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Welcome to the first edition of AuditFocus in 2013. This issue includes: articles on grants administration and reporting; records management; confidentiality in government contracts; key messages from our updated Internal Audit better practice guide and brief details of

a peer review of the supreme Audit Institution of India. Our forward work program will continue to include a focus on these topics. The ANAO's full work program is available from our website [www.anao.gov.au](http://www.anao.gov.au).

Ian McPhee  
*Auditor-General*

## Grants Administration and Reporting

Grants administration is an important activity for many Commonwealth agencies, involving the payment of billions of dollars of public funds each year. Commencing in December 2007, significant enhancements have been made to the Australian Government's grants administration framework in light of parliamentary and ANAO concerns with the administration of various grants programs over a number of years. These improvements include tailored grant reporting requirements, as well as the introduction of requirements relating to the development and approval of grant program guidelines. The *Commonwealth Grant Guidelines (CGGs)*, which took effect from 1 July 2009, set out the current whole-of-government grants policy framework for Commonwealth *Financial Management and Accountability Act 1997* (FMA Act) agencies, and include a number of mandatory requirements for both agencies and Ministers.

During 2011-12 the ANAO tabled two cross-agency audits relating to Commonwealth grants administration. The first of these, *Administration of Grant Reporting Obligations*, assessed the implementation and effectiveness of the

enhanced grants administration requirements for:

- reporting to the Finance Minister on instances where Ministers decided to approve a particular grant which the relevant agency had recommended be rejected;
- reporting to the Finance Minister on the awarding of grants within their own electorate by Ministers who are Members of the House of Representatives; and
- the website reporting of grants awarded.

The second audit, the *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.

The *Administration of Grant Reporting Obligations* audit identified that the quality and nature of agency briefing practices was variable, with a significant proportion of the briefs examined in the course of the audit not clearly identifying those proposed grants that the agency recommended be approved, and those that

### ANAO Report References:

ANAO Audit Report No.21  
2011-12 *Administration of Grant Reporting Obligations*

ANAO Audit Report No.36  
2011-12 *Development and Approval of Grant Program Guidelines*.



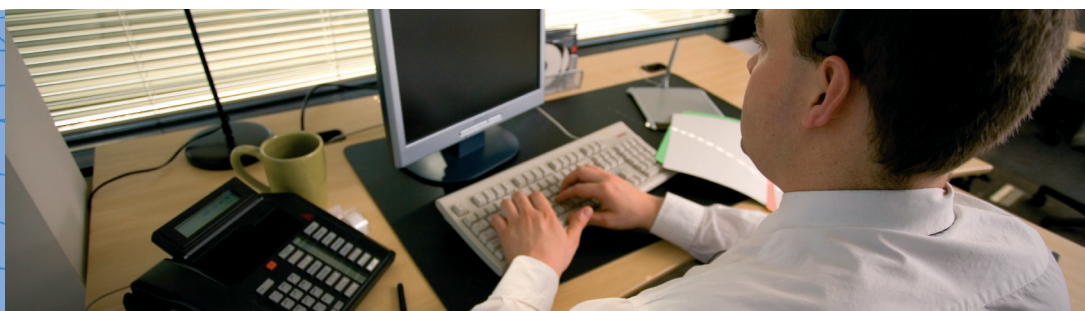
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it recommended be rejected. Consequently, there have only been a very small number of instances reported to the Finance Minister as involving a Minister approving a grant that the relevant agency had 'recommended be rejected' (a requirement under the CCGs). In addition, the audit found that there was some under-reporting to the Finance Minister of grants approved in a Minister's own electorate (another requirement under the CCGs).

The audit of the *Development and Approval of Grant Program Guidelines* found that the quality of grant program guidelines was quite variable, with a significant proportion of the guidelines examined by ANAO not clearly identifying the person or persons who would make funding decisions; the threshold and assessment criteria that would be applied in making these decisions; and/or the way in which value for money considerations would be taken into account. One factor contributing to this situation was the relatively high level of non-compliance with the then approval requirements for draft program guidelines.

Since the first audit tabled, ANAO has worked closely with the Department of Finance and Deregulation to identify opportunities for improving the CCGs as well as ways in which the department can provide greater assistance to agencies. Nonetheless, it is important to emphasise that responsibility for adhering to the requirements of the grants administration framework and improving the quality of grants administration depends to a significant extent on agencies improving their own practices. Where appropriate, agencies should draw on the experience of other agencies in developing their grant reporting and guideline approval processes.

Earlier ANAO reports on grants administration and our Better Practice Guide on *Implementing Better Practice Grants Administration* are also useful references for agencies reviewing their current grants programs or establishing new programs.



## Records Management in the Australian Public Service

### ANAO report reference:

Audit Report No.53 2011-12  
*Records Management  
in the Australian Public  
Service.*

A key element of sound public administration and accountability is adequate recording or documentation of the business of government. To achieve this, it is important that agencies develop records management frameworks and systems designed to ensure that records are appropriately managed. This commences with the creation and subsequent capture of records in records management systems, through to their maintenance and use, and ultimately their transfer to the National Archives of Australia or destruction. Records management should be seen as important within the governance, resourcing and information management arrangements of an agency for it to effectively support the management of business activities and risks, and to satisfy records management requirements.

