

The Auditor-General
Audit Report No.2 2003-04
Audit Activity Report

Audit Activity Report: January to June 2003

Summary of Outcomes

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of Australia 2003

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Canberra ACT
13 August 2003

Dear Mr President
Dear Mr Speaker

The accordance with the authority contained in the *Auditor-General Act 1997*, I present this report of the results of our audits and audit related services over the latter half 2002–2003, to the Parliament. The report is titled *Audit Activity Report: January to June 2003*.

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'P.J. Barrett'.

P.J. Barrett
Auditor-General

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

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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ANAO audit reports and information about the ANAO are available at our internet address:

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Abbreviations

AASB	Australian Accounting Standards Board
ABA	Aboriginals Benefit Account
ABC	Australian Broadcasting Corporation
ABR	Australian Business Register
ACA	Audit and Control Assessment
ACIS	Automotive Competitiveness and Investment Scheme
ADF	Australian Defence Force
AFFA	Department of Agriculture, Fisheries and Forestry — Australia
AII	Australian Industry Involvement
AMSA	Australian Maritime Safety Authority
ANAO	Australian National Audit Office
ANZ	Australia and New Zealand
APS	Australian Public Service
ASIO	Australian Security Intelligence Organisation
ASIS	Australian Secret Intelligence Service
ASX	Australian Stock Exchange
ATO	Australian Taxation Office
ATSIC	Aboriginal and Torres Strait Islander Commission
BCM	Business Continuity Management
BPG	Better Practice Guide
CAC Act	<i>Commonwealth Authorities and Companies Act 1997</i>
CFS	Consolidated Financial Statements
CLERP	Corporate Law Economic Reform Program
CobiT	Control Objectives for Information and Related Technology
CSIRO	Commonwealth Scientific and Industrial Research Organisation
Customs	Australian Customs Service
DASFLEET	(former) Department of Administrative Services vehicle fleet

DCITA	Department of Communications, Information Technology and the Arts
Defence	Department of Defence including the Australian Defence Force
DEST	Department of Education, Science and Training
DEWR	Department of Employment and Workplace Relations
DFAT	Department of Foreign Affairs and Trade
DHA	Defence Housing Authority
DIE	Defence Information Environment
DIMIA	Department of Immigration and Multicultural and Indigenous Affairs
DITR	Department of Industry, Tourism and Resources
DMO	Defence Materiel Organisation
DOTARS	Department of Transport and Regional Services
DVA	Department of Veterans' Affairs
EPBC Act	<i>Environment Protection and Biodiversity Conservation Act 1999</i>
ESD	Ecologically Sustainable Development
ESP	External Service Provider
ETM	Economic Transactions Method
FaCS	Department of Family and Community Services
FBO Report	Final Budget Outcome Report
Finance	Department of Finance and Administration
FMA Act	<i>Financial Management and Accountability Act 1997</i>
FMIS	Financial Management Information System
FRC	Financial Reporting Council
GAAP	Generally Accepted Accounting Principles
GBE	Government Business Enterprise
GFS	Government Finance Statistics
GST	Goods and Services Tax
Health	Department of Health and Ageing
HIC	Health Insurance Commission
HRM	Human Resource Management

HRMIS	Human Resource Management Information System
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
IEP	Indigenous Employment Policy
ICT	Information and communications technology
IT	Information technology
JCPAA	Joint Committee of Public Accounts and Audit
PPS	Parenting Payment Single
R&D	Research and Development
RRE	Risk Rating Engine
TLM	Taxation Liability Method
VRB	Veterans' Review Board

1. Introduction

This chapter explains the role and objectives of the Australian National Audit Office (ANAO); describes its main outputs; and outlines the purpose of this report. It also discusses major influences on the current work program, as well as indicating the contents of following chapters.

Role and objectives of the ANAO

1.1 The role of the ANAO 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's mission is to add value to public sector performance and accountability. Accordingly, the ANAO seeks two outcomes:

- improvement in public administration—the independent assessment of the performance of selected Commonwealth public sector activities including the scope for improving efficiency and administrative effectiveness; and
- assurance—the independent assurance of Commonwealth public sector financial reporting, administration, control and accountability.

1.2 To achieve these outcomes, the ANAO delivers an integrated audit service designed to assist the Parliament in its work, as well as aiding Commonwealth bodies to achieve improved performance and accountability.

ANAO outputs

1.3 The Auditor-General has a mandate, provided under the *Auditor-General Act 1997*, that extends to all Commonwealth agencies, authorities, companies and subsidiaries with the exception of performance audits of government business enterprises (GBEs) and of persons employed or engaged under the *Members of Parliament (Staff) Act 1984*.

1.4 Performance audits of wholly owned Government Business Enterprises may, however, be undertaken by the Auditor-General where requested by the responsible Minister, the Minister for Finance or the Joint Committee of Public Accounts and Audit (JCPAA).

1.5 In addition to financial statement audits and performance audits, the ANAO produces business support process audits, protective security audits, benchmarking studies and better practice guides. Figure 1.1 on the following page lists ANAO outputs for the six-month period from 1 January to 30 June 2003.¹

¹ ANAO reports can have a wide readership. For example, the International Consortium on Government Financial Management's *Public Fund Digest Volume III, No.1, 2003* contains an extensive excerpt from the ANAO's Better Practice Guides, *Contract Management*, released in February 2001 (p.p. 36–49) and *Some Better Practice Principles for Developing Policy Advice*, released in November 2001 (p.p. 30–35).

1.6 ANAO staff also organise and participate in conferences, seminars and workshops aimed at sharing expertise and disseminating better practice and lessons learnt from auditing activity. A growing element of this role is communicating the ANAO's activities and outcomes through representational activities with a wide range of stakeholders and contacts, including Parliamentary Committees, boards of government authorities and companies, as well as professional organisations.

1.7 A particularly important facet of the ANAO's ongoing work with stakeholders is the relationships that have developed with the audit committees of individual agencies. The ANAO sees its relationship with audit committees as one of partnership. Senior ANAO members of staff routinely observe and participate in meetings of these committees. Through this mechanism, the ANAO seeks to: develop its linkages with overall agency review processes; co-ordinate the ANAO's external audit work program with the range of ongoing internal agency review activities; and strengthen the effectiveness and credibility of audit committees in the eyes of both internal and external stakeholders.

Figure 1.1
ANAO products, January to June 2003

ANAO Products	January to June 2003
Performance Audit Reports	30
Business Support Process Audit Reports	5
Better Practice Guides	6
Benchmarking Studies	1
Controls Reports	1
Financial Statement Opinions	12
Audit Activity Reports	1

Purpose of the Activity Report

1.8 The Activity Report is tabled every six months. This report summarises audit and other ANAO activities for the period January to June 2003. Its purpose is to:

- inform the Parliament of major issues the ANAO is examining as it works with agencies to encourage, and provide assurance about, a better performing and more accountable public sector;

- provide the Parliament with a consolidated summary of activity over this period, including tabled audit reports, details of better practice guides and other audit services undertaken; and
- highlight some of the major lessons learned from the audit services provided by the ANAO over this period.

