Reportable salary <sup>2</sup> \$	Contributed superannuation <sup>3</sup> \$	Reportable allowances <sup>4</sup> \$	Bonus paid <sup>5</sup> \$	Total \$
<b>Total remuneration (including part-time arrangements):</b>						
less than \$150,000	3	60,406	8,454	-	2,833	71,693
\$150,000 to \$179,999	1	151,958	19,717	-	4,000	175,675
\$180,000 to \$209,999	10	154,598	39,183	43	5,616	199,440
\$210,000 to \$239,999	10	171,432	42,487	42	8,700	222,661
\$240,000 to \$269,999	4	204,366	45,325	-	10,750	260,441
\$270,000 to \$299,999	1	238,613	46,360	-	9,000	293,973
\$330,000 to \$359,999	1	261,321	96,811	-	-	358,132
\$480,000 to \$509,999	1	389,611	113,582	-	-	503,193
<b>Total</b>	<b>31</b>					

**Note 11: Senior Executive Remuneration (Cont'd)****Notes:**

1. This table reports substantive executives who received remuneration during the reporting period. Each row is an averaged figure based on headcount for individuals in the band.
2. 'Reportable salary' includes the following:
  - a) gross payments (less any bonuses paid, which are separated out and disclosed in the 'bonus paid' column);
  - b) reportable fringe benefits (at the net amount prior to 'grossing up' to account for tax benefits);
  - c) exempt foreign employment income; and
  - d) leave paid out upon ceasing employment.
3. The 'contributed superannuation' amount is the average actual superannuation contributions paid in respect of senior executives in that reportable remuneration band during the reporting period, including any salary sacrificed amounts, as per the individuals' payslips.
4. 'Reportable allowances' are the average actual allowances paid as per the 'total allowances' line on individuals' payment summaries.
5. 'Bonus paid' represents average actual bonuses paid during the reporting period in that reportable remuneration band. The 'bonus paid' within a particular band may vary between financial years due to various factors such as individuals commencing with or leaving the entity during the financial year.
6. Various salary sacrifice arrangements were available to senior executives including superannuation, motor vehicle and expense payment fringe benefits. Salary sacrifice benefits are reported in the 'reportable salary' column, excluding salary sacrificed superannuation, which is reported in the 'contributed superannuation' column.

**Note 11: Senior Executive Remuneration (Cont'd)**

**Note 11C: Other Highly Paid Staff**

	2012					
	Staff No.	Reportable salary <sup>2</sup> \$	Contributed superannuation <sup>3</sup> \$	Reportable allowances <sup>4</sup> \$	Bonus paid <sup>5</sup> \$	Total \$
Average annual reportable remuneration <sup>1</sup>						
Total remuneration (including part-time arrangements):	10	125,665	28,119	92	3,855	157,731
\$150,000 to \$179,999	10					
<b>Total</b>						

	2011					
	Staff No.	Reportable salary <sup>2</sup> \$	Contributed superannuation <sup>3</sup> \$	Reportable allowances <sup>4</sup> \$	Bonus paid <sup>5</sup> \$	Total \$
Average annual reportable remuneration <sup>1</sup>						
Total remuneration (including part-time arrangements):	7	125,214	24,773	70	5,573	155,630
\$150,000 to \$179,999	1	156,627	48,640	-	-	205,267
\$180,000 to \$209,999	8					
<b>Total</b>						

**Notes:**

- This table reports staff:
  - who were employed by the entity during the reporting period;
  - whose reportable remuneration (including leave paid out upon ceasing employment) was \$150,000 or more for the financial period; and
  - were not required to be disclosed in Table B.
 Each row is an averaged figure based on headcount for individuals in the band.
- 'Reportable salary' includes the following:
  - gross payments (less any bonuses paid, which are separated out and disclosed in the 'bonus paid' column);
  - reportable fringe benefits (at the net amount prior to 'grossing up' to account for tax benefits);
  - exempt foreign employment income; and
  - leave paid out upon ceasing employment.
- The 'contributed superannuation' amount is the average actual superannuation contributions paid in respect of staff in that reportable remuneration band during the reporting period, including any salary sacrificed amounts, as per the individuals' payslips.
- 'Reportable allowances' are the average actual allowances paid as per the 'total allowances' line on individuals' payment summaries.
- 'Bonus paid' represents average actual bonuses paid during the reporting period in that reportable remuneration band. The 'bonus paid' within a particular band may vary between financial years due to various factors such as individuals commencing with or leaving the entity during the financial year.
- Various salary sacrifice arrangements were available to other highly paid staff including superannuation, motor vehicle and expense payment fringe benefits. Salary sacrifice benefits are reported in the 'reportable salary' column, excluding salary sacrificed superannuation, which is reported in the 'contributed superannuation' column.

**Australian National Audit Office**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

**Note 12: Remuneration of Auditors**

	2012	2011
	\$	\$
<b>Fees for services provided</b>		
Financial statement audit services	104,600	92,650
Performance audit services	92,839	93,500
<b>Total</b>	<u>197,439</u>	<u>186,150</u>

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 include an allowance for superannuation.

Fees were also paid to the Independent Auditor during the year for a performance audit of the ANAO's IT audit capability (2011: performance audit of the planning and scoping of performance audits by the ANAO).

**Note 13: Financial Instruments**

		2012	2011
		\$'000	\$'000
<b>Note 13A: Categories of Financial Instruments</b>			
<b>Financial Assets</b>			
<b>Loans and receivables:</b>			
Cash and cash equivalents	5A	787	1,187
Receivables for goods and services	5B	519	190
AusAID and other reimbursements	5B	373	435
<b>Total</b>		<u>1,679</u>	<u>1,812</u>
<b>Carrying amount of financial assets</b>		<u>1,679</u>	<u>1,812</u>
<b>Financial Liabilities</b>			
<b>At amortised cost:</b>			
Trade creditors and accruals	7A	4,125	3,402
<b>Total</b>		<u>4,125</u>	<u>3,402</u>
<b>Carrying amount of financial liabilities</b>		<u>4,125</u>	<u>3,402</u>

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

The ANAO derived no interest income from financial assets in both the current and prior year.

**Note 13B: Credit Risk**

The ANAO is exposed to minimal credit risk as financial assets represent cash and cash equivalents and trade and other receivables. 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 receivables for goods and services and employee related receivables of \$892,343 (2011: \$624,619).

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. No impairment has been recognised (2011: nil).

Australian National Audit Office  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

**Note 13: Financial Instruments (Cont'd)**

**Credit quality of financial instruments not past due or individually determined as impaired**

	Not past due nor impaired	Not past due nor impaired	Past due or impaired	Past due or impaired
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Receivables for goods and services	506	611	13	14
AusAID and other reimbursements	373	435	-	-
<b>Total</b>	<b>879</b>	<b>1,046</b>	<b>13</b>	<b>14</b>

**Ageing of financial assets that were past due but not impaired for 2012**

	0 to 30 days	31 to 60 days	61 to 90 days	90+ days	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Receivables for goods and services	3	1	-	9	13
<b>Total</b>	<b>3</b>	<b>1</b>	<b>-</b>	<b>9</b>	<b>13</b>

**Ageing of financial assets that were past due but not impaired for 2011**

	0 to 30 days	31 to 60 days	61 to 90 days	90+ days	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Receivables for goods and services	-	8	6	-	14
<b>Total</b>	<b>-</b>	<b>8</b>	<b>6</b>	<b>-</b>	<b>14</b>

**Note 13C: Liquidity Risk**

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

Financial liabilities represent current liabilities which are expected to mature within 30 days. The ANAO has no derivative financial liabilities in either the current or the prior year.

**Note 13D: Market Risk**

The ANAO holds basic financial instruments that do not expose the ANAO to market risk. The ANAO is not exposed to financial risk for its financial instruments from movements in currencies, interest rates or prices.

**Note 14: Financial Assets Reconciliation**

		2012	2011
		\$'000	\$'000
<b>Financial assets</b>	<b>Notes</b>		
<b>Total financial assets as per balance sheet</b>		<b>29,076</b>	<b>24,303</b>
Less: non-financial instrument components:			
Appropriation receivable	5B	(26,405)	(21,824)
GST receivable from the Australian Taxation Office	5B	(610)	(449)
Work in progress	5C	(382)	(218)
Total non-financial instrument components		<u>(27,397)</u>	<u>(22,491)</u>
<b>Total financial assets as per financial instruments note</b>		<b>1,679</b>	<b>1,812</b>

**Australian National Audit Office**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

**Note 15: Administered - Income**

	2012	2011
	\$'000	\$'000
<b>OWN-SOURCE REVENUE</b>		
<b>Note 15A: Sale of Goods and Rendering of Services</b>		
Rendering of services – government entities	9,713	8,282
<b>Total sale of goods and rendering services</b>	<b>9,713</b>	<b>8,282</b>

**Note 16: Administered - Financial Assets**

	2012	2011
	\$'000	\$'000
<b>Note 16A: Cash and Cash Equivalents</b>		
Cash on hand or on deposit	438	-
<b>Total cash and cash equivalents</b>	<b>438</b>	<b>-</b>
<b>Note 16B: Trade and Other Receivables</b>		
<b>Goods and services:</b>		
Financial statement audit fees - government entities	3,901	3,260
<b>Total receivables for goods and services</b>	<b>3,901</b>	<b>3,260</b>
<b>Less: impairment allowance account:</b>		
Goods and services	-	-
<b>Total impairment allowance account</b>	<b>-</b>	<b>-</b>
<b>Total trade and other receivables (net)</b>	<b>3,901</b>	<b>3,260</b>
<b>Receivables are expected to be recovered in:</b>		
No more than 12 months	3,901	3,260
<b>Total trade and other receivables (net)</b>	<b>3,901</b>	<b>3,260</b>
<b>Receivables were aged as follows:</b>		
Not overdue	3,864	3,161
Overdue by:		
31 to 60 days	-	16
61 to 90 days	-	37
More than 90 days	37	46
<b>Total receivables (gross)</b>	<b>3,901</b>	<b>3,260</b>
Credit terms for goods and services are net 30 days (2011: 30 days).		
<b>Note 16C: Other Financial Assets</b>		
Work in progress - audit related services	2,218	1,011
<b>Total other financial assets</b>	<b>2,218</b>	<b>1,011</b>
<b>Total other financial assets - are expected to be recovered in:</b>		
No more than 12 months	2,218	1,011
<b>Total other financial assets</b>	<b>2,218</b>	<b>1,011</b>

Australian National Audit Office  
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
 for the year ended 30 June 2012

**Note 17: Administered - Payables**

	2012	2011
	\$'000	\$'000
<b>Note 17A: GST Payable</b>		
GST payable to the Australian Taxation Office	385	268
<b>Total GST payable</b>	<u>385</u>	<u>268</u>

Payables are expected to be settled within 30 days.

**Note 18: Administered - Cash Flow Reconciliation**

	2012	2011
	\$'000	\$'000
<b>Reconciliation of cash and cash equivalents per Balance Sheet to Cash Flow Statement</b>		
<b>Cash and cash equivalents per:</b>		
Schedule of administered cash flows	438	-
Schedule of administered assets and liabilities	438	-
<b>Difference</b>	<u>-</u>	<u>-</u>
<b>Reconciliation of cash and cash equivalents as per Administered Schedule of Assets and Liabilities to Administered Cash Flow Statement</b>		
<b>Reconciliation of net cost of services to net cash from operating activities:</b>		
Net contribution by services	9,713	8,282
<b>Changes in assets / liabilities</b>		
Increase in net receivables	(641)	(1,711)
(Decrease) / increase in other financial assets	(1,207)	591
Increase in other payables	117	93
<b>Net cash from (used by) operating activities</b>	<u>7,982</u>	<u>7,255</u>

**Australian National Audit Office**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

**Note 19: Administered - Contingent Assets and Liabilities**

**Quantifiable Administered Contingencies**

There were no quantifiable Administered contingent assets or liabilities as at 30 June 2012 (2011: Nil).

**Unquantifiable Administered Contingencies**

There were no unquantifiable Administered contingent assets or liabilities as at 30 June 2012 (2011: Nil).

**Significant Remote Administered Contingencies**

There were no remote Administered contingent assets or liabilities as at 30 June 2012 (2011: Nil).

**Note 20: Administered - Financial Instruments**

		2012	2011
		\$'000	\$'000
<b>Note 20A: Categories of Financial Instruments</b>			
<b>Financial Assets</b>			
<b>Loans and receivables:</b>			
Cash and cash equivalents	16A	438	-
Receivables for goods and services	16B	3,901	3,260
<b>Total</b>		<b>4,339</b>	<b>3,260</b>
<b>Carrying amount of financial assets</b>		<b>4,339</b>	<b>3,260</b>

The net fair value of the financial assets approximates their carrying amount.

**Note 20B: Credit Risk**

The administered activities of the ANAO are exposed to minimal credit risk as financial assets represent cash and cash equivalents and trade and other receivables. 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 of \$3,900,976 (2011: \$3,259,507).

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. No impairment has been recognised (2011: nil).

Australian National Audit Office  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

**Note 20: Administered - Financial Instruments (Cont'd)**

**Credit quality of financial instruments not past due or individually determined as impaired**

	Not Past Due Nor Impaired 2012 \$'000	Not Past Due Nor Impaired 2011 \$'000	Past due or impaired 2012 \$'000	Past due or impaired 2011 \$'000
Receivables for goods and services	3,864	3,161	37	99
<b>Total</b>	<b>3,864</b>	<b>3,161</b>	<b>37</b>	<b>99</b>

**Ageing of financial assets that were past due but not impaired for 2012**

	0 to 30 days \$'000	31 to 60 days \$'000	61 to 90 days \$'000	90+ days \$'000	Total \$'000
Receivables for goods and service	-	-	-	37	37
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>37</b>	<b>37</b>

**Ageing of financial assets that were past due but not impaired for 2011**

	0 to 30 days \$'000	31 to 60 days \$'000	61 to 90 days \$'000	90+ days \$'000	Total \$'000
Receivables for goods and services	-	16	37	46	99
<b>Total</b>	<b>-</b>	<b>16</b>	<b>37</b>	<b>46</b>	<b>99</b>

**Note 20C: Liquidity Risk**

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 administered derivative financial liabilities in both the current and prior years.

**Note 20D: Market Risk**

The ANAO holds basic financial instruments that do not expose the ANAO to market risk. The ANAO is not exposed to financial risk for its financial instruments from movements in currencies, interest rates or prices.



**Note 21: Appropriations (Cont'd)**

Table B: Departmental Capital Budgets ('Recoverable GST exclusive')

	2012 Capital Budget Appropriations			Capital Budget Appropriations applied in 2012 (current and prior years)		
	Appropriation Act		Total Capital Budget Appropriations \$'000	Payments for non-financial assets <sup>2</sup> \$'000	Payments for other purposes \$'000	Total payments \$'000
	Annual Capital Budget \$'000	Appropriations reduced \$'000				
<b>DEPARTMENTAL</b>						
Ordinary annual services - Departmental Capital Budget <sup>1</sup>	1,173	-	1,173	(1,188)	-	(1,188)
						(15) <sup>3</sup>
	2011 Capital Budget Appropriations			Capital Budget Appropriations applied in 2011 (current and prior years)		
	Appropriation Act		Total Capital Budget Appropriations \$'000	Payments for non-financial assets <sup>2</sup> \$'000	Payments for other purposes \$'000	Total payments \$'000
	Annual Capital Budget \$'000	Appropriations reduced \$'000				

**Notes:**

1. Departmental Capital Budgets are appropriated through Appropriation Acts (No.1,3,5). They form part of ordinary annual services, and are not separately identified in the Appropriation Acts. For more information on ordinary annual services appropriations, please see Table A: Annual appropriations.
2. Payments made on non-financial assets include purchases of assets, expenditure on assets which has been capitalised and costs incurred to make good an asset to its original condition.
3. In 2011-12 the ANAO utilised \$303,959 of unspent Departmental Capital Budget from prior years. The remaining unspent 2011-12 Departmental Capital Budget at 30 June 2012 was \$288,692.