Moving to digital records management is an important element of improving overall records management. However, in 2009 less than 30 per cent of 138 Australian Government agencies and bodies managed the majority of their records digitally, even though more than half reported having an Electronic Document and Records Management System (EDRMS) and using other electronic business systems to manage records.

To provide impetus and direction for digital records management, in July 2011 the Australian Government announced a policy for agencies to move to electronic records management for efficiency purposes. This policy is referred to as the Digital Transition Policy. It involves agencies' senior management driving a change to digital records management through an increased focus on resource requirements and records management functionality when purchasing new electronic business systems, and reducing paper stockpiles.

The ANAO tabled its fourth cross-agency audit of records management arrangements in June 2012, which included consideration of the extent to which agencies were managing their records appropriately in a digital environment. The audit observed that transitioning to a digital records management environment that adequately supports business, meets legal and policy requirements, and is easy to use, has been challenging and each of the agencies audited had experienced delays in this respect.

The majority of the audited agencies' records were created, captured and/or managed in the

agencies' records management and other systems. This included both paper and electronic systems. Each agency:

- 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; and
- had many other electronic business systems which were used to create, capture and manage records, but were not identified and functioning as 'records management systems'.

These other electronic business systems:

- did not generally meet legal requirements relating to the management, and destruction or transfer of records;
- were not generally supported by adequate guidance to users on the records to create and keep in the system; and
- created a risk that inaccurate or incomplete information could be accessed and used when making decisions, and acquitting legal and policy requirements.

The audit highlighted the challenges for agencies in achieving robust records management arrangements in today's digital environment, particularly for those where there are complex business requirements and a large number of electronic business systems in use. Being successful requires a coherent strategy, and the sustained investment of time and resources to strengthen systems and refine practices. Transitioning effectively to digital records management arrangements also requires a strong commitment to the strategy adopted, and to addressing records management needs when selecting, developing or upgrading electronic business systems that contain records. This will position agencies to meet their records management obligations, support efficient operations and provide for timely access to information and records.

The ANAO 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 determine the records that need to be created and managed for major business activities, and where these records should be maintained.





## Confidentiality in Government Contracts

### ANAO report reference:

Audit Report No.4  
2012-13, *Confidentiality in Government Contracts, Senate Order for Departmental and Agency Contracts (Calendar Year 2011 Compliance)*

The most recent audit report of the Senate Order for Departmental and Agency Contracts (the Senate Order) was tabled in September 2012. Introduced in 2001, the primary focus of the Senate Order is to reduce the unjustified inclusion and/or incorrect reporting of confidentiality provisions in government contracts. Such actions can have unintended consequences and reduce transparency through: unduly affecting agency decisions to release contract information; and misinforming the Parliament and the public about government contract information that they can or cannot access.

Under the Senate Order, Ministers must table letters of advice that all *Financial Management and Accountability Act 1997* (FMA Act) agencies which they administer have placed on the Internet lists of contracts valued at \$100 000 or more. The lists are to indicate whether the contracts contain confidentiality provisions or any other requirements of confidentiality. There are limited circumstances in which contracts should be reported as containing confidentiality provisions. These include that the information to be protected must be specifically identified in the contract, is commercially sensitive and its disclosure would cause unreasonable detriment to the owner of the information or another party. Within this context, the majority of government contracts only include general confidentiality provisions<sup>1</sup>, and these contracts are not required to be reported as containing confidential information under the Senate Order.

The audit objective was to assess the appropriateness of the use and reporting of confidentiality provisions in Australian Government contracts for 2011. Agencies' Senate Order contract listings contained 39 223 contracts for goods and services totalling \$156.5 billion. Six per cent (2391) of these contracts were reported to contain confidentiality provisions, lower than in 2010 (nine per cent), and reflecting a significant decline from the 24 per cent reported when the Senate Order was first introduced.

The ANAO's examination of 132 contracts reported as containing confidentiality provisions identified that despite a decrease in the proportion of contracts reported as containing confidentiality provisions, specific confidentiality provisions continue to be incorrectly used and reported. Fifty-one contracts (39 per cent) of those examined correctly included specific confidentiality provisions, while the remaining 81 contracts (61 per cent) were incorrectly reported as containing confidentiality provisions. The audit results highlighted that incorrect reporting can often be attributed to one of two factors—agencies misclassifying information as confidential (most commonly pricing information), and/or misinterpreting general confidentiality provisions as meeting the Senate Order confidentiality reporting requirements.

The ANAO also used the contract review results to determine the accuracy of confidential information reported in AusTender<sup>2</sup>. Approximately 60 per cent of the corresponding AusTender entries reported incorrect confidential contract information.