Developing the ANAO's Audit Work Program

1.9 The ANAO undertakes an on-going planning approach to ensure that its outputs are effectively integrated for maximum impact, and continue to meet the needs of the Parliament, the Government and public sector entities.

1.10 Public sector organisations do not operate in isolation from the wider community. A wide range of issues affect the public sector as a whole, as well as individual Commonwealth bodies, and have to be dealt with as comprehensively as possible for assurance purposes. The ANAO reviews identified issues as part of its planned audit approach annually, not only to determine its budget preparation, but also to incorporate, in an integrated manner, the results in its Audit Work Program.

1.11 The Audit Work Program is developed against the background of the Australian Public Service (APS) environment, taking into account business risks likely to impact on the APS during the period under review. These risks are considered when identifying themes to be addressed in future performance audit work programs. Parliamentary priorities are also important, and are discussed further in the next chapter.

1.12 Over recent years, a number of factors have significantly affected the APS environment, including: requirements for a more responsive, contestable public service; greater collaboration between agencies, stakeholders, and levels of government; and an increased focus on governance. The ANAO therefore identified the following performance audit themes to underpin the 2002–03 Audit Work Program:

- human resource management including workforce planning;
- financial management and reporting;
- performance management and reporting;
- procurement and contract management;
- application of information technology and resources; and
- service delivery.

Report outline

1.13 The following chapter outlines the ANAO's relationship with the Parliament, and details the work of the ANAO's main oversight body, the JCPAA, as it affects the ANAO. Chapter 3 summarises findings from performance audits tabled during January to June 2003. Chapter 4 discusses emerging broad issues affecting financial statement reporting and outlines significant issues arising from financial audits conducted during January to June 2003.

1.14 Appendix 1 lists series titles of audits tabled during January to June 2003. Appendix 2 contains summaries of these audit reports, while Appendix 3 summarises ANAO better practice guides (BPGs) published in the same period. Appendix 4 lists series titles of all BPGs published to date. Appendix 5 lists presentations and papers given by the Auditor-General and ANAO staff during January to June 2003. Appendix 6 lists audit services underway on 30 June 2003.

2. Assistance to the Parliament

This chapter discusses the relationship between the ANAO and the Parliament—in particular with the JCPAA. It details the JCPAA's recent examination of ANAO reports; notes requests made of the ANAO by other Parliamentary Committees; and outlines the scope of liaison activity between the ANAO and the Parliament, including results of the ANAO's 2002–03 survey of the Parliament.

2.1 The ANAO's principal client is the Parliament. For the ANAO, the Parliament sets the 'tone at the top' by articulating acceptable levels of accountability for the APS. Within this context, Parliamentary Committees are the main focus for contact and liaison. However, as part of its regular business (discussed in more detail at the end of this chapter), the ANAO also briefs Ministers, Shadow Ministers, Parliamentary Committees and their staff on audit reports tabled in the Parliament.

The Joint Committee of Public Accounts and Audit (JCPAA)

2.2 The JCPAA, a statutory committee comprising members from both houses of Parliament, has particular responsibilities for the ANAO. Working-level liaison with the Parliament, especially the JCPAA, occurs continuously all year. However, the ANAO also formally consults with the Committee on the Parliament's audit priorities. This consultation is a strategic level process that occurs during April - June each year. The ANAO uses the outcomes of this consultation to inform the development of its forward Audit Work Program.² As well as reflecting the priorities of the Parliament, the Audit Work Program discusses current developments impacting on the APS and the work of the ANAO, and outlines particular themes that will guide audit activity for the following year.

2.3 The JCPAA also considers the operations and performance of the ANAO; reports to the Parliament about the Auditor-General's functions and powers; and makes recommendations to the Parliament on the annual budget for the Office. The Committee reviews all ANAO reports, and examines a selection at quarterly public hearings. Occasionally, the JCPAA may conduct its own more broadly based inquiry into matters arising from an audit.

2.4 The following sections discuss the main findings from the two JCPAA quarterly public reviews of ANAO reports undertaken during January to June 2003 and outline other JCPAA activities related to ANAO audits.

² The Audit Work Program is available on the ANAO website, <<http://www.anao.gov.au>>.

JCPAA Report 393, Review of the Auditor-General's Reports, Fourth Quarter 2001–02

2.5 On 12 February 2003, the JCPAA released Report 393, a *Review of the Auditor-General's Reports, Fourth Quarter 2001–02*. It presented the results of the JCPAA review of the following audits:

- Audit Report No.40 2001–02, *Corporate Governance in the Australian Broadcasting Corporation*;
- Audit Report No.51 2001–02, *Research Project Management*;
- Audit Report No.57 2001–02, *Management Framework for Preventing Unlawful Entry into Australian Territory*; and
- Audit Report No.63 2001–02, *Management of the DASFLEET Tied Contract*.

Audit Report No.40 2001–02, Corporate Governance in the Australian Broadcasting Corporation

2.6 Audit Report No.40 2001–02, *Corporate Governance in the Australian Broadcasting Corporation*, was performed in response to a request from the JCPAA, which sought assurance that the Australian Broadcasting Corporation's (ABC) programming adequately reflected the ABC's charter. The audit examined how the ABC aligns its strategic directions with its charter requirements, and how the ABC assures itself and the Parliament that it has achieved charter obligations.

2.7 In its review, the JCPAA made three recommendations, and commented that indicative performance information is essential to measuring compliance with charter obligations, and that considering these obligations as part of strategic planning processes would enhance the ABC's performance in this area.

2.8 The JCPAA concluded the improved performance reporting would also enhance the ABC's accountability to the Parliament and that the ABC must improve its reporting across the board, including aligning financial and output budgeting information.

Audit Report No.51 2001–02, Research Project Management

2.9 Audit Report No.51 2001–02, *Research Project Management*, assessed the effectiveness of the Commonwealth Scientific Research and Industrial Organisation (CSIRO) in administering research projects.

2.10 In its review, the JCPAA noted that, although CSIRO had made significant efforts to improve project management, it would be enhanced by consistency of project management practices across divisions and projects, which in turn would be improved by consistent training in project management methodologies. The

JCPAA also recommended that CSIRO develop and implement clear and consistent policy guidelines for the retention of intellectual property.

Audit Report No.57 2001–02, Management Framework for Preventing Unlawful Entry into Australian Territory

2.11 Audit Report No.57 2001–02, *Management Framework for Preventing Unlawful Entry into Australian Territory*, assessed the management of offshore measures to prevent and detect unlawful entry to Australia by the Department of Immigration and Multicultural and Indigenous Affairs (DIMIA).