**Australian National Audit Office**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

**Note 21: Appropriations (Cont'd)**

**Table C: Unspent Annual Appropriations ('Recoverable GST exclusive')**

Authority	2012 \$'000	2011 \$'000
<b>DEPARTMENTAL</b>		
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	8,023	9,573
Appropriation Act (No. 2) 2010-11	-	398
Appropriation Act (No. 1) 2011-12	6,129	-
<b>Total</b>	<b>27,192</b>	<b>23,011</b>

**Table D: Special Appropriations ('Recoverable GST exclusive')**

Authority	Type	Purpose	Appropriation applied	
			2012 \$'000	2011 \$'000
Auditor-General Act 1997, Schedule 1 sections 3 and 7	Unlimited Amount	Remuneration, expenses and allowances of the office of the Auditor-General	474	470
Financial Management and Accountability 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
<b>Total</b>			<b>474</b>	<b>2,007</b>

Australian National Audit Office  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
 for the year ended 30 June 2012

**Note 22: Special Accounts**

**Note 22A: Special Accounts (Recoverable GST exclusive)**

	Other Trust Monies Account <sup>1</sup>	
	2012 \$'000	2011 \$'000
Balance brought forward from previous period	-	17
<b>Increases:</b>		
Other receipts - Comcare receipts paid in accordance with the <i>Safety, Rehabilitation and Compensation Act 1988</i>	30	45
<b>Total increases</b>	<b>30</b>	<b>45</b>
<b>Available for payments</b>	<b>30</b>	<b>62</b>
<b>Decreases:</b>		
<b>Administered</b>		
Payments made to employees	(30)	(62)
<b>Total administered decreases</b>	<b>(30)</b>	<b>(62)</b>
<b>Total decreases</b>	<b>(30)</b>	<b>(62)</b>
<b>Total balance carried to the next period</b>	<b>-</b>	<b>-</b>

1. Appropriation: *Financial Management and Accountability Act 1997* section 20.

Establishing Instrument: *Financial Management and Accountability Act 1997 – Initial Determination to Establish Components of the Reserved Money Fund* (31/12/1997).

Purpose: For expenditure of monies temporarily held on trust or otherwise for the benefit of a person other than the Commonwealth.

The 'Other Trust Monies' Special Account was abolished under *Financial Management and Accountability (Abolition of 24 Special Accounts) Determination 2012/02*. The abolition took effect on 20 June 2012 when the account had a nil balance.

The 'Services for Other Entities and Trust Moneys' Special Account was established on 26 June 2012 under *Financial Management and Accountability (Establishment of SOETM Special Account – ANAO) Determination 2012/06* and was not used during the 2011-12 financial year.

The purpose of the Services for Other Entities and Trust Moneys Special Account is to:

- disburse amounts held on trust or otherwise for the benefit of a person other than the Commonwealth;
- disburse amounts in connection with services performed on behalf of other governments and bodies that are not FMA Act agencies; and
- repay amounts where an act or law requires or permits the repayment of an amount received.

**Australian National Audit Office**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**for the year ended 30 June 2012**

**Note 23: Compensation and Debt Relief**

	2012	2011
	\$	\$
<b>Compensation and Debt Relief</b>		
No payments were made under section 73 of the <i>Public Service Act 1999</i> during the reporting period (2011: No payments made).	Nil	Nil
<b>Compensation and Debt Relief - Administered</b>	2012	2011
	\$	\$
No 'Act of Grace' payments were expensed during the reporting period (2011: No payments).	Nil	Nil
No waivers of amounts owing to the Australian Government were made pursuant to subsection 34(1) of the <i>Financial Management and Accountability Act 1997</i> (2011: No waivers).	Nil	Nil
No ex-gratia payments were provided for during the reporting period. (2011: No payments).	Nil	Nil

**Australian National Audit Office**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**for the year ended 30 June 2012**

**Note 24: Reporting of Outcomes**

The ANAO uses an Activity Based Costing System to determine the attribution of its shared items that is updated annually. In 2011-12 the ANAO revised the allocation method for income from government to better align with the anticipated funding needs of each outcome. The basis of attribution in the table below is consistent with the basis used for the Portfolio Budget Statements.

**Note 24A: Net Cost of Outcome Delivery**

	Outcome 1		Outcome 2		Total	
	Assurance Audit Services		Performance Audit Services			
	2012	2011	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Departmental</b>						
Expenses	46,047	41,061	31,604	30,290	77,651	71,351
Own-source income	2,211	2,568	955	673	3,166	3,241
<b>Administered</b>						
Expenses	-	-	-	-	-	-
Own-source income	9,713	8,282	-	-	9,713	8,282
<b>Net cost of outcome delivery</b>	<b>34,123</b>	<b>30,211</b>	<b>30,649</b>	<b>29,617</b>	<b>64,772</b>	<b>59,828</b>

**Note 24B: Major Classes of Departmental Expense, Income, Assets and Liabilities by Outcome**

	Outcome 1		Outcome 2		Total	
	Assurance Audit Services		Performance Audit Services			
	2012	2011	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Expenses</b>						
Employee benefits	20,135	18,401	21,672	20,940	41,807	39,341
Suppliers	24,862	21,720	9,035	8,554	33,897	30,274
Depreciation and amortisation	1,028	867	879	734	1,907	1,601
Other expenses	22	73	18	62	40	135
<b>Total</b>	<b>46,047</b>	<b>41,061</b>	<b>31,604</b>	<b>30,290</b>	<b>77,651</b>	<b>71,351</b>
<b>Income</b>						
Income from government	44,673	39,317	30,218	33,492	74,891	72,809
Sale of goods and services	2,120	2,490	877	607	2,997	3,097
Rental income	91	78	78	66	169	144
<b>Total</b>	<b>46,884</b>	<b>41,885</b>	<b>31,173</b>	<b>34,165</b>	<b>78,057</b>	<b>76,050</b>
<b>Assets</b>						
Cash and cash equivalents	425	641	362	546	787	1,187
Trade and other receivables	15,070	12,365	12,837	10,533	27,907	22,898
Other financial assets	206	118	176	100	382	218
Land and buildings	2,888	3,261	2,460	2,777	5,348	6,038
Property, plant and equipment	827	461	704	392	1,531	853
Intangibles	881	983	751	837	1,632	1,820
Other non-financial assets	433	545	369	465	802	1,010
<b>Total</b>	<b>20,730</b>	<b>18,374</b>	<b>17,659</b>	<b>15,650</b>	<b>38,389</b>	<b>34,024</b>
<b>Liabilities</b>						
Suppliers	2,228	1,837	1,898	1,565	4,125	3,402
Operating lease	708	795	603	677	1,311	1,472
Other payables	664	574	565	489	1,229	1,063
Employee provisions	6,903	5,845	5,881	4,977	12,784	10,822
Other provisions	-	22	-	18	-	40
<b>Total</b>	<b>10,503</b>	<b>9,073</b>	<b>8,947</b>	<b>7,726</b>	<b>19,449</b>	<b>16,799</b>

Outcomes 1 and 2 are described in Note 1. Net costs shown include intra-government costs that are eliminated in calculating the actual budget outcome.

Australian National Audit Office  
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
 for the year ended 30 June 2012

**Note 24: Reporting of Outcomes (Cont'd)**

**Note 24C: Major Classes of Administered Expenses, Income, Assets and Liabilities by Outcome**

	Outcome 1		Outcome 2		Total	
	Assurance Audit Services		Performance Audit Services			
	2012	2011	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Income</b>						
Sale of goods and services	9,713	8,282	-	-	9,713	8,282
<b>Total</b>	<b>9,713</b>	<b>8,282</b>	<b>-</b>	<b>-</b>	<b>9,713</b>	<b>8,282</b>
<b>Assets</b>						
Cash and cash equivalents	438	-	-	-	438	-
Receivables	3,901	3,260	-	-	3,901	3,260
Work in progress	2,218	1,011	-	-	2,218	1,011
<b>Total</b>	<b>6,557</b>	<b>4,271</b>	<b>-</b>	<b>-</b>	<b>6,557</b>	<b>4,271</b>
<b>Liabilities</b>						
GST payable	385	268	-	-	385	268
<b>Total</b>	<b>385</b>	<b>268</b>	<b>-</b>	<b>-</b>	<b>385</b>	<b>268</b>

Outcomes 1 and 2 are described in Note 1.

Australian National Audit Office  
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
 for the year ended 30 June 2012

**Note 25: Net Cash Appropriation Arrangements**

	2012 \$'000	2011 \$'000
<b>Total comprehensive income (loss) less depreciation/amortisation expenses previously funded through revenue appropriations<sup>1</sup></b>	<b>2,449</b>	<b>6,641</b>
Plus: depreciation/amortisation expenses previously funded through revenue appropriation	<u>(1,907)</u>	<u>(1,601)</u>
<b>Total comprehensive income - as per the Statement of Comprehensive Income</b>	<b><u>542</u></b>	<b><u>5,040</u></b>

<sup>1</sup> From 2010-11, the Government introduced net cash appropriation arrangements, where revenue appropriations for depreciation/amortisation expenses ceased. Entities now receive a separate capital budget provided through equity appropriations. Capital budgets are to be appropriated in the period when cash payment for capital expenditure is required.

**Australian National Audit Office**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**for the year ended 30 June 2012**

**Note 26: Compliance with Statutory Conditions for Payments from the Consolidated Revenue Fund**

Section 83 of the Constitution provides that no amount may be paid out of the Consolidated Revenue Fund except under an appropriation made by law. The Department of Finance and Deregulation provided information to all agencies in 2011 regarding the need for risk assessments in relation to compliance with statutory conditions on payments from special appropriations, including special accounts.

During 2011-12, the agency developed a plan to review exposure to risks of not complying with statutory conditions on payments from appropriations. The plan involved identifying each special appropriation and special account; and determining the risk of non-compliance by assessing the difficulty of administering the statutory conditions and assessing the extent to which existing payment systems and processes satisfy those conditions.

The ANAO identified four appropriations involving statutory conditions for payment, comprising two special appropriations and two special accounts.

**Summary**

<b>Appropriations identified as subject to conditions</b>	<b>Expenditure in 2011-12 \$</b>
<b>SPECIAL APPROPRIATIONS</b>	
Auditor-General Act 1997, Schedule 1 sections 3 and 7	474,000
Financial Management and Accountability Act 1997 s28(2)	-
<b>SPECIAL ACCOUNTS</b>	
Other Trust Monies Special Account	29,618
Services for Other Entities and Trust Moneys Special Account	-

As at 30 June 2012 this work had been completed in respect of all appropriations with statutory conditions for payment (representing \$503,618 of total \$77,651,145 expenditure in 2011-12).

The work conducted has identified no issues in respect of compliance with Section 83.



APPENDICES  
**PART 6**



## APPENDIX 1—STAFFING STATISTICS

TABLE A1.1 STAFFING PROFILE AT 30 JUNE 2012

Classification	2011–12	2010–11
SES Band 3	1	1
SES Band 2	6	6
SES Band 1	21	22
EL 2	83	93
EL 1	59	53
APS 6	67	70
APS 5	36	39
APS 4	41	38
APS 3	17	17
APS 2	6	4
APS 1 (Undergraduate)	6	6
Graduate	22	15
<b>Total</b>	<b>365</b>	<b>364</b>

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 A1.2 ANAO PAID OPERATIVE STAFF (EMPLOYED UNDER THE *PUBLIC SERVICE ACT 1999*) AT 30 JUNE, 2011 AND 2012

Location	June 2012			June 2011		
	Audit	Non-audit	Subtotal	Audit	Non-audit	Subtotal
ACT	283	59	342	266	67	333
NSW	0	0	0	6	1	7
<b>Total</b>	<b>283</b>	<b>59</b>	<b>342</b>	<b>272</b>	<b>68</b>	<b>340</b>

Note: Excludes 23 inoperative staff as at 30 June 2012 (See Table A1.1 for a definition of inoperative staff).

TABLE A1.3 PAID FULL-TIME, PART-TIME AND NON-ONGOING STAFF AT 30 JUNE 2012

Classification	Full-time		Part-time		Non-ongoing		Total	
	M	F	M	F	M	F	M	F
SES Band 3	1	0	0	0	0	0	1	0
SES Band 2	5	1	0	0	0	0	5	1
SES Band 1	15	5	0	1	0	0	15	6
EL 2	41	31	2	8	0	0	43	39
EL 1	28	19	0	4	3	0	31	23
APS 6	23	39	2	2	0	0	25	41
APS 5	14	16	0	3	0	2	14	21
APS 4	15	23	1	0	1	1	17	24
APS 3	0	14	0	0	0	1	0	15
APS 2	0	0	0	3	1	1	1	4
APS 1 (Undergraduate)	0	0	0	0	5	1	5	1
Graduate	8	14	0	0	0	0	8	14
<i>Subtotal</i>	<i>150</i>	<i>162</i>	<i>5</i>	<i>21</i>	<i>10</i>	<i>6</i>	<i>165</i>	<i>189</i>
<b>Total</b>	<b>312</b>		<b>26</b>		<b>16</b>		<b>354</b>	

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

Note: Includes paid operative and inoperative staff, but excludes 11 unpaid staff who were on leave without pay.

TABLE A1.4 ANALYSIS OF WORKPLACE DIVERSITY GROUPS WITHIN SALARY LEVELS, 2011–12

Salary range	Women	NESB1	NESB2	ATSI	PWD
Below \$48,298 (APS 1 and undergraduates)	1	2	2	0	0
\$48,298 to \$57,158 (APS 2–3 and graduates)	36	5	3	1	0
\$57,159 to \$71,540 (APS 4–5)	46	10	11	0	0
\$71,541 to \$98,943 (APS 6–EL 1)	69	16	10	1	0
\$98,944 and above (EL2–SES Band 3)	47	8	5	0	1
<b>Total staff: 365</b>	<b>199</b>	<b>41</b>	<b>31</b>	<b>2</b>	<b>1</b>
<b>Percentage of total staff</b>	<b>54.5%</b>	<b>11%</b>	<b>8%</b>	<b>&lt;1%</b>	<b>&lt;1%</b>

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

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 A1.5 DETAILS OF GAINS AND LOSSES (ONGOING STAFF), 2011–12

Location	Movements to other departments	Resignations	Medical retirements	Voluntary retirements	Other losses	Total losses	Gains
ACT	32	17	0	0	12	61	71
NSW	2	1	0	4	2	9	0
<b>Total</b>	<b>34</b>	<b>18</b>	<b>0</b>	<b>4</b>	<b>14</b>	<b>70</b>	<b>71</b>

TABLE A1.6 DETAILS OF STAFF TRAINING, 2007–08 TO 2011–12

Description	2011–12	2010–11	2009–10	2008–09	2007–08
Direct expenditure on training	\$1,117,314	\$766,412	\$920,130	\$890,642	\$993,759
Total number of person-days spent by staff on eligible training programs	2,421	2,160	2,131	2,168	1,753

TABLE A1.7 BASIS OF EMPLOYMENT, 2011–12

Level	Enterprise agreement	Australian Workplace Agreement	Common law contract
SES	0		28
Non-SES	337		0
<b>Total</b>	<b>337</b>		<b>28</b>

SES = Senior Executive Service

TABLE A1.8 PERFORMANCE PAYMENTS IN 2011–12

Classification	Number	Total (\$)	Average (\$)	Minimum (\$)	Maximum (\$)
SES	23	208,778	9,077	3,750	15,000
EL 2	48	188,308	3,923	2,496	8,941
EL 1	18	48,674	2,704	1,812	3,117
APS 6	27	65,947	2,442	1,283	5,255
APS 5	7	17,825	2,546	1,182	4,596
APS 4	10	13,945	1,394	1,286	1,941
APS 1–3	2	3,586	1,793	1,730	1,856
<b>Total</b>	<b>135</b>	<b>547,063</b>			

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

## APPENDIX 2—SUMMARY OF REPORTS TABLED IN 2011–12

**TABLE A2.1 SINGLE-PORTFOLIO REPORTS, BY PORTFOLIO, 2011–12**

No.	Description
<b>Agriculture, Fisheries and Forestry portfolio</b>	
<b>46</b>	<p data-bbox="223 401 780 430"><b>Administration of the Northern Australia Quarantine Strategy</b></p> <p data-bbox="223 439 1145 496">The objective of the audit was to assess the effectiveness of the administration of the Northern Australia Quarantine Strategy by the Department of Agriculture, Fisheries and Forestry (DAFF).</p> <p data-bbox="223 506 1145 858">In general, DAFF had implemented effective arrangements to administer the strategy in line with the department's risk-based approach to biosecurity. Systems and processes had been established to identify and review biosecurity risks and to target the delivery of animal and plant health scientific surveys. The department also had arrangements in place to manage the quarantine aspects of Torres Strait border movements, focused on maintaining an ongoing presence in the Torres Strait, informing stakeholders of their quarantine responsibilities and undertaking inspections to limit the movement of quarantine risk material. In recent years, the department had formalised and more clearly articulated the program's public awareness strategies to reflect biosecurity risks and strengthened its relationships with key stakeholders, particularly Indigenous communities. Underpinning these arrangements was a sound governance framework. There were, however, aspects of the administration that could be improved to better inform management decision-making and to enable the department to demonstrate the achievements of the strategy.</p> <p data-bbox="223 868 1145 953">The ANAO made three recommendations designed to: strengthen arrangements for managing scientific surveillance data; improve the integrity of border operations data; and build a more comprehensive performance measurement and reporting framework.</p>
<b>Attorney-General's portfolio</b>	
<b>15</b>	<p data-bbox="223 1007 825 1035"><b>Risk Management in the Processing of Sea and Air Cargo Imports</b></p> <p data-bbox="223 1045 1145 1102">The objective of the audit was to assess Customs and Border Protection's use of risk management to assist in the processing of sea and air cargo imports.</p> <p data-bbox="223 1111 1145 1321">Customs and Border Protection had effectively used risk management strategies to process sea and air cargo imports. It had a sound risk management framework with mature strategic and operational risk assessment and planning arrangements. It was further developing its risk management framework with a view to allowing it to align decisions on resource allocation with the assessment of organisational and border-related risks. Customs and Border Protection had substantially strengthened its primary risk management tools, profiles and alerts, enabling the agency to reduce the number of inspections and examinations, with limited change to the detection of prohibited and restricted goods.</p> <p data-bbox="223 1330 1145 1410">The ANAO made three recommendations aimed at improving the use of penalties as a compliance improvement tool, revenue leakage estimation, and the management of the risks associated with self-assessed clearances (for consignments with a value of less than \$1,000).</p>

No.	Description
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<b>30</b>	<b>Fighting Terrorism at its Source</b>
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The objective of the audit was to assess the effectiveness of the administration of the Fighting Terrorism at its Source initiative and related measures by the Australian Federal Police (AFP). Through the initiative and related measures, the AFP had successfully deployed multidisciplinary counter-terrorism teams to work closely with regional law enforcement in Indonesia, the Philippines and Thailand. It had also progressed a number of important capacity development initiatives, including the establishment of bomb data centres in each of these countries and the establishment of the Jakarta Centre for Law Enforcement Cooperation.