The audit's key findings reinforced the ANAO's previous observations regarding the merit in rationalising procurement reporting, and that it is timely for further action to be taken towards that end. Finance advised the ANAO that opportunities to consolidate procurement reporting obligations continue to be investigated, including using AusTender as the single procurement reporting tool for agencies. In addition, part of the overlap in procurement reporting obligations was recently reduced when the requirement for agencies to provide a list of consultancy contracts in their annual reports was removed from the 2011-12 reporting period onwards.

The ANAO concluded that progress to consolidate procurement reporting requirements will allow agencies to focus their attention on fulfilling a single reporting requirement. However, any consolidation of reporting arrangements should take into account the differences in the scope of contract arrangements reported through the Senate Order and on AusTender.

<sup>1</sup> General confidentiality provisions often restate legislative obligations for confidentiality such as the *Privacy Act 1988* or secrecy provisions, and do not refer to specific contract information to be protected.

<sup>2</sup> AusTender is the Australian Government's procurement information system that is used to publish Australian Government business opportunities, annual procurement plans, multi-use lists and contracts awarded.

# ANAO Better Practice Guide: Public Sector Internal Audit

## ANAO Reference:

ANAO Better Practice Guide *Public Sector Internal Audit*, September 2012

As part of its aim to contribute to improving public administration, the ANAO prepares Better Practice Guides (BPGs) on a variety of topics to provide a mechanism to recognise and promulgate good practice to all Australian Government entities. BPGs may be produced in conjunction with an audit or prepared as a result of a perceived need to provide new or updated guidance material in a particular area of public administration, and can involve examining practices in the public or private sectors, in Australia and overseas.

Since 2006, the ANAO has produced 18 new or updated BPGs, with regular reviews of the suite of BPGs to determine:

- the benefit of publishing a guide on a new topic;
- where updates are required to an existing guide due to changes in legislation, policies or other government guidance; and/or
- where guides remain generally valid, but would benefit from being re-issued so as to maintain their profile amongst public sector entities.

In September 2012, the ANAO re-issued the Better Practice Guide: *Public Sector Internal Audit*, which was originally published in 2007. Internal Audit has been a relatively stable function since the last BPG, but new staff are regularly becoming exposed to internal audit across the public sector hence there was value in issuing a refreshed guide to maintain its profile and currency.

The guide outlines the following attributes of a better practice internal audit function:

- Has the confidence and visible support of key stakeholders, including the chief executive, the board (where applicable), the audit committee and senior management.
- Is operationally independent, that is, internal audit is independent from the activities subject to audit.
- Has a well-developed strategy that clearly identifies internal audit's role and responsibilities and contribution to the entity's broader assurance arrangements.
- Has sufficient financial resources and staff and access to contractors when appropriate, with the necessary skills, experience and personal attributes to achieve the contribution expected of internal audit.

In addition, operationally, a better practice internal audit function:

- Is business-focused and has audit plans that are comprehensive and balanced, and are aligned to the entity's risks.
- Undertakes all audits in accordance with specified professional standards.
- Provides an annual assessment, based on internal audit work undertaken, of the effectiveness of the entity's system of internal controls.
- Advises the Audit Committee and entity management of patterns, trends or systemic issues arising from internal audit work.
- Disseminates lessons learnt from its work, and from external audit, to relevant areas of the entity to contribute to organisational learning.
- Regularly informs the Audit Committee of progress in the implementation of agreed internal and external audit and other relevant report recommendations.
- Facilitates communication between external audit and entity management, where appropriate.
- Actively manages any external service providers.

Integrity, transparency and accountability remain at the centre of good public sector governance and it is important for public sector entities to make appropriate investments in systems and activities that support effective management. In the ANAO's experience, better practice entities consider an appropriate level of investment in internal audit to be an important business decision. These entities recognise that a well-resourced and effective internal audit function can play a key role in their governance arrangements. By providing assurance on the effectiveness of an entity's internal control environment and identifying opportunities for performance improvement, internal audit can make a valuable contribution to achieving an entity's objectives and to managing the entity's risks.

# Peer Review of the Supreme Audit Institution of India

The ANAO plays an important professional role by contributing internationally to the development of professional public sector audit practices. One of the ways this is achieved is through participation in international peer reviews of other national audit institutions.

At the request of the Comptroller and Auditor-General of India, an international peer review team recently reviewed the performance audit function of the Indian Audit and Accounts Department. The objective of the peer review was to assess the extent to which the performance audit function adhered to applicable standards of professional practice; and to identify opportunities for improvement. The peer review team was led by the ANAO and included representatives from the national audit institutions of Canada, Denmark, The Netherlands and the United States of America.

The peer review report was finalised in October 2012. The report includes 10 recommendations designed to strengthen India's Audit Quality Management Framework, performance audit capability, adherence to auditing requirements, and the quality and impact of performance audits. In addition, the report describes good practices adopted by India that will be of interest to other audit offices in their pursuit of continuous improvement.

The report can be accessed via SAI India's website at: [http://saiindia.gov.in/english/home/about\\_us/peer/Peer.html](http://saiindia.gov.in/english/home/about_us/peer/Peer.html).

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