2.12 The JCPAA commented that, to achieve organisational objectives and better outcomes, DIMIA needs to pay greater attention to framework issues, and not focus only on implementation of policy and its response to business pressures. The JCPAA had the impression that DIMIA had been slower than other agencies to adopt new approaches to management (e.g. risk management, governance, planning, and linking operational plans to strategic plans) and noted that DIMIA has relied on individuals' intuitive risk management, though it is now developing a risk management strategy.

2.13 The JCPAA also noted that DIMIA was subjected to a great deal of pressure due to a recent increase in the level of unauthorised arrivals, and acknowledged its effective response. On intelligence analysis and collection, the JCPAA noted that the Director of DIMIA's Intelligence Analysis Section will develop a strategic intelligence function for the agency, and that the section has developed a framework for information collection to inform a revised collection priorities plan.

2.14 Overall, the JCPAA recommended that DIMIA make better use of its information resources, co-ordinate information sharing with other agencies, and evaluate effectiveness of its current operations.

Audit Report No.63 2001–02, Management of the DASFLEET Tied Contract

2.15 Audit Report No.63 2001–02, *Management of the DASFLEET Tied Contract* followed an earlier audit (Audit Report No.25 1998–99, *DASFLEET Sale—DAS Business Unit Sales*), which assessed the efficiency and effectiveness of the conduct of the sales process for DASFLEET (the former Department of Administrative Services vehicle fleet). The subsequent audit assessed: the effectiveness of management of the Commonwealth's exposure under the DASFLEET Tied Contract by the Department of Finance and Administration (Finance); the effectiveness of Finance's performance monitoring of the Tied Contract; and what action Finance had taken to undertake a comprehensive risk assessment of the Commonwealth's exposure under the Tied Contract.

2.16 The JCPAA noted that the former Office of Asset Sales and Information Technology Outsourcing did not understand the contract, and that the Commonwealth's understanding of the DASFLEET sale contract appeared to have emerged over several years. Though Finance's efforts in the settlement process reduced the Commonwealth's exposure significantly, there were substantial costs to the Commonwealth in connection with the transaction, which were not envisaged at the start of the sale process.

2.17 The JCPAA noted that, while Finance was able to provide an estimate of costs, it did not differentiate between administration and dispute costs. The JCPAA's view was that effective record keeping and administrative practices would allow that differentiation to be made, and that Finance's practices and procedures were inadequate. The JCPAA recommended that Finance improve record management practices with regard to dispute resolution activities, and that future requests for legal opinions are made in writing.

JCPAA Report 394, Review of Australia's Quarantine Function

2.18 The JCPAA's Report 394, *Review of Australia's Quarantine Function*, followed up ANAO Audit Report No.47 2000–01, *Managing for Quarantine Effectiveness*. In its review, the JCPAA sought to reassure the Parliament that the Auditor-General's recommendations had been carried through, and that additional funds allocated to the quarantine function were being spent well.

2.19 The JCPAA noted that Australia's quarantine function is in good shape, and additional funding is appropriately used. As it is not possible for Australia to adopt a zero risk stance regarding quarantine there will be, from time to time, incursions of exotic pests and diseases. Australia, however, is well placed to meet those threats.

2.20 The JCPAA also noted some gaps and areas where enhancement is warranted, and made 14 recommendations designed to assist enhancement.

JCPAA reviews and inquiries in progress

2.21 Figure 2.1 lists those ANAO audit reports tabled in the first three quarters of 2002–03 that the JCPAA has reviewed but not yet included in a published report.

Figure 2.1**JCPAA reviews of ANAO audit reports for the first, second and third quarters 2002–03, where publication is pending**

ANAO report
<ul style="list-style-type: none"> • Audit Report No.2, <i>Grants Management</i> (Aboriginal and Torres Strait Islander Commission) • Audit Report No.3, <i>Facilities Management at HMAS Cerberus</i> (Department of Defence) • Audit Report No.7, <i>Client Service in the Child Support Agency Follow-up Audit</i> (Child Support Agency) • Audit Report No.18, <i>Management of Trust Monies</i> (Cross Agency) • Audit Report No.19, <i>The Australian Taxation Office's Management of its Relationship with Tax Practitioners</i> (Australian Tax Office) • Audit Report No.20, <i>Employee Entitlements Support Schemes</i> (Department of Employment and Workplace Relations) • Audit Report No.23, <i>Physical Security Arrangements in Commonwealth Agencies</i> (Cross Agency) • Audit Report No.25, <i>Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2002</i> (Cross Agency) • Audit Report No.26, <i>Aviation Security in Australia</i> (Department of Transport and Regional Services) • Audit Report No.27, <i>Management of Commonwealth Guarantees, Warranties, Indemnities and Letters of Comfort</i> (Cross Agency) • Audit Report No.28, <i>Northern Territory Land Councils and the Aboriginal Benefit Account</i> (Aboriginal and Torres Strait Islander Commission, Anindilyakwa Land Council, Central Land Council, Northern Land Council, Tiwi Land Council)

2.22 Other JCPAA inquiries in progress include the *Inquiry into Management and Integrity of Electronic Information in the Commonwealth*, for which the public hearings have been completed, and the *Inquiry into the Draft Financial Framework Legislation Amendment Bill*, which is due to report in the second half of 2003. The JCPAA also announced in early June 2003 that, as an extension of the Committee's responsibility to examine reports from the Auditor-General, the Committee would conduct an inquiry reviewing aviation security arrangements in Australia. This last inquiry stems from the Committee's May 2003 review of Audit Report No.26 2002–03, *Aviation Security in Australia*, tabled in January 2003.

Requests from other Parliamentary Committees

2.23 ANAO reports are used by other Committees as well as the JCPAA. A range of Committees have recently requested the ANAO to undertake particular audit activities. Major examples of these activities are discussed below.

The Senate Foreign Affairs, Defence and Trade References Committee

2.24 Following the Senate Foreign Affairs, Defence and Trade References Committee's report *Matériel Acquisition and Management in Defence* (March 2003), the Senate, by resolution on 14 May 2003, requested the Auditor-General to conduct certain audit work in the Defence Materiel Organisation (DMO). The Senate requested that the ANAO's proposed follow-up audit in DMO in 2003–04 include a cultural audit to assess cultural, communication and change management issues in DMO. The Senate also requested that the ANAO produce an annual report on progress in major Defence projects, detailing cost, time and technical performance data for each project, including an analysis of performance and emerging trends to enable the Parliament to have high visibility of all current and pending major projects.

2.25 The Auditor-General informed the Senate that he appreciated the Senate's concerns in making this request in the interests of sound implementation of DMO's reform program and accurate reporting of progress on major projects. Both audits would, however, require significant preliminary scoping and other considerations, such as appropriate audit criteria, as well as issues of resource availability. With regard to the proposed cultural audit, the ANAO will include a preliminary study to consider how such a cultural audit might be addressed in the ANAO's audit work program for 2003–04.