The AFP's administration of the initiative and related measures was generally effective. The initiative supported, and was well aligned with, whole-of-government priorities and programs, and key stakeholders were effectively engaged. However, now that the initiative is part of ongoing AFP business, it is appropriate that the AFP give greater focus to a more strategic management approach to sustain the initiative. The existing framework to support and guide the AFP's regional counter-terrorism engagement lacked clear accountabilities for the delivery of specific strategies. Improvement to elements of the AFP's administration, particularly in regard to the management of capacity development and the preparation of staff for deployment, would also better position the AFP to maximise the benefits obtained through the engagement over time.

The ANAO made four recommendations aimed at improving the AFP's strategic framework supporting regional counter-terrorism engagement; project planning; language and pre-deployment training; and the management of offshore risks.

<b>49</b>	<b>Security Assessments of Individuals</b>
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The objective of the audit was to assess the effectiveness of arrangements used by the Australian Security Intelligence Organisation (ASIO) to provide timely and soundly based security assessments of individuals to client agencies.

ASIO's arrangements for providing security assessments of individuals to client agencies were robust and, broadly, effective. The agency had a sound governance framework in place, including strategic risk management arrangements that were updated regularly. There was an effective mechanism to report to the ASIO executive and the Government on risks that affect security assessment processes, including the emerging area of risk arising from the rapidly increasing number of security checks for immigration community detention cases. However, at an operational level, there were some aspects of the security assessment regime that deserved further focus. These aspects limited assurance that the agency is making sound assessments that result in non-prejudicial advice, and that the recent initiatives, implemented to reduce the security assessment caseload of irregular maritime arrivals, are being managed sustainably. Also, it was important that impediments to mutual accountability between ASIO and its client agencies be addressed, and that ASIO put in place workforce planning strategies to respond to future changes in demand for security assessments.

The ANAO made four recommendations aimed at further strengthening ASIO's security assessments of individuals. These recommendations related to: strengthening workforce planning strategies, including for a contingency or surge capacity; strengthening working relationships, service delivery arrangements and the sharing of information with client agencies; providing greater assurance of the security assessment process in the visa security assessments stream; and the sustainability of the Security Triaging Framework.

No.	Description
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50	<b>Processing and Risk Assessing Incoming International Air Passengers</b>
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The objective of the audit was to assess the effectiveness of Customs and Border Protection's risk-based management of end-to-end processing of incoming international air passengers in achieving border security and passenger facilitation outcomes.

Customs and Border Protection had been managing the clearance of incoming international air passengers effectively in terms of meeting the performance target for clearing passengers. However, Customs and Border Protection's risk-based approach to passenger clearance had structural weaknesses, gaps and overlaps. The gaps in pre-arrival risk assessment coverage reduced assurance that the identification of high-risk passengers was being consistently achieved, and that low-risk passengers were not subject to unnecessary intervention. In addition, while the SmartGate automated border clearance facility worked well and passenger usage was increasing, its potential contribution to passenger processing efficiency had not been realised and could be improved.

The ANAO made three recommendations directed towards improving Customs and Border Protection's management of incoming international air passenger processing and risk assessment, focused on improving the performance of SmartGate and on priorities within the Passenger Targeting Model change process.

### Broadband, Communications and the Digital Economy portfolio

55	<b>Administration of the Digital Television Switchover Household Assistance Scheme</b>
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The objective of the audit was to assess the effectiveness of the administration of the Digital Television Switchover Household Assistance Scheme by the Department of Broadband, Communications and the Digital Economy (DBCDE). The scheme provided, at no cost to eligible customers, the supply, installation and demonstration of a high-definition digital television set-top box, with features to meet the needs of the elderly or those with a disability.

Overall, DBCDE effectively established and continued to strengthen its administrative arrangements to deliver safety net services to those elderly and disabled customers requiring assistance to make the switch to viewing digital-only television, aligned with the Australian Government's timetable for switching off the analog signal.

The ANAO made two recommendations to improve DBCDE's administration of the scheme. The first reinforced the need for DBCDE to review, regularly update and endorse project plans, operational documents and administrative procedures. The second was aimed at DBCDE developing appropriate performance measures and targets against which the achievement of the scheme's objectives can be measured, assessed and reported to both internal and external stakeholders.

No.	Description
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<b>Climate Change and Energy Efficiency portfolio</b>	
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<b>23</b>	<b>Administration of the National Greenhouse and Energy Reporting Scheme</b>
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The objective of the audit was to assess the effectiveness of the implementation and administration of the National Greenhouse and Energy Reporting Scheme (NGERS) by the Department of Climate Change and Energy Efficiency (DCCEE). The scheme was designed to introduce a single national reporting framework for constitutional corporations that have significant greenhouse gas emissions from energy consumption and energy production. This followed an agreement made in April 2007 by the Council of Australian Governments (COAG) to streamline reporting on greenhouse gas emissions. The passing of the *National Greenhouse and Energy Reporting Act 2007* created a new regulatory regime for Australia. A total of 775 constitutional corporations were required to self-assess and report in 2009–10. The changing operating environment, particularly in relation to the proposed introduction of an emissions trading scheme and carbon pricing mechanism, presented challenges for DCCEE that affected the implementation of the scheme.

DCCEE had established a workable greenhouse gas and energy reporting scheme that provided a more accurate measurement of greenhouse gas emissions and energy use within Australia than the voluntary industry surveys and programs that were previously in place. DCCEE had established a positive relationship with the majority of registered corporations. In addition, over 50 per cent of corporations indicated in the ANAO's survey that tangible benefits had been obtained from measuring their greenhouse gases and energy use. Notwithstanding these positive findings and progress to date, key aspects of DCCEE's administration required strengthening to improve the operation of NGERS.

The ANAO made recommendations regarding reducing compliance costs, sharing data, and streamlining reporting obligations as intended by COAG.

<b>39</b>	<b>Management of the National Solar Schools Program</b>
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The objective of the audit was to assess the effectiveness of the design and management of the National Solar Schools Program, including demonstrated progress towards achieving the program's objectives. The program was intended to assist schools to take practical action on climate change through competitive merit-based grants of up to \$50,000 to install solar and other renewable power systems, solar hot water systems, rainwater tanks and a range of energy efficiency items.

Overall, there were early indications that the program had assisted schools to generate their own electricity and improve their energy efficiency. However, the resource cost of the estimated abatement was considerable. The competitive funding rounds were well designed and effectively implemented. Nevertheless, certain aspects of the design and implementation of the program could have been improved. Most notably, in the 2010–11 and 2011–12 funding rounds a significant number of applications were approved for funding despite having received a low overall score. Neither DCCEE's design of the program nor the advice to the grant approver addressed how the approval of low-scoring applications could be seen to represent an efficient, effective and economical use of public money.

The ANAO made two recommendations related to ensuring that the program guidelines cover all the important aspects of the application assessment process; and establishing clear links between the assessment of individual applications against the published criteria, an overall assessment as to whether each proposed grant represents an efficient, effective and economical use of public money, and the resulting agency recommendation to decision-makers about which applications should be awarded funding.

No.	Description
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Defence portfolio	
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1	<b>The Australian Defence Force's Mechanisms for Learning from Operational Activities</b>
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The objective of the audit was to assess the effectiveness of the mechanisms used by the Australian Defence Force (ADF) for learning from its military operations and exercises. In particular, the audit focused on the systems and processes the ADF used for identifying and acting on lessons, and for evaluating performance.

The ADF had structures in place to learn from operations and exercises and in recent years there had been attempts to improve them as the ADF recognised their importance. However, the application of the ADF's learning framework was patchy and fragmented. The ADF's overall approach to learning placed more emphasis on observational lessons than on operational evaluation. The process for capturing and acting on lessons across the services at the operational level was mixed. The key ADF-wide information system provided to support lessons and evaluation had fallen into disuse. The conduct of in-depth evaluations of operations had only commenced after 2009; evaluations prior to that were limited and did not assess progress toward operational outcomes. Reporting to Parliament via operational key performance indicators required improvement.

The ANAO made five recommendations to consolidate and improve the focus of the ADF's mechanisms for learning from operational activities and evaluating operations, including in cases where other Australian Government agencies are involved in operations, and in reporting outcomes to Parliament.

19	<b>Oversight and Management of Defence's Information and Communication Technology</b>
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The objective of the audit was to assess the development of Defence's oversight and management of its portfolio of information and communications technology (ICT) investments and projects. ICT supports war-fighting and intelligence capabilities and the corporate functions of the ADF and the Department of Defence (Defence). To address significant identified shortcomings, Defence developed an ICT reform program in conjunction with the Government's Defence White Paper 2009 and the 2009 Strategic Reform Program (SRP). ICT reforms alone are required to contribute \$1.9 billion towards the overall \$20 billion SRP savings target over the decade to 2019, and the success of more than half of the SRP reforms depends on the provision of effective ICT services.

Defence had made modest progress in improving the performance of its ICT systems and had started replacing obsolescent equipment. The ICT savings contributions towards the SRP exceeded the target for 2009–10 and met the target for 2010–11. Defence had taken steps to formalise and develop the governance and management of its ICT through the establishment of a high-level ICT committee. Nonetheless, more than two years into the reform agenda, ICT continued to represent a material risk to the SRP savings target and to longer term objectives of the white paper. There were risks in the areas of governance arrangements, processes to resolve competing priorities, and the identification of interdependent initiatives. Central knowledge of the Defence-wide ICT systems and expenditure was incomplete. Defence was working to ameliorate these risks.

The ANAO made two recommendations aimed at improving Defence's portfolio-wide approach to managing its ICT reform program risks and the investments required to deliver the benefits envisaged in the SRP and the white paper.

No.	Description
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<b>20</b>	<b>2010–11 Major Projects Report</b>
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The objective of this report was to provide assessment and analysis by the ANAO of information provided by the Defence Materiel Organisation (DMO) on 28 major projects; and comprehensive information on the status of projects as advised by the DMO. The DMO provides information on projects in Project Data Summary Sheets (PDSSs); the information to be provided is agreed by the Joint Committee of Public Accounts and Audit (JCPAA). This is the fourth such annual review, and this year covered projects with approved budgets totalling \$46.1 billion, or over half the DMO's approved major capital investment program.

The information provided was generally in accordance with the guidelines on completing the PDSSs, except for the non-inclusion of project expenditure history on a comparable basis (that is, in base date dollars) for three of the 11 major projects for which such history was required.

The DMO data indicated that at 30 June 2011: cost had not been a major issue to date; the total time for the 28 major projects to achieve their final operational capability date was expected to be almost one-third longer than was originally planned; and the DMO expected to deliver almost all capabilities associated with the major projects in this report. Maintaining major projects on schedule remains the most significant challenge for the DMO and industry contractors.

This limited assurance review of the PDSSs was conducted by the ANAO under an agreement with the DMO, and was performed in accordance with the Australian Standard on Assurance Engagements (ASAE) 3000. By its nature, this review was not as extensive as individual performance audits conducted by the ANAO, in terms of the nature and scope of project issues covered, and the extent to which evidence is required by the ANAO. Consequently, the level of assurance provided by this review in relation to the 28 major projects is less than that typically provided by our performance audits.

<b>32</b>	<b>Management of Complaints and Other Feedback by the Department of Veterans' Affairs</b>
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The objective of the audit was to assess the effectiveness of the management of complaints and other feedback, to support service delivery, by the Department of Veterans' Affairs (DVA).

From 1 July 2010, DVA had adopted a well-designed framework for managing complaints and other feedback, which recognised the important contribution that complaints, compliments and suggestions can make to improved client services. The department had also implemented effective processes to handle complaints and other feedback. The revised management framework included a readily accessible revised policy and an upgraded computerised recording system for recording complaints and compliments, the Complaints and Feedback Management System (CFMS).

While DVA planned to further analyse its feedback data, the effectiveness of the process would be limited by the data recorded on the CFMS, which did not indicate the main cause of the complaint or its exact nature. There would be benefit in DVA reviewing the recording of complaints and other feedback data on the CFMS, to better support the information needs of DVA business groups. Opportunities to improve the administration and integrity of the framework could be considered by DVA to overcome the continued level of under-reporting of complaints and to better protect the privacy of complaints records.

The ANAO made three recommendations directed at supporting DVA's service delivery by improving the department's administration of the framework for managing complaints and compliments and the efficiency of the complaints and feedback monitoring system.

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34	<b>Upgrade of the M113 Fleet of Armoured Vehicles</b>
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The objective of the audit was to assess the progress of the M113 Upgrade Project, Land 106, including progress in the development of operational capability resulting from the introduction of the upgraded vehicles into service.

This third audit of the M113 upgrade identified that the project continued to suffer from various technical, administrative and contractual problems following the November 2007 global contract settlement between Defence and the original prime contractor, resulting in additional schedule delay. Following a further contract renegotiation in 2011, the majority of vehicles had been delivered and Defence was confident that the remaining vehicles would be delivered by late 2012 as per the revised contract. The upgraded M113 does represent an improvement on the older, unextended vehicle. However, a vehicle that was considered fit-for-purpose when the minor upgrade was first proposed 20 years ago now lags behind armoured infantry vehicles used by other armed forces, and is vulnerable in many current threat environments, leaving Defence with an acknowledged capability gap.

The ANAO made one recommendation aimed at improving the coordination of inputs to capability when developing or upgrading combat platforms.

48	<b>Administration of Mental Health Initiatives to Support Younger Veterans</b>
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The objective of the audit was to assess the effectiveness of DVA's administration of mental health programs and services to support younger veterans. The mental health needs of members of the ADF and ex-service communities have continued to attract attention and concern in the ADF and wider community, with many thousands of ADF veterans, including younger members, returning from deployments around the globe.

Overall, a more strategic and coordinated approach was required than had been in place, if DVA was to effectively plan and deliver mental health programs and services that met both the current and emerging needs of serving and former ADF members. It is important that DVA, together with the Department of Defence, more effectively targets mental health programs, to increase the participation of younger veterans at the time of transition to civilian life and in subsequent years.

The audit made five recommendations to strengthen DVA's administration of mental health programs and services to better support younger veterans. The recommendations focused on: improving differentiation between, and understanding of, the various veteran cohorts, particularly the younger groups; evaluating the performance of mental health programs; developing a targeted communication and dissemination strategy to reach younger veterans and members; and measures to improve the integrity of DVA's mental health data holdings.

52	<b>Gate Reviews for Defence Capital Acquisition Projects</b>
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The objective of the audit was to examine the effectiveness of DMO's implementation of its Gate Review process for major Defence capital acquisition projects. DMO commenced implementation of Gate Reviews in July 2008 as an internal assurance process which included a degree of independent scrutiny. Gate Reviews were intended to improve project outcomes and applied to all major capital equipment projects.

Development and implementation of the program began slowly. During the period between July 2008 and July 2011 the quality and rigour applied to Gate Reviews varied and the number conducted fell well short of that required by the policy. Since July 2011, when the program was centralised in the Independent Project Performance Office, the management of Gate Reviews had improved and the number held had increased substantially.

The ANAO has made three recommendations aimed at establishing a system for monitoring the completion of action items arising from the Gate Reviews; developing a suitable evaluation program to identify the costs and benefits of Gate Reviews; and recording areas for improvement in the management of DMO acquisition projects.

**No. Description****Education, Employment and Workplace Relations portfolio****6 Fair Work Education and Information Program**

The objective of the audit was to assess the effectiveness of the administration of the Fair Work Education and Information Program by the Department of Education, Employment and Workplace Relations (DEEWR). The program was a \$12.9 million, one-off national program which provided grants to employer, employee, small business and community organisations to deliver education and information on the *Fair Work Act 2009*.

DEEWR's administration of the program had been reasonably effective in facilitating delivery of suitable education and information activities on Australia's current national workplace relations system in the period following commencement of the Act. DEEWR's program planning and design generally were appropriate in light of the nature of the program; the department selected and engaged a well-positioned cohort of service providers to deliver broad-ranging activities. For the most part, program monitoring, reporting and evaluation were adequate given the key characteristics of the program, including its size. Nonetheless, there were shortcomings in the processes used by DEEWR to invite organisations to apply for grants and assess applications received. There was also scope for improvement in the department's assessment of program performance. Improvements in these areas had the potential to further strengthen the reach and impact of the program.

The audit did not make any recommendations to DEEWR as the program had been completed. The audit did highlight issues of general interest in managing a grant program.

**10 Administration of the National Partnership on Early Childhood Education**

The objective of the audit was to assess the effectiveness of DEEWR's administration of the initial phases of the National Partnership on Early Childhood Education (NPECE). The key outcome sought for the NPECE was that in the year before formal schooling all children have access to an affordable, quality preschool program. The NPECE involved \$970 million in Australian Government funding over five years.

Overall, DEEWR's administration of the initial phases of the NPECE had been effective. Initial planning had been generally sound, with appropriate development of implementation plans and monitoring arrangements. However, the preparation of a strategy for Indigenous access to early childhood education had been slower than desirable. Ongoing administration had been well managed, with appropriate assessment of progress reports, sound relationships with stakeholders and effective coordination of improvements to performance information.

The audit highlighted scope for DEEWR to further strengthen accountability, making two recommendations directed towards heightened focus on potential risks to the delivery of anticipated outcomes, and improved presentation of publicly available performance information.

No.	Description
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<b>41</b>	<b>National Partnership Agreement on Literacy and Numeracy</b>
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The objective of the audit was to assess the effectiveness of DEEWR's administration of the National Partnership Agreement on Literacy and Numeracy (LNNP). The LNNP committed \$540 million of Australian Government funding over four years, and aimed to put in place the infrastructure and practices that would deliver sustained improvement in literacy and numeracy outcomes for all students, especially those who are falling behind.

Overall, the effectiveness of DEEWR's administration of the LNNP had been mixed. This assessment was made in the context of National Partnerships being a new form of program delivery and the LNNP one of the first National Partnerships to include reward payments to states. DEEWR had worked collaboratively with state agencies to establish administrative and payment arrangements for the LNNP within a reasonable timeframe, and had mostly managed the administrative and payment arrangements in accordance with the requirements established by the LNNP. However, the department had not applied a structured approach to negotiating key implementation arrangements, specifically the number of participant schools, performance indicators, and the reform targets for 2010 and 2011 which were the basis for making reward payments. Consequently, there was significant variability at a state level in the coverage of the LNNP and performance indicators used, and reward targets were not necessarily demanding. Education authorities and schools consulted during the audit reported a range of positive impacts of the LNNP on schools, teachers and students, including through increased collaboration between government and non-government education sectors. However, ANAO analysis indicated that the initial operation of LNNP initiatives had not made a statistically significant improvement, in any state, in the average National Assessment Program—Literacy and Numeracy (NAPLAN) results of schools that had received LNNP funding compared to those of schools that had not received funding.

The ANAO made two recommendations to strengthen program and payment design for future National Partnerships, and to better assess the impact of the LNNP on literacy and numeracy outcomes for participating schools following the conclusion of the LNNP. The audit report also identified lessons for the administration of future National Partnerships.

<b>Families, Housing, Community Services and Indigenous Affairs portfolio</b>	
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<b>11</b>	<b>Implementation and Management of the Housing Affordability Fund</b>
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The objective of the audit was to assess the effectiveness of the administration of the Housing Affordability Fund by the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA). Through the fund, the Australian Government planned to make available \$500 million over five years to support projects that would reduce the cost of infrastructure works associated with housing developments and encourage best practice in housing development assessment and planning processes. A key element in the design of the fund was that reductions in housing development costs were to be passed on to home buyers in the form of a rebate (or savings) against the market price of new houses.

There were serious shortcomings in FaHCSIA's administration of the program. In particular, the assessment and selection arrangements were not applied consistently, meaning that not all applicants were treated equitably. Further, at times, the department's advice to the responsible minister was incomplete and did not properly inform decision-making. There was also some inconsistency in the form and content of funding agreements with the grant recipients, which increased the risk that the department may not be able to accurately assess the contribution individual projects make towards the achievement of the fund's objectives.

The audit made one recommendation designed to improve the quality of FaHCSIA's advice to ministers and other decision-makers on the allocation of grant funding, and two recommendations aimed at improving arrangements for managing the performance of the approved projects, which is now the responsibility of the Department of Sustainability, Environment, Water, Population and Communities.

No.	Description
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<b>12</b>	<b>Implementation of the National Partnership Agreement on Remote Indigenous Housing in the Northern Territory</b>
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The objective of the audit was to assess the effectiveness of the implementation of the National Partnership Agreement on Remote Indigenous Housing in the Northern Territory from the perspective of the Australian Government. The audit was conducted following a request in May 2010 from the Senate, and focused on the period after arrangements for joint management by the Australian Government and the Northern Territory Government were introduced in August 2009.

Overall, the revised program management arrangements developed in August 2009 had been effective in improving the implementation of the agreement in the Northern Territory. Progress had been achieved in the number of houses constructed and refurbished, in land tenure arrangements, and in standardised tenancy agreements. However, in implementing this joint management approach, which was atypical in management arrangements across jurisdictions, less attention had been given to the articulation of the operational role of the Australian Government, and to the development of robust program management systems and processes in the areas of master planning, risk management, budget control and financial reporting.

The ANAO made three recommendations to support the effective implementation of the agreement in the Northern Territory. The first recommendation related to FaHCSIA clarifying and reflecting its ongoing operational role in the management and delivery of the program in its program documentation. The second and third recommendations related to strengthening the public reporting on financial performance and progress towards the objectives of the agreement.

<b>43</b>	<b>National Partnership Agreement on Remote Service Delivery</b>
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The objective of the audit was to assess the effectiveness FaHCSIA's management of the Australian Government's responsibilities under the National Partnership Agreement on Remote Service Delivery. The ANAO considered the effectiveness of planning, implementation, and performance measurement, in the context of the challenges of delivering services in remote locations.

Overall, FaHCSIA was effective in establishing a government presence in communities through the Single Government Interface and supporting administrative arrangements. This involved reaching agreement with each state and territory on joint staffing arrangements and contributions. The establishment of cross-jurisdictional governance arrangements through the establishment of a board of management in each participating state and territory was also effectively driven by FaHCSIA. As a result, a sizable government presence was established to service each of the 29 priority communities involved, and arrangements to coordinate and set priorities at the jurisdictional level were put in place. Baseline mapping, as a fundamental input to the development of local implementation plans, was however not implemented in the timeframes envisaged by the Council of Australian Governments. As a consequence, local implementation plans were mostly negotiated utilising draft baseline information. Performance measurement approaches could be improved by having a more explicit focus on whether services and access to services in each priority community was improving as a result of activities conducted under the agreement.

The ANAO made one recommendation aimed at improving the monitoring of changes in service provision.

No.	Description
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<b>Finance and Deregulation portfolio</b>	
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<b>21</b>	<b>Administration of Grant Reporting Obligations</b>
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The objective of the audit was to assess the implementation and effectiveness of the enhanced grants administration requirements for the reporting to the Minister for Finance and Deregulation (Finance Minister) on the awarding of certain grants, and the website reporting of grants awarded. The enhanced requirements were issued in July 2009, and for the first time clearly articulated the Government's expectations for ministers, agencies and officials when performing duties in relation to grants administration. Requirements included that ministers not approve a proposed grant without first receiving agency advice on its merits relative to the program's guidelines; and that they report to the Finance Minister all instances in which they approve grants that the relevant agency recommended be rejected.

The quality and nature of agency practices in briefing ministers on grant proposals was variable. A significant proportion of the briefs examined in the course of this audit had not clearly identified those proposed grants that the agency recommended be approved, and those that it recommended be rejected. As a consequence, there had been shortcomings in reporting to the Finance Minister. Given this situation, there would be benefits in the Department of Finance and Deregulation (Finance) engaging more extensively with agencies to promote improvements in important aspects of grants administration. Public reporting of grants by agencies had also not been sufficiently accurate and complete. In that context, there would be benefits in seeking to align the various public reporting requirements of grants (where this is practical) in a way that would promote more accurate, timely and complete reporting of grants while not diminishing the availability of quality public information.

The ANAO made three recommendations aimed at enhancing the quality of advice provided to ministers and compliance with the associated reporting obligations. It also recommended that opportunities be examined for improving the accuracy, completeness and cost-effectiveness of public reporting on grant programs and the awarding of individual grants.

<b>22</b>	<b>Administration of the Gateway Review Process</b>
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The objective of the audit was to examine the effectiveness of the administration of the Gateway Review Process (Gateway) by Finance (which coordinates Gateway reviews) and agencies subject to the *Financial Management and Accountability Act 1997* (FMA Act).

Overall, Gateway had been effectively implemented within the Australian Government. There had been a focus on high-risk, high-value projects; 46 projects valued at more than \$17 billion across 23 agencies had been examined in the first five years of Gateway's application. In the first three years, about one in every five reviews identified significant issues that needed to be addressed before the project proceeded further. In the last two years, there were no reviews that identified major issues requiring urgent action. However, participation in Gateway did not guarantee success in meeting specified objectives.

While the processes used to determine which projects would be subject to Gateway reviews had been generally effective, several projects that met the criteria had not been subject to Gateway reviews due to the timing of their risk assessments. In addition, there would be benefits in Finance periodically examining the outcomes of those projects excluded from Gateway on the basis of their assessed level of inherent risk, so as to be assured that the risk assessment process was working as intended. Performance by completed projects that had been subject to Gateway had been mixed. However, the extent of any delays, cost overruns and shortfalls in delivery of outcomes in projects subject to Gateway had not been quantified by Finance, and was not considered in any measurement of the overall contribution of Gateway to improving project planning and implementation by agencies.

The ANAO made five recommendations aimed at enhancing the administration of Gateway and improving the contribution that Gateway reviews make to the delivery of major projects.

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<b>36</b>	<b>Development and Approval of Grant Program Guidelines</b>
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The objective of the audit was to assess the implementation and effectiveness of the enhanced grants administration requirements relating to the development and approval of new grant guidelines and revision of existing grant guidelines.

Overall, the enhanced grants administration requirements relating to the development and approval of program guidelines had yet to be fully and effectively implemented. In particular:

- a small number of agencies continued to administer a significant number of one-off or ad hoc grants, a form of granting activity that is not subject to the requirement that grant program guidelines be developed
- the quality of grant program guidelines remained quite variable—a significant proportion of the guidelines examined by the ANAO did not clearly identify: the person or persons who would make funding decisions; the threshold and assessment criteria that would be applied in making those decisions; and/or the way in which value for money considerations would be taken into account
- more than one-third of the grant program guidelines examined by the ANAO which outlined the selection process that was to be employed indicated that a non-competitive process would be adopted
- more than 62 per cent of the new guidelines and changes to existing guidelines in the period examined by the ANAO had not been submitted for the required ministerial approval.

The ANAO made four recommendations, three of which related to the processes by which grant program guidelines are developed and approved. The final, and most important, audit recommendation related to greater efforts being made by agencies to establish, through the relevant program guidelines, transparent and accountable decision-making processes for the awarding of grants.

#### Foreign Affairs and Trade portfolio

##### 29 Administration of the Australia Network Tender Process

The objective of the audit was to report on the administration of the Australia Network tender process and to identify lessons learned from the conduct of the process to inform future procurement activities. The audit was undertaken following requests from the Minister for Broadband, Communications and the Digital Economy and the Deputy Leader of the Opposition. The Australia Network is an Australian Government-funded international television service designed to present an impartial, reliable and independent voice in Asia, the Pacific and the Indian subcontinent, and was the subject of a tender process in 2010 and 2011.

The manner and circumstances in which this high-profile tender process was conducted brought into question the Government's ability to deliver such a sensitive process fairly and effectively.

The following lessons were identified from the conduct of the tender process, to inform future procurement activities. Firstly, it is important that, where it is intended that ministers or Cabinet have a formal role in a tender process, this be made clear; departments have a role in assisting government to be explicit about this. Secondly, information security is critically important to effective tender arrangements and there are accepted ways within government of managing this: namely, by not circulating confidential tender information to any departmental officers, ministers or their staff, unless they are part of the tender decision-making process or have a demonstrable need for such specific information. Finally, all parties involved in the management of a tender process should have regard to the importance of adhering to conventional procurement arrangements and effectively managing the range of risks involved, given that the risks can change significantly over time.

The report also commented that the Government may wish to reflect on the practice of having a minister perform the role of approver when the minister's portfolio bodies may be submitting tenders for services to be determined by government. In such circumstances, any perception of a conflict of interest could be mitigated by the Government agreeing to have another minister, or more than one minister, approve the tender outcome.

The ANAO did not make any recommendations as the tender process was terminated.

No.	Description
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<b>33</b>	<b>Management of ePassports</b>
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The objective of the audit was to assess the effectiveness of the Department of Foreign Affairs and Trade's (DFAT's) implementation of biometric technology to meet international requirements for enhanced passport security.

DFAT had effectively implemented biometric technology and met international requirements and standards for enhanced passport security, while playing an active and influential role in developing those standards. With the introduction of the Australian ePassport on 24 October 2005, Australia became one of the first countries to introduce an ePassport, comfortably meeting the United States' Visa Waiver Program deadline. DFAT's relationships with key Australian stakeholders were collegial and cooperative in nature.

The ePassport's electronic security measures, combined with the booklet's security features, make the task of producing a fraudulent passport significantly more complex than it was prior to the ePassport's introduction. Although facial recognition matching is not an international requirement, DFAT had incorporated it into its passport issuing process to improve identity verification and reduce the incidence of fraud. In this regard, the facial recognition system had detected many cases of identity fraud that would not otherwise have been detected.

The ANAO made two recommendations aimed at further strengthening DFAT's management of ePassports. These recommendations related to: strengthening the management of the facial recognition system; and periodically reviewing, in consultation with the Defence Signals Directorate, the need for vulnerability testing of the ePassport's electronic security measures.

### Health and Ageing portfolio

#### 3 Therapeutic Goods Regulation: Complementary Medicines

The objective of the audit was to examine the effectiveness of the administration by the Therapeutic Goods Administration (TGA) of complementary medicines regulation in Australia. The audit focused on listed complementary medicines, which comprise about 98 per cent of these medicines. The system for the regulation of complementary medicines in Australia was designed to have a 'light touch', due to the relatively low risk ascribed to the proper use of the majority of complementary medicines.