2.26 In order to assess the feasibility and resource requirements of an annual report on major projects, the ANAO proposes to consider a credible basis by which the ANAO could establish a framework for such a report in the context of the proposed follow-up audit of DMO in 2003–04. The annual report would be a substantial task and may require a phased approach. The ANAO will need to discuss the feasibility and resourcing of the audits with the Joint Committee of Public Accounts and Audit and with Finance.

The Joint Standing Committee on Foreign Affairs, Defence and Trade

2.27 The Joint Standing Committee on Foreign Affairs, Defence and Trade, in its September 2002 *Review of Foreign Affairs, Trade and Defence Annual Reports 2000–01* recommended that the Auditor-General consider conducting a

performance audit focusing on transition management programs conducted by the Department of Defence.

2.28 An audit addressing these issues is scheduled for inclusion in the ANAO's 2003–04 work program.

The Senate Finance and Public Administration References Committee

2.29 The Senate Finance and Public Administration References Committee reported on the first year of operation of the *Senate Order for Departmental and Agency Contracts* in December 2002. The Senate Order requires agencies operating under the *Financial Management and Accountability Act 1997* (FMA Act) to place on the Internet, twice yearly, lists of contracts of \$100 000 or more. Among other things, the lists are to indicate whether the contracts contain any confidentiality requirements. The Order is based on the principle that information in contracts should not be made confidential unless there is good reason to do so.

2.30 The Senate Order requested the Auditor-General to undertake twice-yearly examinations of agency contracts required to be listed on the Internet and report whether there has been any inappropriate use of confidentiality provisions. Two of these audits had been tabled (Audit Report No.33 2001–02, and Audit Report No.8 2002–03) at the time of the Committee's review of the first year of operation of the Senate Order. The Committee's report drew heavily on the findings from these two audit reports.

2.31 The Committee's report made a number of recommendations, which were mainly aimed at improving the operation of the Senate Order. The Government agreed, or agreed in principle, with the majority of the recommendations in June 2003. Some of the agreed recommendations required action from Finance, in consultation with the ANAO. Finance has initiated action on these recommendations. In the process, the ANAO has provided advice to Finance and has contributed to the development of guidance for agencies on confidentiality issues and the Senate Order requirements. In addition, the ANAO has continued to undertake the six monthly audits, with the third audit having been tabled in March 2003 (Audit Report No.32 2002–03), and the fourth audit scheduled for tabling in September 2003.

Other ANAO Assistance to the Parliament

2.32 The ANAO is conscious that carefully targeted briefings to Committees not only allow Committee members to discuss particular issues in more depth, but assist Parliamentarians, especially new Members and Senators, to understand processes such as the selection of audit topics, and how audits may assist them in their work.

2.33 As noted earlier, ANAO staff may brief Parliamentary Committees, Ministers or individual Members of Parliament on particular subjects on an ad-hoc basis, and are also available to discuss individual audits (or particular aspects of audits). In the past six months, Committees (other than the JCPAA) that have received briefings include the:

- House of Representatives Environment and Heritage Committee;
- House of Representatives Standing Committee on Ageing; and
- Senate Committee on Environment, Communications, Information Technology and the Arts.

2.34 Some Ministers, Shadow Ministers and Ministerial Advisers have received, at their request, individual briefings in relation to particular audits.

2002–03 Survey of the Parliament

2.35 Over the last 10 years, the ANAO has conducted four surveys of the Parliament, to better understand the needs of Members of Parliament and Senators, and to gauge the extent of their satisfaction with and understanding of the ANAO and its work. The most recent survey was conducted in 2002–03. Results were encouraging, with a high proportion of Parliamentarians satisfied with the overall service provided by the ANAO (85 per cent).³ This outcome represented an increase in the level of satisfaction from the previous 1999–2000 survey. The 2002–03 survey showed that the ANAO is well regarded by the vast majority of Parliamentarians, and is widely respected for being accurate, thorough, and for providing an important integrity check of public administration. Importantly, the ANAO is well regarded by both Government and Opposition Parliamentarians.

³ Of the remaining respondents, 13 per cent had no opinion, and only 2 per cent were dissatisfied.

3. Performance Audits

This chapter explains performance audit objectives, then summarises key issues arising from performance audits tabled during January to June 2003, according to the ANAO's main themes. The chapter includes examples of recently tabled audits to illustrate each theme.

Performance Audit Objectives

3.1 The objective of ANAO performance audits is to improve agencies' administration and accountability by providing the Parliament, the Executive, boards, management and the community with independent evaluation and assurance on the economy, efficiency and administrative effectiveness of the management of Commonwealth public sector entities. The ANAO does this by:

- undertaking a cost-effective program of audits designed to evaluate the performance, economy, and efficiency of the activities of Commonwealth public sector entities;
- identifying good practices and recommending ways of improving the economy, efficiency and effectiveness of the administration of Commonwealth public sector entities;
- encouraging and assisting entities to remedy shortcomings and poor practices by improving systems and controls; and
- identifying and promulgating good management principles, practices and ethical behaviour that are applicable to the wider public sector.

3.2 As discussed in paragraph 1.12, the ANAO identified six main themes to underpin its performance audit work program. Figure 3.1 below indicates ANAO audit and other products produced under each theme during January to June 2003. Each audit is counted only once, under its major theme, although most audits address more than one theme.

Figure 3.1

ANAO audit products by major theme, January to June 2003

Theme	Performance	Business Support Process Audits and Benchmarking Studies	Better Practice Guides	Total
Human resource management	2	1	1	4
Financial management and reporting	2	3	4	9
Performance management and reporting	13	1		14
Procurement and contract management	6	1		7
Application of information technology and resources	2			2
Service delivery	5		1	6

Note 1. Does not include the Audit Activity Report, the Controls Report, or Financial Statement Opinions.

3.3 In reports tabled during January to June 2003, the ANAO made 140 recommendations aimed at improving the efficiency, administrative effectiveness and accountability of public sector service delivery. Agencies agreed with 139 of the recommendations, and of these, 12 were agreed partially or with qualification. An agency disagreed with one recommendation.

3.4 The following sections discuss the themes outlined in Figure 3.1, and recent ANAO reports addressing them. However, the chapter first briefly discusses a major development for performance audits, the proposed legislative change requiring agency comments to be included in audit reports, and then discusses developments in corporate governance that affected the public sector.

Inclusion of Agency Comments in Audit Reports

3.5 Maintaining a relationship of professional co-operation with the audited body during the life of an audit is of crucial importance to the ANAO. To facilitate this outcome: the ANAO consults fully with agencies during the planning stages; provides early information on the audit approach and objectives; maintains open and regular communication with the audited body; and advises audit conclusions and proposed recommendations as soon as practicable. In addition, under Section 19 of the *Auditor-General Act 1997*, the Auditor-General provides a copy of the proposed report to the audited agency prior to finalising the audit report. The audited agency is allowed a maximum of 28 days to respond to the proposed report.