The available evidence indicated that the regulation of complementary medicines in Australia had been of limited effectiveness. The administration of the regulatory framework could be strengthened by the TGA making changes to improve the integrity of the self-assessment process for pre-market listing, using a risk-based approach to better target its post-market reviews, and improving the transparency of information available to consumers, health professionals and industry (including evidence of efficacy for each listed complementary medicine).

The ANAO made five recommendations aimed at strengthening the integrity and transparency of the framework within existing policy settings, in large measure by refining the TGA's existing systems and processes and better targeting the utilisation of resources.

No.	Description
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<b>8</b>	<b>The National Blood Authority's Management of the National Blood Supply</b>
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The objective of the audit was to assess whether the governance and contractual arrangements of the National Blood Authority (NBA) were effective in securing a national supply of blood products and services. The NBA's activities include the centralised purchase of blood products and services, and development of national mechanisms to monitor and address Australia's increasing blood supply expenditure and trends in blood product use.

The NBA had established organisational structures and contractual arrangements that had enabled the agency to be largely effective in securing the national supply of blood and blood products. However, the NBA was not well positioned to monitor or address the trend in rising blood supply costs, and its ability to assess the overall cost-effectiveness of the blood program was affected by insufficient national data and a lack of mechanisms to determine the uptake and impact of initiatives to improve the blood sector.

The ANAO made five recommendations to strengthen the NBA's administration of the blood supply program. These emphasised the importance of clear priority setting, stakeholder engagement, and sound contract management in defining and measuring program effectiveness.

<b>35</b>	<b>Indigenous Early Childhood Development. New Directions: Mothers and Babies Services</b>
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The objective of the audit was to examine the effectiveness of the Department of Health and Ageing's (DoHA's) administration of the New Directions: Mothers and Babies Services program (New Directions). New Directions is an element of the Indigenous Early Childhood Development National Partnership.

DoHA had been effective in establishing and implementing the program, consistent with the objectives set by government. However, approaches to risk and performance management were less well developed and the department would benefit from an improved ability to aggregate information at the national level about the delivery of the program in each state and territory.

The ANAO made one recommendation relating to improved access to, and capture of, performance data to more effectively manage and support the program.

<b>44</b>	<b>Administration of the Primary Care Infrastructure Grants Program</b>
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The objective of the audit was to assess the effectiveness of DoHA's support for improved access to integrated GP and primary healthcare services through its administration of the Primary Care Infrastructure Grants Program.

In establishing the program, DoHA had put in place many of the fundamentals for the effective administration of a competitive grants program, as set out in the *Commonwealth Grant Guidelines*. However, some limitations were evident in the approach adopted by the department for assessing the value for public money offered by individual project proposals and in the transparency of that approach. While the department had incorporated elements of an evaluation framework into the development of the program, no formal plan or strategy had been developed to evaluate the overall performance of the program.

Recognising that no further program funding rounds were proposed, the audit made two recommendations designed to strengthen the department's general administration of infrastructure grant programs. The first recommendation centred on ensuring that achieving value with public money is explicitly considered and appropriately weighted in grant assessment processes. The second was directed towards the department undertaking a focused program evaluation, drawing on available information and reporting processes.

No.	Description
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<b>45</b>	<b>Administration of the Health and Hospitals Fund</b>
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The objective of the audit was to assess the effectiveness of DoHA's administration in supporting the creation and development of health infrastructure from the Health and Hospitals Fund (HHF), including DoHA's support for the Minister for Health and Ageing (Health Minister) and the HHF Advisory Board. The audit examined the administration of the first three funding rounds, involving a total of approximately \$4.5 billion in Australian Government financial assistance.

DoHA had generally established effective administrative processes to support the development of infrastructure funded from the HHF. The department also established sound arrangements to support the HHF Advisory Board and generally provided effective support to the Health Minister, although it had at times adopted a relatively narrow view of its role. Further, the department's administrative and support arrangements had improved over time. However, there was scope for the department to better assist key decision-makers, particularly the Health Minister, in discharging their responsibilities. In particular, the Health Minister had not received advice on the basis for including some projects in preference to others in Budget proposals, following their assessment by the HHF Advisory Board. There was also scope for DoHA to expand its advice to the minister and to financial approvers where early payments were proposed for spending proposals relating to the HHF, to take into account the full financial implications of such decisions and their potential impact on the economical use of HHF funds.

The ANAO made three recommendations to improve the effectiveness of DoHA's administration of the HHF: to support the transparency of decision-making around the selection of projects for consideration in the Budget context; to advise the Health Minister and financial approvers of the financial implications of significant payments in advance of need; and to assess the overall contribution of the HHF to improving health outcomes.

#### Human Services portfolio

<b>28</b>	<b>Quality On Line Control for Centrelink Payments</b>
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The objective of the audit was to assess the effectiveness of Centrelink's Quality On Line (QOL) control, which supports the integrity of payments administered by the Department of Human Services (DHS) on behalf of the Australian Government. The QOL process is a preventative check that involves a QOL Checker reviewing a predetermined sample of the work activities of a Customer Service Adviser (CSA).

QOL had provided a limited level of assurance and had been effective at the local level in Centrelink—in customer service centres and Smart Centres—as a routine control process for identifying administrative errors, providing feedback to CSAs about their processing of activities, and identifying training needs for individual CSAs. Common administrative errors made by CSAs that could have affected customers receiving the right rate of payment related to coding and verification errors for customers' income and asset details, and errors with rent assistance payments. While QOL had been effective at the local level, there remained scope to better utilise its potential through improvements to both its operation and the manner in which QOL results are used at the national level.

The ANAO recommended that Centrelink examine the current approach to risk-based sampling rates for QOL and ensure that a quality assurance mechanism was maintained to underpin QOL.

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<b>37</b>	<b>The Child Support Program's Management of Feedback</b>
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The objective of the audit was to examine the effectiveness of the feedback management system of the Child Support Program (CSP).

CSP's feedback management system had been effective in that key characteristics of the system included: a range of channels for providing feedback; a framework for recording, managing and responding to feedback (including a three-step model for managing complaints); and a process for reporting and analysing feedback information, which was used to improve services. There were some areas where the framework and existing practices could be improved to assist CSP to build on the quality of child support services available to customers. These areas included the model used to classify complaints and the effectiveness of performance indicators and external reporting.

The ANAO made five recommendations directed at supporting CSP's capture, management and use of feedback. The recommendations focused on improving: the consistency of complaint recording and tracking; communication with customers and stakeholders during the investigation of a complaint; the use of staff feedback information; and the effectiveness of performance indicators and external reporting.

<b>42</b>	<b>Management of the Multicultural Servicing Strategy for the Delivery of Centrelink Services</b>
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The objective of the audit was to assess the effectiveness of the management of the Multicultural Servicing Strategy (MSS). The strategy formalises the approach to providing Centrelink services to customers from a diverse cultural and linguistic background (DCALB).

Overall, through effectively managing the strategy, DHS had identified and addressed the current and evolving needs of DCALB customers accessing Centrelink services. The coordinated interaction between the four components of the strategy, driven by the Multicultural Services Branch and Multicultural Services Officers, had allowed priorities to be determined and subsequent strategies to be developed and implemented. Complementing the central focus was a flexible approach at the Service Zone level, which had allowed services to be tailored to local communities. Notwithstanding the overall success of the approach to delivering Centrelink services to DCALB customers, there were opportunities to improve the management of the MSS, including by strengthening the performance management and reporting arrangements.

The ANAO made one recommendation aimed at improving performance measurement and reporting.

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<b>Infrastructure and Transport portfolio</b>	
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<b>7</b>	<b>Establishment, Implementation and Administration of the Infrastructure Employment Projects Stream of the Jobs Fund</b>
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The objective of the audit was to assess the efficiency and effectiveness of the establishment, implementation and administration of the Infrastructure Employment Projects (IEP) stream of the Jobs Fund, with a particular focus on the establishment of program objectives and the extent to which approved grants had demonstrably contributed to the cost-effective achievement of those objectives. The Government's objective in establishing the Jobs Fund was to support and create jobs and employment opportunities in communities affected by the global recession. The IEP stream was to contribute to this objective by funding the construction of local infrastructure that would create immediate jobs in such communities.

The policy development for the Jobs Fund, and aspects of the program design for the IEP stream, were undertaken effectively and with the urgency required for a stimulus measure. However, shortcomings in designing and implementing an effective means for identifying and assessing candidate construction projects meant that the IEP stream did not achieve the economic stimulus objectives set for it in the anticipated timeframe. The amount of stimulus delivered to 30 June 2011 was considerably less than that budgeted, with approved and contracted funding of less than \$83 million, 38 per cent lower than the available \$132.7 million. In addition, the funds were not targeted at those areas identified as having the greatest need for support.

The audit findings underline the importance of stimulus spending programs being implemented in a way that quickly and effectively targets funding at projects that are likely to provide the maximum stimulus effect in the desired timeframe for those communities identified as most in need of assistance. It also draws attention to the importance of departments clarifying expected arrangements for the administration of grant programs in the interests of providing sound advice to the Minister on strategies for identifying potential candidate projects, and then conducting project assessments in a way that supports achievement of the objectives of the program established by government.

The ANAO made two recommendations, both aimed at improving the administration of grant programs that do not involve an open call for applications (having regard for the key principles for grants administration set out in the *Commonwealth Grant Guidelines*) within the Infrastructure portfolio and more widely .

<b>13</b>	<b>Tasmanian Freight Equalisation Scheme</b>
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The objective of the audit was to assess the effectiveness of the administration of the Tasmanian Freight Equalisation Scheme by the Department of Infrastructure and Transport and the Department of Human Services. As a small industry support program, the scheme is fundamentally different to the large social welfare programs typically administered by Centrelink, and has distinctive administrative arrangements.

The administrative arrangements for the scheme had been reasonably effective in facilitating access to the scheme for claimants, though there had been shortcomings in several key areas of program administration, such as the absence of a risk-based approach to claims processing, limitations in the compliance and quality assurance arrangements, and weaknesses in the management of claimants and claims information and in the monitoring of IT data integrity.

The ANAO made three recommendations, aimed at improving the accuracy of information used to calculate payments, strengthening quality assurance activities, and developing more effective integrity testing arrangements for the scheme's claims processing IT system.

No.	Description
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27	<b>Establishment, Implementation and Administration of the Bike Paths Component of the Local Jobs Stream of the Jobs Fund</b>
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The objective of the audit was to assess the efficiency and effectiveness of the establishment, implementation and administration of the bike paths component of the Local Jobs stream of the Jobs Fund. As part of the Government's response to the global financial crisis, the \$40 million bike paths component aimed to provide a timely economic stimulus. It also aimed to assist with the provision and utilisation of an alternative transport option to motor vehicles.

The funding for the bike paths component had contributed to the construction, extension and refurbishment of bike path facilities in a number of localities across the country. However, the program had fallen significantly short of achieving its stated objectives. The financial stimulus that had occurred was later than that budgeted; and the implementation of the program had not focused the available funding on projects that would maximise employment outcomes in the areas of identified greatest need. There was no reliable data available on actual employment outcomes achieved through the contracted projects. In addition, the implementation of the bike paths component had been inconsistent with key aspects of the enhanced grants administration framework. In particular, the responsible department had not provided its minister with recommendations as to which applications should be approved, and which should be rejected.

The ANAO made three recommendations relating to: application processes and assessment criteria that support (subject to government concurrence) the selection of projects that are likely to best contribute to achieving the objectives of the National Cycling Strategy being adopted in the administration of any further funding allocated for bike path construction projects; value for money and fit-for-purpose considerations being addressed in Regional Australia's implementation of infrastructure construction funding programs; and risk assessment practices being improved to promote the equitable treatment of applicants and effective management of risk.

#### Sustainability, Environment, Water, Population and Communities portfolio

##### 14 Indigenous Protected Areas

The objective of the audit was to assess the effectiveness of the management of the Indigenous Protected Areas (IPA) program in relation to the achievement of its two primary targets: to expand the contribution of Indigenous protected areas to Australia's National Reserve System (NRS); and to ensure the use of traditional ecological knowledge in IPA plans of management.

Overall, the administration of the program by the Department of Sustainability, Environment, Water, Population and Communities (DSEWPaC) had been effective in achieving increases in land contributed to the NRS. Against the overall targeted increase of between eight million and 16 million hectares in the period from 2008 to 2013, by July 2011 some 5.4 million hectares had been added to the NRS through the declaration of Indigenous land as protected areas. While this was less than the annualised target of two million hectares per year, several declarations of land as protected areas were expected to occur in 2011–12 and 2012–13, meaning that the targeted increase in the size of the NRS was likely to be met by 2013. The program, however, faced a strategic challenge. Indigenous protected areas are declared in perpetuity and, under the current model, their retention in the NRS requires ongoing management activities which are funded by the Australian Government through the program. The grant allocation for the program after 2013 was uncertain, and DSEWPaC had yet to address the question of how the investments made to date in Indigenous communities would be sustained.

The ANAO recommended that, to facilitate the continued contribution of Indigenous-owned land to the NRS, DSEWPaC develop options for future funding, including options that would, over time, reduce the dependence of Indigenous protected areas on Australian Government funding.

No.	Description
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<b>38</b>	<b>Administration of the Private Irrigation Infrastructure Operators Program in New South Wales</b>
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The objective of the audit was to assess the effectiveness of DSEWPaC's administration of the Private Irrigation Infrastructure Operators Program in New South Wales (PIIOP), including the acquisition of water access entitlements and progress towards achieving the program's objectives.

While DSEWPaC had implemented the PIIOP and allocated available funding, weaknesses in program governance and in the management of a number of implementation issues had had an adverse impact on the overall effectiveness of the program's administration. In this regard, shortcomings were evident in DSEWPaC's design of the program, the assessment of applications and the development of measures to inform an assessment of whether the program is achieving its objectives. DSEWPaC had established appropriate funding agreements with successful Round 1 applicants and developed effective monitoring arrangements to address the project implementation risks arising from the shortcomings in the assessment of applications.

The ANAO made three recommendations to improve DSEWPaC's administration of its grant programs. The first reinforces the importance of effective governance arrangements, while the second highlights the need to tailor the application approach to the program and implement assessment processes that better reflect the requirements of the *Commonwealth Grant Guidelines*. The third recommendation addresses the need to develop appropriate key performance indicators to collect and analyse performance data.

#### Treasury portfolio

<b>16</b>	<b>The Management of Compliance in the Small to Medium Enterprises Market</b>
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The objective of the audit was to assess the effectiveness of the compliance management approach in the small to medium enterprise (SME) market by the Australian Taxation Office (ATO). There are around 175,000 SMEs in Australia, and they provided 27.4 per cent of the \$273 billion in net cash taxation collections for 2010–11. Compliance activities related to these taxpayers during the same period resulted in collections of approximately \$1.266 billion in taxes, penalties and interest.

The ATO's compliance management approach in the SME market had been generally effective. The ATO's corporate governance framework of planning, performance measures, reporting and risk management had supported compliance activities in this market. Its marketing and communication strategies and interpretative assistance had promoted voluntary compliance. Campaigns, reviews, audits and investigations had addressed non-compliance. Measurement of the effectiveness of these compliance activities using the ATO's Compliance Effectiveness Methodology showed that the ATO's activities were having a positive impact in some areas. Where there had been no positive impact the ATO had redirected its compliance activities. There was scope for the ATO to improve the methodology used in the SME Risk Engine, the automated profiling tool used to identify potential non-compliance and emerging compliance risks.

The ANAO made two recommendations aimed at improving the effectiveness of the SME Risk Engine and making more effective use of its results.

No.	Description
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25	<b>Administration of Project Wickenby</b>
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The objective of the audit was to assess the effectiveness of the Project Wickenby taskforce in making Australia unattractive for international tax fraud and evasion by detecting, deterring and dealing with the abusive use of secrecy havens by Australian taxpayers.

Project Wickenby is an interagency project involving the ATO; the Australian Crime Commission (ACC); the Australian Federal Police (AFP); the Australian Securities and Investments Commission (ASIC); the Attorney-General's Department, the Commonwealth Director of Public Prosecutions; and the Australian Transaction Reports and Analysis Centre (AUSTRAC). The Government provided \$430.9 million in additional funding to Project Wickenby agencies.

As a result of Project Wickenby's focus on preventing the abusive use of secrecy havens, Australia is less attractive for international tax fraud and evasion than it otherwise would have been. After a slow start, the project had achieved substantial results from its activities, including leading to the conviction of 20 people who had been investigated for criminal offences, and raising more than \$1 billion in tax liabilities. Australia is not, however, unattractive for international tax fraud and evasion, and the risk posed by secrecy havens remains high. The Project Wickenby taskforce had implemented sound governance arrangements, and improved the intelligence and case selection processes over the duration of the project. Operationally, the AFP and ACC, but particularly the ACC, could improve elements of their investigation planning and case management, including recording the approval of, and rationale for, critical decisions. The ATO could have better used the electronic case management system to record key decisions and manage evidence.

The audit made six recommendations. Four were made to the ATO, and emphasised the importance of: effectively using risk reviews to support the program of compliance interventions; managing audits more effectively through the electronic case management system; expediting the completion of audits; and conducting a post-implementation review of the project. Two recommendations were aimed at improving the ACC's and AFP's use of case and document management systems for criminal investigations, and the AFP's case allocation practices.

40	<b>Interpretative Assistance for Self Managed Superannuation Funds</b>
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The objective of the audit was to assess how effectively the ATO managed its interpretative assistance activities for self-managed superannuation funds. The self-managed superannuation fund (SMSF) sector was, at June 2011, the largest superannuation sector by number of funds and held 30 per cent of all superannuation assets. While SMSFs provide individuals with a higher degree of control over their investment strategy, trustees also assume sole responsibility for their financial security in retirement and for the compliance of their funds with the *Superannuation Industry (Supervision) Act 1993* (SIS Act) and regulations. The provision of assistance in interpreting the SIS Act and regulations is an important part of the Taxation Commissioner's role as the regulator of SMSFs.

Overall, the ATO's management of SMSF interpretative assistance had been effective and used many of the elements which support the delivery of interpretative assistance in relation to taxation law. The ATO had implemented sound processes for the development of SMSF interpretative assistance products. Nevertheless, one area requiring a stronger focus was the timeliness of delivery, which had been inconsistent; fewer than half of the SMSF rulings and determinations had been delivered within the ATO's standard timeframe since 2008. There would also be value in the ATO assessing the extent to which interpretative assistance products meet the expectations of the SMSF market. In this regard, accessing information on SMSF matters and on interpretative assistance was difficult, and could be impacting negatively on the level of demand for interpretative assistance products, in particular requests for information originating from trustees.

The ANAO made two recommendations, concerning the ATO assessing the extent to which interpretative assistance products meet the expectations of the SMSF market, and improving access to SMSF information and interpretative assistance products.

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47	<b>Small Business Superannuation Clearing House</b>
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The objective of the audit was to assess the effectiveness of the implementation and administration of the Small Business Superannuation Clearing House by the Department of the Treasury (Treasury), the department of Human Services (DHS) and the ATO. Amendments to superannuation legislation in 2005 enabled employees to choose the superannuation fund to which their superannuation contributions would be credited. As a consequence, employers can face additional administrative demands when making payments into multiple superannuation funds on behalf of their employees. In 2009 the Government announced that a free superannuation clearing house service—the Small Business Superannuation Clearing House—would be offered to small businesses with fewer than 20 employees through Medicare Australia (now part of DHS). The clearing house began taking superannuation contributions from employers on 1 July 2010.

The clearing house had been well regarded by the small businesses that had used it and the superannuation funds that had received Superannuation Guarantee contributions through it. Treasury's approach to designing the program and service delivery model had appropriately included public consultation and taken into account ministerial views. Treasury had noted competition impacts on the existing private sector market in its advice to Government, but had not prepared formal assessments of the potential legislative and competition impacts of the program at two decision points during the process. Medicare Australia had successfully implemented the clearing house and administered the service well, although the number of employers using it had been substantially lower than the level estimated for costing the Budget measure. At 31 May 2012, the clearing house's cost per employee transaction (when calculated against the funding for the service) was \$20.66, considerably higher than similar services being provided by the private sector.

The ANAO made two recommendations. The first was aimed at reviewing the clearing house's funding arrangements and its regulatory and competition impacts. The second was aimed at improving the key performance indicators for the clearing house to enhance focus on cost effectiveness and take-up.

54	<b>The Engagement of External Debt Collection Agencies</b>
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The objective of the audit was to assess the effectiveness of the ATO's administration of external debt collection arrangements. The referral of collectable debt to External Collection Agencies (ECAs) was trialled through a pilot program in April 2006, and subsequently fully implemented by the ATO through the establishment of contracts with four ECAs in October 2007. It was one of several new measures to contain and reduce the amount of outstanding collectable debt, which had increased yearly since 2001–02. Individually the debt cases referred to ECAs are low in value and unlikely to be actioned by the ATO, but collectively they represent significant revenue.

Overall the ATO had effectively implemented an outsourcing arrangement for the referral of high numbers of lower value debt cases to ECAs for collection action. The ECAs had collected a significant amount of debt, there had been no known breaches of the security of taxpayers' information, and very few complaints had been lodged about the standard of the services provided by the ECAs. Nevertheless, there were aspects of the referral program that required further development. These included implementing measures to support the secure management of taxpayers' data, and setting out how the referral program is integrated with the ATO's broader approach to debt management and the comparative advantages that underpin the use of ECAs.

The ANAO made three recommendations to support the ATO's ongoing use of external debt collection agencies. The recommendations concerned the secure management of ATO data when debt cases are referred to ECAs; improved documentation to support the processes underpinning the selection and referral of debt cases from the ATO's business systems; and establishing a better understanding of the costs incurred and efficiencies delivered by the outsourcing arrangements within the ATO's broader debt management strategy.

TABLE A2.2 CROSS-PORTFOLIO AUDIT REPORTS, 2011–12

No.	Description
2	<p><b>Confidentiality in Government Contracts: Senate Order for Departmental and Agency Contracts (Calendar Year 2010 Compliance)</b></p> <p>The objective of the audit was to assess the appropriateness of the use and reporting of confidentiality provisions in Australian Government contracts. The audit also reviewed progress made by the Department of Finance and Deregulation (Finance) in relation to the ANAO's 2010–11 Senate Order audit recommendation to explore opportunities to consolidate procurement reporting obligations, in conjunction with a continuing focus on improving AusTender functionality. The agencies selected for the audit were: the Australian Communications and Media Authority; the Department of Climate Change and Energy Efficiency; Finance; and the Murray–Darling Basin Authority.</p> <p>Overall, a decade after the introduction of the Senate Order, there remained scope for improvement in the appropriate use and reporting of confidentiality provisions in Australian Government contracts, notwithstanding the fact that less Australian Government contracting information is being classified as confidential than in the past. For improvement to occur, it is necessary that agency staff better understand and apply the confidentiality test. There would be benefit in Finance, in conjunction with agencies, exploring means to better communicate key requirements and explain areas of guidance often misinterpreted by agency staff.</p> <p>The audit did not make any new recommendations. Agencies were instead advised to consider their practices in light of the recommendations of previous Senate Order audits.</p>
4	<p><b>Indigenous Employment in Government Service Delivery</b></p> <p>The objective of the audit was to assess the effectiveness of the administration of the Australian Government's responsibilities under Element 1 of the National Partnership Agreement on Indigenous Economic Participation by the Department of Education, Employment and Workplace Relations (DEEWR) and the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA). Element 1 of the agreement aimed to create real sustainable employment for Indigenous Australians in areas of government service delivery that had previously relied on subsidisation through the Community Development Employment Projects program. Central to Element 1 was the National Jobs Creation Package (NJCP). A jobs package that had been implemented in the Northern Territory earlier and had been established on substantially similar terms to the NJCP was also considered as a part of the audit.</p> <p>DEEWR and FaHCSIA had implemented arrangements that effectively supported the creation of jobs for Indigenous Australians in government service delivery. The framework had addressed a number of elements necessary for successfully implementing cross-departmental initiatives. More broadly, the role played by the departments in identifying positions, engaging service providers, and managing the ongoing relationships, had been integral to the packages being rolled out successfully and Indigenous Australians being placed in the jobs. At the Australian Government level, 1,235 jobs had been created under the NJCP and 1,755 jobs had been created under the earlier jobs package.</p> <p>The ANAO made one recommendation, which focused on the development of communication strategies to improve the level of awareness of Australian Government programs and support long-term employment outcomes.</p>

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5	<b>Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework</b>
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The objective of the audit was to assess how effectively entities had developed and implemented appropriate key performance indicators (KPIs) to support stated program objectives. KPIs are an integral part of annual reporting by Financial Management and Accountability Act agencies under the Outcomes and Programs Framework that was implemented in 2009–10.

The ANAO's review of the publicly available performance information, including the effectiveness KPIs for 50 entities, found that most of the entities examined had scope to improve the development of effectiveness KPIs and the reporting against them, in some cases significantly. Overall, in terms of effectiveness KPIs being specific, measurable, achievable, relevant and timed, a third of the entities reviewed had KPIs that were appropriate; a third had KPIs that were mixed (often differing significantly at the program level); and a third had KPIs that required much further development.

The ANAO made three recommendations. Two were aimed at agencies building into their business planning processes methods to develop more meaningful and measurable KPIs and to collect, use and report on information on costs associated with the delivery of individual programs. The last recommendation was for Finance to review KPIs to determine whether expected improvements in measuring and achieving program objectives are being realised, and to develop more expansive guidance for entities, including suggested diagnostic tools and methodologies and performance reporting for programs delivered through national agreements.

9	<b>Indigenous Secondary Student Accommodation Initiatives</b>
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The objective of the audit was to assess the extent to which DEEWR and FaHCSIA had effectively managed the planning and consultation phases for the Indigenous Boarding Facilities program and the Indigenous Boarding Hostels Partnership program. The programs sought to encourage more Indigenous students to stay in school to complete Year 12.

Both departments had put in place arrangements to implement the planning and consultation phases for the two programs, although these arrangements had not been effective in all respects. The construction of the boarding facilities under the two programs was three years behind the schedules initially announced by the Australian Government, with the first two facilities scheduled to commence operation in 2012. At various stages, and to different degrees across the programs, the departments had encountered difficulties in implementing the programs that had caused timeframes to slip significantly. Across both programs, further work was required to develop coherent performance measurement arrangements with sufficient focus on assessing the contribution that boarding facilities make to improving access and, ultimately, to the desired outcomes of improved year 12 performance, retention and attainment under the Council of Australian Government targets.

The ANAO made two recommendations covering clarification of the ongoing financial requirements and the development and implementation of a coherent set of performance measurement arrangements.

No.	Description
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17	<b>Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2011</b>
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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 (CFS) for the Australian Government. For the 2010–11 financial year, the ANAO issued 254 unmodified auditors' reports. Forty-eight auditor's reports on agency financial statements and the CFS contained reports on other legal and regulatory requirements relating to a risk of breaches of section 83 of the Constitution (a breach of section 83 of the Constitution occurs if payments are not made in accordance with conditions required by law), or the need to undertake risk assessments, in relation to payments from special appropriations and special accounts. In addition, five agency auditor's reports contained an emphasis of matter that drew the user's attention to a matter disclosed in the notes to the financial statements of the agency.

The total number of significant and moderate audit findings in entities decreased from 50 in 2009–10 to 36 in 2010–11, a reduction of 28 per cent. This result is consistent with the trend in relation to the results of financial statements audits in recent years.

Issues common to a number of entities identified in our final audits were in respect of: support for a range of provisions relating to payments to the states and territories in accordance with the provisions of the *Federal Financial Relations Act 2009*; 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, except in relation to a risk of breaches of section 83 of the Constitution as mentioned above.

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 that entities gave to meeting their financial reporting responsibilities and on the financial stewardship of the public sector generally.

No.	Description
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18	<b>Information and Communications Technology Security: Management of Portable Storage Devices</b>
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The objective of the audit was to assess the effectiveness of the management of risks arising from the use of portable storage devices (PSDs) in selected Australian Government agencies. The PSDs included within the scope of the audit were: USB flash drives; CDs and DVDs; external hard drives; laptop computers; and smart phones. The agencies selected for the audit were the Australian Taxation Office (ATO); the Insolvency and Trustee Service Australia (ITSA); and Australian Hearing. The ATO had taken steps to effectively manage the risks associated with the use of PSDs in that agency. However, ITSA and Australian Hearing had scope to significantly improve their approach, particularly in relation to:

- risk assessments of the capacity in which PSDs may be used, and the types of information that they can transmit and store
- policies and procedures articulating the accepted parameters for the use of PSDs in the organisation
- ICT controls for the use of PSDs being appropriate to the identified organisational risks
- security training and awareness programs addressing the risks associated with the use of PSDs and agency expectations of their staff
- security incident response mechanisms covering the possible theft or loss of PSDs and processes for managing the associated risks of these incidents.

The ANAO's five recommendations were directed to ITSA and Australian Hearing improving their management of PSDs in the areas outlined above. The recommendations may also have broader application to other public sector agencies. The audit also highlighted several areas of better practice that may be of wider benefit.

24	<b>Administration of Government Advertising Arrangements: March 2010 to August 2011</b>
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The objective of the audit was to assess: the effectiveness of the revised certification process in promoting compliance of government advertising campaigns with the March 2010 *Guidelines on Information and Advertising Campaigns by Australian Government Departments and Agencies*; agencies' adherence with the guidelines; Finance's administration of the campaign advertising framework; and the effect of exemptions from the guidelines.

Where it applied, the revised campaign certification process for FMA Act agencies had been generally effective in promoting compliance with the 2010 guidelines. The practice of agency chief executives certifying campaign compliance had also continued to provide an important discipline requiring agencies to document compliance with the five principles in the guidelines. In contrast, where a campaign exemption had been granted under the guidelines yet the responsible agency was still expected to comply with the 'intent' of the guidelines, there had not been the same level of discipline evident in the processes applied by the responsible agencies to demonstrate campaigns' compliance with those elements of the guidelines which had not been exempted.

Finance's administration of the campaign advertising framework had been generally effective. The department had released key documents in a timely manner and provided helpful advice.

The ANAO made five recommendations aimed at strengthening the integrity and transparency of the campaign advertising framework within existing policy settings by refining agencies' systems and processes, the support provided by Finance to agencies, and Finance's reporting on the framework.

No.	Description
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<b>26</b>	<b>Capacity Development for Indigenous Service Delivery</b>
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The objective of the audit was to assess the extent to which FaHCSIA, DEEWR and the Department of Health and Ageing seek to reduce service delivery risks posed by capacity constraints in Indigenous organisations.

The three Australian Government departments involved in this audit had developed approaches to assessing risk associated with the service delivery capacity of Indigenous organisations, but these approaches tended to focus on identifying and treating risks that are internal to organisations, such as financial management, governance and reporting performance. Less consideration had been given to assessing the risks to delivery that can originate from outside the organisations. Consequently, the common mitigation strategies developed by these departments were to increase the monitoring and reporting arrangements. Across the departments, the large numbers of Indigenous programs and the high numbers of short-term and small-value funding agreements could make it difficult for organisations to predict future funding, which had planning and resourcing implications. Further, the administration effort for individual funding agreements could limit the use of existing capacity for the actual service delivery. There had been some efforts by the departments to support and enable capacity in organisations. However, none of the departments had an overarching policy which drew these efforts together or provided guidance for staff implementing the capacity development activities.

The ANAO made three recommendations relating to the departments taking a longer term view of service delivery outcomes, and to FaHCSIA leading the development of a specific capacity development strategy which could be applied across Australian Government departments to address common capacity issues.

<b>31</b>	<b>Establishment and Use of Procurement Panels</b>
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The objective of the audit was to assess the extent to which selected FMA Act agencies' establishment and use of procurement panels supported value for money, efficiency and effectiveness in procurement.

Overall, the audited agencies had generally established procurement panels through sound open tender processes, providing for efficient procurement from the panels in order to meet their business needs for property and services. However, in selecting preferred suppliers to undertake work under panel arrangements, there was considerable scope for the agencies to employ more competitive arrangements and better demonstrate value for money in their selection processes, consistent with the requirements of the *Commonwealth Procurement Guidelines*. Also, the agencies had not evaluated panels for their effectiveness in meeting procurement requirements or to help inform the design of prospective procurement arrangements.

The ANAO made two recommendations aimed at strengthening the accountability and transparency of panel procurement. A third recommendation was directed towards improving the design and effectiveness of panel arrangements.