3.6 In its recent Report 386 (*Inquiry into the Auditor-General Act 1997*, published in September 2001), the JCPAA recommended a number of amendments to the Act. One recommendation was that the Auditor-General include agency comments on a proposed report in full in the final report. The Government agreed to this recommendation. The Auditor-General has decided that, for reports issued from 1 July 2003, agency comments will be included in full, and has advised agency heads accordingly. However, the Prime Minister also agreed that the Auditor-General may summarise agency comments in the brochure accompanying each audit report.

3.7 This decision emphasises the need for careful management, by both audited agencies and the ANAO, of the 28-day comment period to ensure that requests for extensions of time remain the exception. While the ANAO recognises practical problems of co-ordination of responses, increasingly protracted delays add unrecoverable costs to an audit, increase the risk of the timeliness of report information to the Parliament being lost, and disrupt the audit program, with consequent adverse impacts on other agencies.

Corporate Governance

3.8 The first half of 2003 saw a number of high-profile efforts to improve corporate governance, in response to the corporate governance failures in recent major corporate collapses. For example, the Australian Stock Exchange (ASX) Corporate Governance Council released its *Principles of Good Corporate Governance* in March 2003, the HIH Royal Commission reported in May and Standards Australia also released a draft standard *Good Governance Principles*. During the period, the Senate passed two bills to amend the *Corporations Act 2001*. Treasury continued to draft the Corporate Law and Economic Reform Program (CLERP9) legislation that is expected to focus largely on auditor independence and the responsibilities of corporate boards and directors.

3.9 At the same time, the ANAO was finalising a *Better Practice Guide on Public Sector Governance*, which was published in July 2003. The guide defines public sector governance to include:

how an organisation is managed, its corporate and other structures, its culture, its policies and strategies and the way it deals with its various stakeholders. The concept encompasses the manner in which public sector organisations acquit their responsibilities of stewardship by being open, accountable and prudent in decision-making, in providing policy advice, and in managing and delivering programs.

Relevance of private sector governance reforms to the public sector

3.10 While many of the recently released governance guides, and related legislation, focus on private sector companies, particularly those listed on the ASX, much of this content is also relevant to the public sector, as:

- most Commonwealth companies and GBEs are also subject to the corporations law;
- many private sector practices are eventually adapted to, and/or adopted by, the public sector, including the general government sector; and
- regardless of legislation, many of the issues facing private sector governance are also relevant to the public sector.

3.11 On the latter point, two recent examples are instructive. First, recommendation 4.3 of the ASX Corporate Governance Council *Principles of Good Corporate Governance* requires that an audit committee be of ‘a sufficient size, independence and technical expertise to effectively discharge its mandate’. In response, Australian private sector companies, public sector companies and GBEs need to establish processes to assess audit committee expertise, including financial literacy and industry understanding. Such a process would also be useful for other Commonwealth entities.

3.12 Secondly, Justice Owen highlighted that the HIH audit committee did not give sufficient detached consideration to audit issues and that the committee was too close to the board.⁴ The question of real independence often goes quickly to the principles of good governance rather than to the corporate structures. These principles apply equally to the public and private sectors. In this case, of particular importance are issues of integrity and leadership, or ‘tone at the top’.

⁴ See Blake Dawson Waldron, *Corporate Governance Update*, p. 3, 2003, May.

Major issues in public sector governance

3.13 Research for the ANAO's *Better Practice Guide on Public Sector Governance* involved interviews with heads of major public sector organisations, board members and chairs. These interviews revealed concerns with governance issues such as:

- board operations, including managing conflicts of interest, monitoring board performance and appointments to boards;
- the role of the individual officer in contributing to good governance;
- possible conflicts in discharging public sector governance responsibilities, such as in relationships involving combinations of the Minister(s), the agency head and board members as well as between an organisation's enabling legislation and broader governance legislation; and
- implementing joined-up, or across-agency, governance.

3.14 The guide discusses these issues in detail. The guide also outlines that one of the main avenues to improve governance is to establish protocols that clarify roles and responsibilities of those with major governance functions. This especially relates to board members in statutory boards, where board charters are invaluable, and are becoming more widespread. This is likely to be an avenue for ANAO audit activity in the future.

Human Resource Management

3.15 Employee expenses for budget-funded Commonwealth agencies totalled \$19.3 billion for the financial year 2001–02. This comprised 11 per cent of expenses and represented a significant amount of government outlays.⁵ It is imperative that the APS provides the necessary leadership and sound management of people in order to provide the community with a reasonable return on this considerable investment.

3.16 Recruiting employees with the right skills to deliver the government's business and ensuring that employees continue to develop and maintain the skills required for contemporary public administration will assist agencies' productivity levels. Inappropriate recruitment decisions, or poor management, which result in employees moving elsewhere, are a cost to the public sector through lost productivity and unnecessarily high administrative costs.⁶

⁵ This figure includes the general government sector, i.e. budget-funded agencies. Refer to *Consolidated Financial Statements for the Year Ended 30 June 2002*, Commonwealth Government of Australia, 2002, November.

⁶ Staff turnover is expensive, with some studies conservatively estimating turnover costs at one year's salary. See, for example, Abbott, De Cieri & Iverson (1998) 'Costing Turnover: Implications of Work/Family Conflict at Management Level' in *Asia Pacific Journal of Human Resources*, 36(1), pp. 25–43.

3.17 A recent study identified the new and demanding skills required in human resource management (HRM) as a result of extensive changes to public administration.⁷ The authors of the study noted that, in addition to tertiary qualifications, public administration will increasingly require skills in governance, networking and cooperative inquiry—skills which are less likely to be acquired through tertiary studies.

3.18 Advances in technology have meant that, while some new skills can be included in formal study programs, features of joined-up or collaborative government will require other competencies such as: the ability to manage change and the associated risk; a capacity for consultation, assessment and feedback to identify multi-discipline issues; management of knowledge developed in networks; and strong skills in the active side of communication—building trust, developing support and establishing partnerships.

3.19 The Management Advisory Committee's report, *Organisational Renewal*⁸, which addressed the implications of an ageing workforce profile in the APS and the career patterns and intentions of new graduate entrants, identified similar issues. The report noted that APS agencies are operating within an environment characterised by: devolved employment arrangements; contestability; increased demands for flexibility, responsiveness and performance improvement; and a greater emphasis on innovation and service delivery.

3.20 Quantifying the impact of good and poor HRM is something that the APS is still struggling with. ANAO reports have also identified gaps in particular areas of HRM, including identifying the capabilities of the workforce of the future, and recruiting (and developing) employees with relevant skills.⁹

ANAO reports examining human resource management

3.21 In the period January to June 2003, the ANAO tabled two performance audit reports, one benchmarking study, and one better practice guide that primarily addressed human resource management. Issues identified included:

- absence management;
- performance management;
- learning and development;

⁷ Adams, D & M Hess, 2002 'Knowing and Skilling in Contemporary Public Administration', *Australian Journal of Public Administration*, 61(4): 68-79, December.