No.	Description
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51	<b>Interim Phase of the Audits of the Financial Statements of Major General Government Sector Agencies for the Year Ending 30 June 2012</b>
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The *Auditor-General Act 1997* establishes the mandate for the Auditor-General to undertake audits of the annual financial statements of all Australian Government entities, including those of Government agencies, statutory authorities and government business enterprises. This report focuses on the results of the interim audit phase of the 2011–12 financial statement audits of all portfolio departments and other major general government sector (GGS) agencies, which collectively represent some 95 per cent of total GGS revenues and expenses.

In reporting on the results of the interim phase of the financial statement audit program, the ANAO is providing assurance to the Parliament that the systems, controls and processes that are in place in major Australian Government agencies are operating in a way that allows agencies to prepare financial statements that give a true and fair view of their financial performance and position at financial year end.

The results of the 2011–12 interim audits reflect a continuation of the reduction over recent years in the number of significant (Category A) and moderate (Category B) audit findings. This reflects the general stability and maturity of the control regimes in the majority of agencies, and actions taken by agencies to address audit findings from the previous year. The audits continue to identify control weaknesses in a number of areas, particularly relating to human resource management processes; the management of user access to key financial systems; IT security governance; and business continuity management for human resources management information systems.

In completing the audits of agencies' 2011–12 financial statements, the ANAO will complete its assessment of the effectiveness of internal controls and areas of audit focus in each agency. The summary results of this work will be reported to the Parliament in December 2012.

53	<b>Records Management in the Australian Public Service</b>
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The objective of the audit was to assess the extent to which selected agencies create, manage and dispose of records in accordance with key business, legal and policy requirements. The audit examined the records management arrangements and practices in the Australian Customs and Border Protection Service; Department of Immigration and Citizenship; and Department of the Treasury.

The agencies had created a substantial volume of records on an annual basis in undertaking business activities. The large majority of the agencies' records were created, captured and/or managed in the agencies' records management and other systems, which included paper and electronic systems. Each agency had maintained a core records management system which supported the management and destruction or transfer of records captured in the system, although there was scope to improve the use and performance of these systems. Many other electronic business systems that were not identified and functioning as 'records management systems' had also been used by the agencies to create, capture and manage records. At a business activity level there had often been little guidance on which records should be created, and which records management system should be used to capture the records, to support business operations while meeting legal and policy requirements. The agencies had all experienced delays in transitioning to a digital records management environment that adequately supported business, met legal and policy requirements, and was easy to use.

The report made three recommendations directed towards agencies: addressing records management needs when selecting, developing and upgrading electronic business systems; appropriately managing and using electronic business systems to meet records management requirements; and developing records management guidance that assists staff to determine the records that need to be created and managed for major business activities, and where these records should be maintained.

## APPENDIX 3—ADDRESSES BY THE AUDITOR-GENERAL AND SENIOR STAFF

TABLE A3.1 ADDRESSES BY THE AUDITOR-GENERAL AND SENIOR STAFF

Name	Title of address	Forum	Place/date
McPhee, Ian (Auditor-General)	<i>Accountability and governance in a joined-up world</i>	Institute of Public Administration Australia (IPAA)	Canberra 26 June 2012
	<i>Audits of Commonwealth partners</i>	Australasian Council of Public Accounts committees, mid-term meeting	Canberra 25 May 2012
	<i>Increased complexity of accounting and auditing standards and the role of Auditors-General in standard setting for the public sector</i>	Global Working Group of Auditors-General	Stockholm, Sweden 9 May 2012
	<i>Enhancing audit quality in a supreme audit institution</i>	Fifth Symposium of the Asian Organization of Supreme Audit Institutions	Jaipur, India 2 March 2012
	<i>The evolving role and mandate of the ANAO since Federation</i>	Senate Occasional Lecture Parliament House	Canberra 14 October 2011
	<i>Leadership—gaining from experience</i>	IPAA (ACT) forum	Canberra 23 August 2011
	<i>ANAO's 110th birthday celebration</i>	ANAO's 110th birthday celebration	Canberra 15 August 2011
Chapman, Steve (Deputy Auditor-General)	<i>Audit committees—a keystone of good governance</i>	Integrating Governance Frameworks Conference	Canberra 22 February 2012
	<i>Role of public sector audit officers</i>	Crawford School of Executive Education	Canberra 21 February 2012
	<i>Improving public sector performance—reporting for performance and outcomes</i>	Public Sector Performance Conference	Canberra 24 October 2011
Harradine, Mark	<i>Presentation on the Better Practice Guide, Developing and Managing Contracts</i>	Senior Procurement Officers Reference Group forum hosted by the Department of Finance and Deregulation	Canberra 31 May 2012
Kerr, Peter	<i>Ethics and independence—concepts for an auditor</i>	Lecture to postgraduate auditing students at the University of Canberra	Canberra 23 March 2012

<b>Name</b>	<b>Title of address</b>	<b>Forum</b>	<b>Place/date</b>
Pope, Andrew	<i>Presentation on Audit Report No.26 2011–12, Capacity Development of Indigenous Service Delivery</i>	Executive Coordination Forum on Indigenous Affairs	Canberra 29 February 2012
	<i>Bureaucratic reform in Indonesia</i>	Round Table Forum, University of Canberra	Canberra 22 February 2012
Turnbull, Stuart	<i>Presentation on Audit Report No.38 2010–11, Management of the Certificate of Compliance Process in FMA Act Agencies</i>	Cross-agency forums hosted by the Department of Finance and Deregulation	Canberra 7 June 2012
	<i>Presentation on Audit Report No.31 2011–12, Establishment and Use of Procurement Panels</i>	Procurement Discussion Forum	Canberra 30 May 2012
	<i>Presentation on Audit Report No.31 2011–12, Establishment and Use of Procurement Panels</i>	Senior Procurement Officers Reference Group forum hosted by the Department of Finance and Deregulation	Canberra 31 May 2012
Williamson, Nathan	<i>Service delivery—an auditor's perspective</i>	Social Policy Implementation and Service Delivery course, Crawford School of Public Policy, Australian National University	Canberra 22 July 2011

## APPENDIX 4—ADVERTISING AND MARKET RESEARCH

TABLE A4.1 PAYMENTS OVER \$11,900 (INCLUDING GST) TO ADVERTISING AGENCIES, MARKET RESEARCH ORGANISATIONS, POLLING ORGANISATIONS, DIRECT MAIL ORGANISATIONS AND MEDIA ADVERTISING ORGANISATIONS

Market research organisation	Service provided	Payments (\$)
<b>Media Advertising</b>		
Adcorp	Graduate Recruitment	14,487
	IT Audit Recruitment	17,311
<b>Market Research</b>		
ORIMA Research	AASG Client Survey	28,215
	AASG Client Survey	36,850
	PASG Public Entity Survey	22,962
	PASG Public Entity Survey	24,062
	ANAO Parliamentary Survey	94,160
	ANAO Staff Survey	33,552
	ANAO Staff Survey	12,400
	2012 ANAO Capability Development Group Desk Officer research to assist performance audit	14,600

## APPENDIX 5—CONTACT DIRECTORY

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REFERENCES  
**PART 7**



## ABBREVIATIONS LIST

AASG	Assurance Audit Services Group
ACAG	Australasian Council of Auditors-General
ADF	Australian Defence Force
AFP	Australian Federal Police
ANAO	Australian National Audit Office
APS	Australian Public Service
ASIO	Australian Security Intelligence Organisation
ASOSAI	Asian Organization of Supreme Audit Institutions
ATO	Australian Taxation Office
AusAID	Australian Agency for International Development
BPK	Badan Pemeriksa Keuangan, the Indonesian Board of Audit
CAC Act	<i>Commonwealth Authorities and Companies Act 1997</i>
COAG	Council of Australian Governments
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
DFAT	Department of Foreign Affairs and Trade
DHS	Department of Human Services
DMO	Defence Materiel Organisation
DoHA	Department of Health and Ageing
DVA	Department of Veterans' Affairs
ECA	external collection agency
EEGO	Energy Efficiency in Government Operations
ESD	ecologically sustainable development
FaHCSIA	Department of Families, Housing, Community Services and Indigenous Affairs
Finance	Department of Finance and Deregulation
FMA Act	<i>Financial Management and Accountability Act 1997</i>
GBE	government business enterprise
GGs	general government sector
GPF	Government Partnerships Fund
GST	goods and services tax

GWG	Global Working Group
HSMAs	Health and Safety Management Arrangements
ICT	information and communications technology
IEP	Infrastructure Employment Projects
INTOSAI	International Organization of Supreme Audit Institutions
IT	information technology
JCPAA	Joint Committee of Public Accounts and Audit
KPI	key performance indicator
NPECE	National Partnership on Early Childhood Education
OECD	Organisation for Economic Co-operation and Development
PAES	Portfolio Additional Estimates Statements
PASAI	Pacific Association of Supreme Audit Institutions
PASG	Performance Audit Services Group
PBS	Portfolio Budget Statements
PNG	Papua New Guinea
PNG AGO	Papua New Guinea Auditor-General's Office
QA	quality assurance
SAI	supreme audit institution
SES	Senior Executive Service
SMSF	self-managed superannuation fund
UN	United Nations
WHS	work health and safety

## COMPLIANCE INDEX

Requirement	Location
<b>General details</b>	
Letter of transmittal	iii
Table of contents	v
Index	175
Glossary	170
Contact officer(s)	ii
Internet home page address and internet address for report	ii
<b>Auditor-General's review</b>	
Review by the Auditor-General	2–6
Summary of significant issues and developments	2–6
Overview of the ANAO's performance and financial results	2–6
Outlook for the following year	2–6
Significant issues and developments–portfolio	N/A
<b>Overview</b>	
Overview description of the ANAO	10
Role and functions	10
Organisational structure	11–12
Outcome and program structure	13
Where outcome and program structures differ from Portfolio Budget Statements/ Portfolio Additional Estimates Statements (PBS/PAES) or other portfolio statements accompanying any other additional appropriation bills (other portfolio statements), details of variation and reasons for change	N/A
Portfolio structure	N/A
<b>Report on performance</b>	
Review of performance during the year in relation to programs and contribution to outcomes	16–48
Actual performance in relation to deliverables and key performance indicators set out in PBS/PAES or other portfolio statements	17, 24–25, 27, 35–36, 41
Where performance targets differ from the PBS/PAES, details of both former and new targets, and reasons for the change	N/A
Narrative discussion and analysis of performance	16–48
Trend information	20, 25, 26, 36, 39
Significant changes in nature of principal functions/services	2
Performance of purchaser/provider arrangements	None
Factors, events or trends influencing departmental performance	2–8
Contribution of risk management in achieving objectives	18, 28, 40, 51, 54, 55–56

Requirement	Location
Social inclusion outcomes	N/A
Performance against service charter customer service standards, complaints data, and the ANAO's response to complaints	3, 26, 37, 39, 41, 48, 79
Discussion and analysis of the ANAO's financial performance	14, 82–84
Discussion of any significant changes from the prior year, from budget or anticipated to have a significant impact on future operations	None to report
Agency resource statement and summary resource tables by outcomes	83–84
<b>Management and accountability</b>	
<b>Corporate governance 50–58</b>	
Agency heads are required to certify that their agency complies with the <i>Commonwealth Fraud Control Guidelines</i>	56
Statement of the main corporate governance practices in place	50–53
Names of the senior executive and their responsibilities	50
Senior management committees and their roles	51–53
Corporate and operational planning and associated performance reporting and review	53–55, 58
Approach adopted to identifying areas of significant financial or operational risk	55–56, 80
Policy and practices on the establishment and maintenance of appropriate ethical standards	57
How nature and amount of remuneration for Senior Executive Service officers is determined	67
<b>External scrutiny 58–59</b>	
Significant developments in external scrutiny	58–59
Judicial decisions and decisions of administrative tribunals	59
Reports by a parliamentary committee or the Commonwealth Ombudsman	59
<b>Management of human resources 60–74</b>	
Assessment of effectiveness in managing and developing human resources to achieve departmental objectives	60
Workforce planning, staff turnover and retention	60–65
Impact and features of enterprise or collective agreements, individual flexibility arrangements, determinations, common law contracts and Australian Workplace Agreements	60
Training and development undertaken and its impact	67–71
Work health and safety performance	72–73
Productivity gains	60–61, 69–71
Statistics on staffing	134–136
Enterprise or collective agreements, individual flexibility arrangements, determinations, common law contracts and Australian Workplace Agreements	60
Performance pay	67
<b>Assets 80</b>	
Assessment of effectiveness of assets management	80

Requirement	Location
<b>Purchasing</b>	<b>80</b>
Assessment of purchasing against core policies and principles	80
<b>Consultants</b>	<b>78–79</b>
Summary statement	78
Information on contracts and consultancies is available through AusTender	79
Absence of provisions in contracts allowing access by the Auditor-General	N/A
Contracts exempt from AusTender	79
<b>Financial statements</b>	<b>85–132</b>
<b>Other mandatory information</b>	
Work health and safety (Schedule 2, Part 4 of the <i>Work Health and Safety Act 2011</i> )	72–73
Advertising and Market Research (section 311A of the <i>Commonwealth Electoral Act 1918</i> ) and statement on advertising campaigns	80, 166
Ecologically sustainable development and environmental performance (section 516A of the <i>Environment Protection and Biodiversity Conservation Act 1999</i> )	75–77
Compliance with the agency's obligations under the <i>Carer Recognition Act 2010</i>	N/A
Grant programs	79
Disability reporting: explicit and transparent reference to agency-level information available through other reporting mechanisms	79
Information Publication Scheme statement	79
Correction of material errors in previous annual report	None
List of requirements	Yes

## SUBJECT INDEX

### A

- accountability: *see* management and accountability
- Accounting Standards, 47–48
- Administration of Government Advertising Arrangements: March 2010 to August 2100*, Audit Report No.24 2011–12, 29
- Administration of Grant Reporting Obligations*, Audit Report No.21 2011–12, 38
- Administration of Mental Health Initiatives to Support Younger Veterans*, Audit Report No.48 2011–12, 30
- Administration of the Australia Network Tender Process*, Audit Report No.29 2011–12, 29, 31
- Administration of the National Greenhouse and Energy Reporting Scheme*, Audit Report No.23 2011–12, 30, 75
- Administration of the National Partnership on Early Childhood Education*, Audit Report No.10 2011–12, 32
- Administration of the Private Irrigation Infrastructure Operators Program in New South Wales*, Audit Report No.38 2011–12, 75
- Administrative Arrangements Orders, effect on audits, 23
- advertising, 80, 166
  - government advertising, 29
- agency resource statement, 83
- Agriculture, Fisheries and Forestry portfolio, 137
- Airservices Australia, 78
- ASC Pty Ltd, 78
- Asian Organization of Supreme Audit Institutions, 43, 44
- assets management, 80
- assistance to Parliament, 3, 41–43
  - parliamentary committees, 42
- Assurance Audit Services Group, 11, 61, 168
- assurance reviews, 3–4, 10, 34
- Attorney-General's Department
  - audit reports, 137–139
  - Legal Services Multi-Use List, 79
- Audit Committee, 51
- audit reports, 29–31, 37–38
  - Agriculture, Fisheries and Forestry portfolio, 137
  - Attorney-General's portfolio, 137–139
  - Broadband, Communications and the Digital Economy portfolio, 139
  - Climate Change and Energy Efficiency portfolio, 140
  - cross-portfolio, 158–163
  - Defence portfolio, 51, 34, 38, 141–143
  - Education, Employment and Workplace Relations portfolio, 144–145
  - Families, Housing, Community Services and Indigenous Affairs portfolio, 145–146
  - Finance and Deregulation portfolio, 147–148
  - Foreign Affairs and Trade portfolio, 148–149
  - Health and Ageing portfolio, 149–151
  - Infrastructure and Transport portfolio, 153–154
  - Sustainability, Environment, Water, Population and Communities portfolio, 154–155
  - Treasury portfolio, 155–157
- audit services, 10
- AUDITFocus* newsletter, 48
- auditing profession, 18, 69
- Auditing Standards, 10
- Auditor-General, 2–6
  - addresses by, 164
  - independence, 10
- Auditor-General Act 1997*, 2, 10, 18, 24, 28, 50, 79, 82
- Auditor-General's Annual Awards for Outstanding Achievement, 70–71
- Auditor-General's Certificate of Appreciation, 70–71

- Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2010*, Audit Report No.22 2010–11, 38
- Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2011*, 19
- AusTender, 78, 79
- Australasian Council of Auditors-General, 43
- Australia Indonesia Partnerships Fund, 44
- Australia Network, 29, 31
- Australian Agency for International Development, 44–46, 52, 62
- Australian Auditing and Assurance Standards Board
  - Audit Committees: A Guide to Good Practice*, 18
  - Auditing Considerations in an Uncertain Economic Environment*, 18
  - Guidance Statement 020 *Special Considerations in Auditing Financial Instruments*, 18
  - harmonisation of standards, 18
- Australian Government Information Management Office, 57
- Australian Institute of Company Directors, 18
- Australian National Audit Office
  - 110th anniversary, 7
  - appearances before and submissions to parliamentary committees, 37
  - assistance to Parliament, 3, 41–43
  - assurance audits, 3–4
  - Audit Work Program July 2011, 28
  - auditing of key performance indicators, 6, 10
  - better practice guides, 4–5, 10, 34–35
  - communications plan, 42
  - contacts, 167–168
  - Environmental Policy, 75
  - Executive Board of Management, 50–53
  - financial summary, 14
  - Guide to Conduct*, 57
  - Health and Safety Management Arrangements, 72
  - highlights of 2011–12, inside front cover
  - independent auditor, 14, 26, 51, 58, 86
  - international activities, 5, 43–47
  - leadership role, 10
  - mandate, 6
  - objectives, 54
  - organisational structure, 11–12
  - outcomes and programs framework, 13, 16
  - overview, 10–14
  - performance audit, 58
  - power to ‘follow the money’, 6
  - presentations, 48
  - publications, 48
  - Recognised Employer Partner Status (Knowledge Level) award, 68
  - resources, 6, 14, 84
  - role of, 10, 54
  - staff, 6, 60–74
  - Strategic Partnership Agreement with AusAID, 44–46
  - strategic planning framework, 53–57, 60
  - values, 54, 65
  - vision, 11
  - website, 28
- Australian National University, 62
- Australian Office of Financial Management, 78
- Australian Public Service Code of Conduct, 57, 64, 68
- Australian Public Service Commission
  - Indigenous Employment Strategy, 74
  - Pathways recruitment initiatives, 62
- ## B
- Better Government agenda, 48
- better practice guides, 4–5, 10, 34–35, 75
- Broadband, Communications and the Digital Economy portfolio, 139
- Business Continuity Plan, 80
- Business Plan, 55, 57, 60
- ## C
- Canada, Audit Office, 47
- Canadian Conference of Legislative Auditors, 43
- CanPrint Communications, 78
- Clean Energy Future campaign, 29
- Clean Energy Regulator, 24
- client seminars, 47–48, 48

client surveys, 26, 39

Climate Change and Energy Efficiency, Department of, 29, 30, 140

Comcover Risk Management Benchmarking Survey, 55

Commonwealth Disability Strategy, 79

Commonwealth Ombudsman, 59

*Commonwealth Procurement Guidelines*, 31, 78

*Commonwealth Procurement Rules*, 80

communications plan, 42

*Conduct by Infrastructure Australia of the First National Infrastructure Audit and Development of the Infrastructure Priority List*, Audit Report No.2 2010–11, 37

consultants, 78, 79

contact directory, 167–168

contracts, 78, 79

corporate governance, 50–59

- ethical standards, 57
- Executive Board of Management, 50–53
- external and internal scrutiny, 58–59
- Senior Executive Service conferences, 57–58
- strategic planning framework, 53–57

Corporate Management Branch, 11, 168

Corporate Plan, 54

Council of Australian Governments, Standing Council on Community, Housing and Disability Services, 79

courts and tribunals, decisions by, 59

CPA Australia, 62, 68, 69

Crowe Horwath, 78

## D

Defence, Department of, 34, 38, 51, 31

- audit reports, 141–143
- financial statement audits, 22

Defence Materiel Organisation, 11, 34

developing nations, support for, 43–46

*Development and Approval of Grant Program Guidelines*, Audit Report No.36 2011–12, 31

*Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework*, Audit Report No.5 2011–12, 32, 33, 38

*Digital Education Revolution Program – National Secondary Schools Computer Fund*, Audit Report No.30 2010–11, 38

*Direct Source Procurement*, Audit Report No.11 2010–11, 38

disability reporting, 79

## E

e-learning, 68, 74

ecologically sustainable development, 75

Education, Employment and Workplace Relations, Department of, 23, 32, 144–145

effect of ANAO activities on the environment, 75–77

Employee Assistance Program, 73

Energy Efficiency in Government Operations, 75–76

enterprise agreement, 65, 136

Environmental Management Committee, 53

environmental protection and biodiversity conservation, 75–77

Ernst & Young, 59

*Establishment and Use of Procurement Panels*, Audit Report No.31 2011–12, 31

*Establishment, Implementation and Administration of the Infrastructure Employment Projects Stream of the Jobs Fund*, Audit Report No.7 2011–12, 30, 38

ethical standards, 57, 74

Executive Board of Management, 50–53

- membership, 50
- Recruitment and Retention Taskforce, 61
- subcommittees, 50–53

external audit, 58

external scrutiny, 58–59

- Commonwealth Ombudsman, 59
- decisions by courts and tribunals, 59
- parliamentary committees, 59

extranet site, 48

## F

- Families, Housing, Community Services and Indigenous Affairs, Department of, 33
  - audit reports, 145–146
- Fiji, 43
- Finance and Deregulation, Department of, 20, 23
  - audit reports, 147–148
  - Commonwealth Financial Accountability Review, 48
- financial results, 14, 82–84
  - agency resource statement, 83
  - expenses for outcomes, 84
- financial statement audits, 17–24
  - in 2011, 19–23
    - by arrangement, 24
    - certificates of compliance, 23
    - clearance deadlines, 20
    - client satisfaction, 26
    - compliance with statutory conditions
      - on payments from special appropriations, 23
    - fees, 24, 82
    - interim audit for the period ended 30 June 2012, 23–24
    - internal control issues identified, 19
    - IT capability and resourcing, 26
    - number issued, 24–25
    - performance measures, 24–26
    - quality assurance, 26
    - reports, 18, 19, 20, 23–24
    - risk-based methodology, 18
    - timeliness, 25
  - financial statements, ANAO, 85–132
  - flexible work environment, 66
  - Foreign Affairs and Trade, Department of, 30, 46, 148–149
  - fraud control framework
    - certification, 56
    - Fraud Control Plan, 55
    - Fraud Risk Assessment, 55
  - freedom of information, 79

## G

- graduate and undergraduate programs, 61–62, 63, 68
- grants administration, 31–32, 38
- Green Loans Program*, Audit Report No.9 2010–11, 37

## H

- Health and Ageing portfolio, 149–151
- HECS–HELP loan program, 23
- High Court of Australia, 2, 23
- Home Insulation Program*, Audit Report No.12 2010–11, 38
- House of Representatives Standing Committee on Agriculture, Resources, Fisheries and Forestry, 42
- Housing Affordability Fund, 30
- Housing, Local Government and Regional Services, Department of, 33
- Human Resource Management Information System, 23
- human resources, management of, 60–74
  - professional development, 67–71
  - staff recruitment and retention, 61–65
  - staff surveys, 60, 65, 66, 68
  - workforce management, 65–67
  - workforce planning, 60–61
- Human Services, Department of
  - audit reports, 21, 151–152
  - Design, Print and Distribution Program, 79

## I

- Implementation and Management of the Housing Affordability Fund*, Audit Report No.11 2011–12, 30
- Implementation of the National Partnership Agreement on Remote Indigenous Housing in the Northern Territory*, Audit Report No.12 2011–12, 29, 32, 33
- India, Office of the Comptroller and Auditor-General, 47
- Indigenous Australian Government Development Program, 62
- Indigenous recruitment, 62, 74

Indonesia, 10, 44, 52  
 Induction Manual, 64  
 Industry, Innovation, Science, Research and Tertiary Education, Department of, 23  
 Information Strategy Committee, 51  
 Information Technology Strategic Plan, portfolio, program and project management maturity model assessment, 57  
 Infrastructure Australia, 37  
 Infrastructure Priority List, 37  
 Infrastructure and Transport portfolio, 153–154  
 InFront Systems Pty Ltd, 78  
 Institute of Chartered Accountants in Australia, 62, 68, 69  
 Institute of Internal Auditors – Australia, 18  
*Interim Phase of the Audits of the Financial Statements of Major General Government Sector Agencies for the Year Ending 30 June 2012*, 23–24  
 internal audit, 59  
 International Auditing and Assurance Standards Board, *Strategy and Work Program, 2012–2014*, 18  
 International Organization of Supreme Audit Institutions, 43, 44  
 International Steering Committee, 52  
 IT audit capability and resourcing, 26

## J

Jobs Fund, Infrastructure Employment Projects stream, 30, 38  
 Joint Committee of Public Accounts and Audit, 2, 3, 28, 41, 59  
*Inquiry into the Auditor-General Act 1997*, 33  
 review of performance audits, 37–38

## K

key performance indicators, 10, 32, 38; see also under Programs 1.1 and 2.1  
 KPMG, 58, 78

## L

Learning and Development Committee, 52, 68

## M

*Maintenance of the Defence Estate*, Audit Report No.41 2010–11, 38  
*Major Projects Report*, Audit Report No.20 2011–12, 34, 38  
 management and accountability, 50–80  
   advertising and market research, 80  
   assets management, 80  
   corporate governance, 50–59  
   disability reporting, 79  
   emergency and business continuity plans, 80  
   environmental protection and biodiversity conservation, 75–77  
   freedom of information, 79  
   grant programs, 79  
   management of human resources, 60–74  
   procurement, 78–79  
   purchasing policies and procedures, 80  
   service charter, 79  
*Management of ePassports*, Audit Report No.33 2011–12, 30  
*Management of Student Visas*, Audit Report No.46 2010–11, 38  
*Management of the National Solar Schools Program*, Audit Report No.39 2011–12, 32, 75  
 market research, 80, 166

## N

National Australia Day Council's Australia Day Achievement Medallions, 70–71  
 National Australian Built Environment Rating System, 76  
 National Disability Strategy, 79  
 National Greenhouse and Energy Reporting Scheme, 30, 75  
 National Infrastructure Audit, 37

National Partnership Agreement on Remote Indigenous Housing in the Northern Territory, 29

National Partnership on Early Childhood Education, 32

National Secondary Schools Computer Fund, 38

National Solar Schools Program, 32

New Policy Proposal funding, 58

New Zealand Audit Office, 43, 40, 47

New Zealand Auditing and Assurance Standards Board, 18

newsletters, 48

Northern Territory Government, 32, 33

## O

*Opinions* newsletter, 48

Organisation for Economic Co-operation and Development, 44

organisational structure, 11–12

Outcome 1: Assurance audit services, 13, 16  
resources, 84

Outcome 2: Improvement in public administration, 13, 16  
resources, 84

outcomes and programs framework, 13, 16

## P

Pacific Association of Supreme Audit Institutions, 43, 44

Papua New Guinea, 10, 43, 45–46, 52, 62

Parliamentary committees, reviews of reports, 59

Parliamentary Joint Committee on the Australian Commission for Law Enforcement Integrity, 42

participation in forums and seminars, 10

People and Remuneration Committee, 51–52, 68  
performance, 15–48

financial, 82

performance structure, 16

Program 1.1: Assurance audit services, 17–26

Program 2.1: Performance audit services, 27–40

Performance Audit Services Group, 11, 61, 168

performance audits, 10

assurance reviews, 34

Audit Work Program, 28–29

better practice guides, 34–35

client surveys, 39

conduct of, 33

feedback from Parliament, 37

focus on outcomes, 32

grants administration, 31–32

issues identified, 29

monitoring program progress, 32

number, duration and cost of reports, 35–36

number tabled, 28

objectives, 27, 42

peer review arrangement for, 40

procurement and capability acquisition processes, 30–31

program implementation and delivery, 30

quality assurance, 39–40

recommendations in reports, 38–39

responses from audited entities, 38–39

review by Joint Committee of Public Accounts and Audit, 37–38

performance indicators, auditing of, 10, 32, 38

PricewaterhouseCoopers, 78

procurement, 78–79

Procurement Plan 2012–13, 78

professional development, 67–71

ANAO Professional Development Opportunities Package, 67–68

awards and recognition, 70–71

e-learning, 68

handbook for graduates, 68

learning and development, 67–68

professional qualifications and studies assistance, 69–70

representation, 69

secondment and exchange program, 68–69

Professional Services Branch, 11, 26, 168

Programs 1.1 and 2.1, common components, 41–48

assistance to Parliament, 41–43

deliverables, 41

information services, 47–48

international representation and support to developing nations, 43–47

international visits, 47

key performance indicators, 41  
 national representation, 43  
 peer reviews, 47  
 special appropriation, 41  
 supreme audit institutions, 43–44

Program 1.1: Assurance audit services, 13, 16, 17–26

components common to both programs, 41–48  
 cost, 17  
 deliverables, 17  
 financial audits by arrangement, 24  
 financial statement audits, 17–24  
 performance indicators, 17  
 performance measures, 24–26  
 resources, 84

Program 2.1: Performance audit services, 13, 16, 27–40

assurance reviews, 34  
 better practice guides, 34, 36  
 components common to both programs, 41–48  
 deliverables, 27  
 performance audits, 27–33  
 performance indicators, 27  
 performance measures, 35–40  
 resources, 84

programs, 13, 16

*Public Accounts and Audit Committee Act 1951*, 37

publications, 48; *see also* better practice guides

## Q

quality assurance, 26, 40  
 Quality Assurance Review Program, 26

## R

Recognised Employer Partner Status (Knowledge Level) award, 68

recruitment, 61  
 graduate and undergraduate programs, 61–62, 63  
 Indigenous recruitment, 62

Recruitment and Retention Taskforce, 61

Regional and Local Community Infrastructure Program, 37

risk management framework, 55  
 role of the ANAO, 10, 54

## S

Security Committee, 53  
 Senate Committee on Finance and Public Administration, 59  
 Senate Estimates hearings, 59  
 Senate Standing Committee on Foreign Affairs, Defence and Trade, 42  
 senior executive remuneration, 67  
 Senior Executive Service conferences, 57–58  
 Senior staff, addresses by, 164–165  
 social inclusion, 79  
 staff, 6

addresses given, 164–165  
 awards and recognition, 70–71  
 awareness of workplace diversity, 74  
 awareness of work health and safety, 73  
 career progression, 65  
 Employee Assistance Program, 73  
 flexible work environment, 66  
 induction, 64, 74  
 Induction Manual, 64  
 leadership performance, 65  
 Outstanding Performers Award regime, 67  
 performance assessment scheme, 65, 67  
 performance pay, 67, 136  
 recognition of, 65, 67, 70–71  
 recruitment and retention, 61–65  
 remuneration model, 65  
 Senior Executive Service conferences, 57–58  
 statistics on, 134–136  
 Survey of Parliamentarians, 6  
 surveys of, 60, 65, 66, 68  
 training, 67–68, 136  
 turnover of, 64–65, 136  
 workforce planning, 60–61

staff recruitment and retention, 61–65  
 graduate and undergraduate programs, 61–62, 63  
 Indigenous recruitment, 62, 74  
 recruitment, 61

staff induction, 64, 74  
 staff turnover, 64–65  
 strategic planning framework, 53–57  
 supreme audit institutions, 43–44  
 surveys of parliamentary stakeholders, 3, 6,  
 37, 42, 58  
 Sustainability, Environment, Water, Population  
 and Communities portfolio, 154–155

## T

tenders, 78–79  
*The Establishment, Implementation and  
 Administration of the Strategic Projects  
 Component of the Regional and Local  
 Community Infrastructure Program*, Audit  
 Report No.3 2010–11, 37  
 training  
   e-learning, 68  
   recruitment and selection training, 61  
   workplace diversity awareness, 74  
 Treasury portfolio, 155–157

## U

University of Canberra, 62  
*Upgrade of the M113 Fleet of Armoured  
 Vehicles*, Audit Report No.34 2011–12, 31

## V

Veterans' Affairs, Department of, 30  
 vision, 11

## W

website, 28, 48, 167  
*Williams v. Commonwealth of Australia*, 2, 23  
 work health and safety, 72–73  
 workforce management  
   enterprise agreement, 65  
   flexible work environment, 66  
   performance assessment scheme, 67  
   performance bonuses, 67  
   senior executive remuneration, 67  
   Workplace Consultative Forum, 65  
 workforce planning, 60–61  
 workplace diversity, 73–74, 135  
 Workplace Diversity Program, 73–74  
 Workplace Health and Safety Committee, 72