⁸ *Organisational Renewal*, Management Advisory Committee, Commonwealth Government of Australia, 2003.

⁹ Audit Report No.50 2002–03, *Managing People for Business Outcomes Year Two*; Audit Report No.64 2001–02, *Management of Learning and Development in the Australian Public Service*; Audit Report No.56 2001–02, *Workforce Planning in the Department of Immigration and Multicultural and Indigenous Affairs*; and the ANAO better practice guide *Planning for the Workforce of the Future*, 2001, March.

- recruitment and selection;
- workforce planning;
- employee relations;
- reward and recognition;
- occupational health and safety; and
- workplace diversity.

3.22 The following paragraphs summarise the benchmarking study and one of the two performance audit reports that examined HRM issues.

3.23 Audit Report No.50 2002–03, *Managing People for Business Outcomes, Year Two*, reviewed people management in 13 agencies. This was the second year of the benchmarking study.¹⁰ The study found that progress had been made in the majority of participating agencies in Year Two, with three agencies making significant improvements to people management, as reflected by considerable increases in their overall score. There was general improvement in all of the nine practice areas across the study group, with most improvement shown in the practice areas of learning and development, workforce planning, organisation development, and reward and recognition. The area with least overall improvement was performance management.

3.24 Overall, the integration of business and people planning activities remained a high priority improvement area for agencies, with three of the report's six findings addressing this area. Remaining findings addressed challenges being experienced by agencies in the areas of recruitment of required workforce capability, developing required workforce capability, and management of employees' performance. The report also concluded that there are clear opportunities for HRM functions to improve their level of support to line managers.

3.25 Audit Report No.52 2002–03, *Absence Management in the Australian Public Service*, examined unscheduled absence in 74 APS agencies and eight Statutory Authorities. The audit concluded that, while there are pockets with elements of better practice, there is considerable scope for APS agencies to improve their performance in managing and reducing staff absences. This could be achieved through an integrated, comprehensive and more pro-active approach to the systematic measurement and management of unscheduled absence and the adoption of appropriate better practices. Significant potential direct cost savings could also be realised if lower performing APS agencies could reduce their

¹⁰ The first year of the study was reported in Audit Report No.61 2001–02, *Managing People for Business Outcomes*.

unscheduled absence levels to those achieved by the better performing agencies. The bulk of these potential savings are concentrated in a relatively small number of large agencies.

Financial Management and Reporting

3.26 The APS receives approximately \$170 billion annually for its administration to produce its various outputs, and is expected to manage these funds efficiently, ethically and transparently. In view of this, an important part of the ANAO's audit activity addresses financial governance arrangements in APS agencies, to assist in providing the Parliament and other stakeholders with assurance in relation to financial management and reporting.

3.27 On top of these challenges, over the last several years, significant issues have arisen in the areas of governance, financial management and reporting in both the public and private sectors. These issues are discussed in more detail in Chapter 4, but the main topics are:

- reducing financial statement reporting deadlines;
- international harmonisation of accounting and auditing standards; and
- the harmonisation of Government Financial Statistics (GFS) and Generally Accepted Accounting Principles (GAAP).

3.28 The APS in general, and the ANAO in particular, are characterised by an emphasis on operational transparency, integrity, accountability and proper stewardship of public resources. This emphasis provides an excellent platform on which to build the new directions in accounting and auditing, and should, in turn, provide the level of assurance required by stakeholders, such as the Government, the Parliament and the general public.

3.29 Harmonisation of national accounting and auditing standards with international standards and/or adoption of the latter standards, reflects the realities of global trends and the greater convergence of various sectors of the economy.

3.30 The pressure is very much on improved performance and achieving required results. However, this must not, and need not, involve less attention to conformance with legislation and prescribed policies, nor reductions in standards of behaviour, ethics and professional conduct.

ANAO reports examining financial management and reporting

3.31 The ANAO tabled two performance audit reports and three business support process audit reports during January to June 2003 that primarily addressed financial management issues. Four better practice guides with financial management themes were also published. The issues arising in one of the performance audits and one relevant better practice guide are summarised in the following paragraphs.

3.32 Audit Report No.27 2002–03, *Management of Commonwealth Guarantees, Warranties, Indemnities and Letters of Comfort*, concluded that overall, there has been a continuing improvement since Audit Report No.47 1997–98 (also titled *Management of Commonwealth Guarantees, Warranties, Indemnities and Letters of Comfort*) in most departments' and agencies' management and administrative practices associated with the use of guarantees, warranties, indemnities and letters of comfort. Total quantifiable exposure reported to the ANAO in the current audit amounted to at least \$114.9 billion, representing a halving of exposures since 30 June 1997. There has also been improved public accountability by departments and agencies through better reporting. However, scope remains for further improvement in a number of departments and agencies, particularly in the areas of recording relevant information, application of effective risk management, and control of exposures.

3.33 The better practice guide, *Goods and Services Tax (GST) Administration*, was prepared jointly by the ANAO and the Australian Taxation Office (ATO) as a practical tool to assist Commonwealth organisations to improve Goods and Services Tax (GST) administration. The guide focuses on the administration of GST—how to manage and process GST, rather than specific technical or system treatments. The guide addresses gaps and weaknesses in GST administration identified by the ANAO in recent audit work.¹¹ The guide shows that managers in organisations with effective GST management processes use the following six better practices to administer GST obligations:

- apply a risk management approach to GST administration;
- establish an internal control environment that effectively supports GST processing;
- identify and document all GST impacted transactions in the organisation's operations and the technical positions that relate to them;
- process and report GST transactions in an accurate, complete and timely manner;

¹¹ Audit Report No.52 2001–02, *Internal Budgeting*; and Audit Report No.22 2002–03, *Payment of Accounts and Goods and Services Tax Administration*.

- manage changes impacting on GST administration; and
- monitor and review the effectiveness of GST administration.

Performance Management and Reporting

3.34 Performance information, its assessment and reporting are critical elements of sound public sector management and for monitoring and improving performance. It has been described as ‘evidence about performance that...enable(s) judgements to be made on the extent to which program activities are achieving the desired results’.¹²

3.35 In other words, robust performance information promotes external accountability enabling Commonwealth agencies to establish performance standards and assure the Parliament and other stakeholders, including the general public, that they have achieved those standards.

3.36 However, the standard of performance reporting by public sector agencies has been an ongoing concern of the Parliament. Consequently, there has been a strong push to improve performance information and accountability for almost twenty years. Previous assessment has focused on Portfolio Budget Statements, which precede Annual Reports in the performance reporting cycle.¹³ More recently, attention has turned to the quality of agency annual reports. Ideally, public sector agency annual reports should inform the Parliament and other stakeholders about the performance of departments, and act as a key reference document. Overall, many factors impact on the preparation and content of annual reports. These can include:

- the need to fulfil the Requirements for Annual Reports¹⁴;
- the necessity to explain the full range of departmental responsibilities and outputs in a format of manageable brevity;
- issues surrounding the setting of realistic targets as a basis for comparison;
- the natural reluctance of agencies to assess and discuss shortcomings; and
- sensitivity of contributing parties to shared outcomes about their respective roles and responsibilities.

¹² *Performance Information Principles Better Practice Guide*, Australian National Audit Office and Department of Finance and Administration, p. 6, 1996, November.

¹³ See for example: *Performance Information in Portfolio Budget Statements: Better Practice Guide*, Australian National Audit Office 2002, May; and Audit Report No.18 2001–02, *Performance Information in Portfolio Budget Statements*.

¹⁴ Outlined in *Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies*, Department of Prime Minister and Cabinet, 2003, June.

3.37 The quality of agency annual performance reporting continues to be monitored by the Parliament and the ANAO, with a significant review undertaken by the JCPAA in 2002. JCPAA Report No. 388, *Review of Accrual Budget Documentation* released in June 2002, examined the structure of the outcomes and outputs framework, the continuity of financial and performance information, the level of detail in agencies' Portfolio Budget Statements, and appropriateness of performance information.

3.38 Following on from this review, the ANAO has initiated an audit (scheduled for tabling in 2003–04) which will seek to determine whether agencies have: established a sound annual reporting performance information framework; appropriately analysed performance information in their annual reports; and developed performance information systems to include assurance that the non-financial and financial data used for performance management and reporting are accurate and complete. Building on this audit, in 2003–04 the ANAO will also publish a better practice guide addressing annual performance reporting requirements and strategies.

ANAO reports examining performance management and reporting

3.39 Many ANAO audit reports assess overall agency performance, and during January to June 2003, 13 performance audit reports and one business support process audit report were tabled which dealt in more depth with issues raised under this theme. As performance management and reporting is a major component of a core area of the work of the ANAO, three examples (rather than two) are listed below.

3.40 Audit Report No.28 2002–03, *Northern Territory Land Councils and the Aboriginals Benefit Account*, assessed the operations of the four Northern Territory Land Councils, and the Aboriginal and Torres Strait Islander Commission's (ATSIC)'s administration of the Aboriginals Benefit Account, which provides funding to the Land Councils under the *Aboriginal Land Rights (Northern Territory) Act 1976*.

3.41 The audit found that the Land Councils needed to develop a performance framework with indicators and targets against which they could assess their contribution to protecting and advancing the rights of Aboriginal people. This would also enable them to determine how well their resources were being used.

3.42 Audit Report No.39 2002–03, *Navy Operational Readiness*, examined the systems that Navy uses to manage the operational readiness of its forces. It included coverage of readiness organisation and management structures, as well as readiness performance information processes.

3.43 The audit found that performance management reporting for Navy operational readiness is well developed. However, links to the wider Department of Defence reporting framework required improvement. The full potential of the information available, including that for public reporting, has not yet been fully exploited. Navy has not fully introduced readiness proficiency measures arising from Australian Defence Force (ADF) wide preparedness reforms. A major task, still to be addressed adequately by Navy, is the finalisation of targeted and detailed preparedness costing tools.

3.44 Audit Report No.26 2002–03, *Aviation Security*, examined the Department of Transport and Regional Services (DOTARS') response to the events of 11 September 2001, and the extent to which the monitoring and compliance regime ensures the aviation industry complies with its security obligations. The audit found that the regulatory framework is comprehensive, but repeat breaches continue to occur, suggesting it is not yet well implemented. The audit made six recommendations relating to the need for DOTARS to improve: the monitoring of cargo handlers; the tracking of security breaches; identifying the root causes of issues; action taken to correct non-compliance; accountability within the aviation industry; and performance measurement and reporting. DOTARS agreed with all recommendations.

Procurement and Contract Management

3.45 The Commonwealth is Australia's largest single procurer of goods and services, and the interaction of the public sector and the marketplace is increasing. Value for money is the core principle governing Commonwealth procurement. This core principle is supported by the underpinning principles of efficiency, effectiveness, accountability, transparency, ethics, and industry development. These are generally also key attributes of good governance, and must be demonstrated by public sector agencies to assure all stakeholders—the Government, the Parliament and the general public in particular—that public resources are being well spent to achieve appropriate value for money.

3.46 The specific requirements for outsourcing (and any other Commonwealth procurement exercise) are articulated in *Commonwealth Procurement Guidelines and Best Practice Guidance*.¹⁵

3.47 When well managed, outsourcing can achieve cost savings and improve service quality. Other possible benefits from well-designed and appropriately enforced outsourcing arrangements include access to specialist expertise, formalisation of accountability requirements, and the development of mutually beneficial partnerships with the private sector.

¹⁵ *Commonwealth Procurement Guidelines and Best Practice Guidance*, Department of Finance and Administration, 2002, February.

3.48 On the other hand, projects that are poorly governed, and badly managed and implemented, may result in outcomes such as major cost overruns, increased organisational risk, loss of capability, and the construction of information technology (IT) systems that do not support the ability of the organisation to deliver core business outputs.

3.49 Overall, public sector agencies buying goods and services need to take into account all relevant costs and benefits over the whole procurement cycle. The lowest price is therefore not necessarily an indicator of the best value for money. In addition, in any outsourcing arrangement, agencies cannot also outsource responsibility to ensure efficient and effective use of Commonwealth resources, or their accountability for performance.

ANAO reports examining procurement and contract management

3.50 Because the sums of money involved in both the sale of assets and the letting of significant contracts are frequently large, a series of recent ANAO audits has focused on the conduct of, and value achieved, from large asset sales. Findings from successive audits indicate the growing awareness of public sector agencies that their performance in this area may be scrutinised.

3.51 The ANAO completed six performance audits and one business support process audit during January to June 2003 that focused on procurement and contract management issues. Major points addressed were the accountability, transparency and management of the tendering process, as well as value for money achieved from major asset sales. Two performance audits are summarised in the following paragraphs.

3.52 Audit Report No.43 2002–03, *Sale of Sydney Airport*, assessed the June 2002 sale of Sydney (Kingsford Smith) Airport, Australia's major international gateway airport. This sale represented the largest airport trade sale world-wide at that time and the most single valuable trade sale by the Commonwealth. The ANAO examined this sale, including the effectiveness of the management of the sale process, to ensure the Commonwealth received fair value.

3.53 The audit concluded that the sale price of \$4.233 billion represented a very good financial outcome for the Commonwealth and that the sale process was effectively managed. As part of the governance arrangements for the sale process, Finance and its advisers explicitly addressed the findings and recommendations of previous ANAO privatisation audits. This approach to continuous improvement contributed to an overall effective outcome from the sales process.

3.54 In terms of the management of outsourcing arrangements, value for money was promoted by: the competitive tendering of advisory appointments; the

negotiation of reduced fees with the major advisers; effective management of advisory contracts; and making payments in accordance with contracts.

3.55 Audit Report No.51 2002–03, *Defence Housing and Relocation Services*, sought to assess whether Defence’s management of its housing and relocation services provided for ADF members meets specified requirements. The audit focused on Defence’s preparation for, and management of, the \$3.5 billion, 10-year Services Agreement between Defence and the Defence Housing Authority (DHA), which was signed in 2000. It is one of Defence’s largest service delivery arrangements.

3.56 The ANAO found that the Services Agreement was not a properly constructed commercial contract as requested by Ministers, and it lacked normal terms about failure to perform, the right to withhold money payable, record-keeping and audit requirements. Defence records at the time (June 2000) noted that ‘the Services Agreement is, however, simply the vehicle; the success of the arrangement will of course depend on the professionalism of the management’. By November 2000, Defence staff had developed a draft contract management strategy, with over-arching principles to govern the relationship with DHA from both national and regional perspectives. The contract management strategy was not, however, completed or implemented. During 2001, Defence decided that the contract would be managed nationally but no records were available to explain how the draft strategy would be amended. As well, regional staff roles changed from that of contract management to client liaison.

3.57 The audit identified that Defence did not actively manage overall housing and relocation services as a program or assess the full costs, which are rising. The ANAO noted that Defence’s management of housing services was largely reactive—paying rent and related bills as they were received—without actively managing the services to ensure requirements were met and that value was obtained. In response to the audit, Defence advised the ANAO that the issue of contract management was being addressed as part of the improved contract management strategy under preparation, which would include national as well as regional roles.

Application of Information Technology and Resources

3.58 Over the last decade, the deployment of IT in the APS has increased rapidly. The sophisticated use of IT is now spread across a wider range of functions. While the use of such technology can markedly improve efficiency and effectiveness of operations, it is important for agencies to ensure that it does not reduce accountability and transparency.

3.59 Australian governments have been committed to modernising public administration, including through use of IT and the Internet. Potential benefits to citizens, businesses and community organisations include greater access to government and services. In addition to seeking better value for money, Government Online initiatives have supported the uptake of IT by public service agencies.

3.60 A strategic priority is to ensure that technology supports a more networked delivery of government services. Matters of privacy, security, authentication and standards are addressed under this priority, along with accessibility and electronic publishing standards. Government Online recognises that consumers of online services must have confidence in the systems they use—that their privacy is protected and the security of their transactions with the government will be assured. Government agencies need to employ systems that are compatible and capable of supporting a greater sharing of information while preserving its security and confidentiality.

3.61 Information systems are normally a key enabler for important business processes. Accordingly, IT governance is an integral part of agency governance. Robust IT governance ensures that: the agency's IT strategy supports the agency business strategy; risks are identified and appropriately addressed; appropriate control structures are implemented; IT resources are used responsibly; and IT performance is measured and appropriately managed. In summary, IT governance is a system of control that ensures business objectives are achieved efficiently and effectively.

3.62 As Australia moves towards the era of e-government, ensuring the creation and maintenance of appropriate electronic records will be as important as ensuring security and privacy in electronic transactions between governments, citizens, and the business community. These are necessary for the confidence of all stakeholders, and particularly for assurance of the Parliament.

3.63 In addition to assurance provided by the ANAO and other bodies, the Parliament itself conducts inquiries into e-government and technology issues. A current example is the wide-ranging inquiry underway in the JCPAA, the *Inquiry into Management and Integrity of Electronic Information in the Commonwealth*. The Committee will consider: the privacy, confidentiality and integrity of the Commonwealth's electronic data; the management and security of electronic information transmitted by Commonwealth agencies; the management and security of the Commonwealth's electronic information; and the adequacy of the current legislative and guidance framework.

ANAO reports examining application of information technology and resources

3.64 For the ANAO, one implication of rapid incorporation of IT systems into key business and service delivery processes and practices of public service agencies is that an increasing number of audits examining other matters contain some assessment of supporting IT processes. An increase in the number of audits where IT and telecommunications issues are centrally important to the audit is also likely.

3.65 The ANAO tabled two performance audit reports during January to June 2003, in which a major component focused on the use of IT and resources. Issues dealt with included IT governance, management of quality, risk and controls, and the effectiveness and efficiency of e-business. These two audits, and the issues addressed, are summarised below.

3.66 Audit Report No.33 2002–03, *Management of e-Business in the Department of Education, Science and Training (DEST)*, examined whether DEST had effective governance practices for its IT and e-Business, and whether it implemented and maintained appropriate quality standards for service delivery via IT and the Internet. The ANAO examined two major applications, the Provider Registration and International Students Management System (PRISMS) and the Training and Youth Internet Management System (TYIMS). These two applications together assist the management of some \$550 million of administered funds and, importantly, support an export industry valued at around \$4.25 billion.

3.67 Overall, the ANAO concluded that DEST's management of its Internet and e-Business presence was sound and governance arrangements were satisfactory though improvements could be made in a variety of areas. The ANAO made six recommendations concerning improvements in the areas of governance, record keeping, performance monitoring and review of IT and Internet service delivery. The Department agreed with all six recommendations.

3.68 Audit Report No.56 2002–03, *Management of Specialist Information System Skills*, examined the progress Defence had made since June 2001 in implementing appropriate strategies for recruiting, developing and retaining skilled IT personnel. The ANAO found it difficult to accept that, given the major concern expressed by the JCPAA in 2001, Defence had not acted more swiftly to develop a strategy for IT skills in its workforce, but left individual groups to address the issue separately. The ANAO also found that Defence had made significant changes to its governance arrangements for managing its complex IT environment. Defence acknowledged that it needed to improve its use of the personnel management system, PMKeyS, by collecting and analysing better workforce data on skills, capabilities and competencies of staff.

Service Delivery

3.69 In recent years the delivery of government services has been influenced by a number of factors, including initiatives such as Government Online, shared service delivery, one-stop shops and outsourcing the provision of goods and services. These initiatives have raised the profile of service delivery and focused attention on receiving value for money.

3.70 Overall, governments require the public sector to provide higher quality services to citizens while reducing costs. Commonwealth agencies are increasingly expected to work in partnership with other Federal, State and Local government agencies (and in some cases the private sector) to ensure better and more cost-effective access to, and delivery of, public services. Service delivery priorities now focus more on how well stakeholder expectations, including those of customers and client agencies, have been met.

3.71 A potential benefit to citizens, businesses and community organisations of the move towards joined-up, or collaborative, government is a reduced requirement to understand the structure of government in order to secure necessary services. One aim is to make it easier for people to access information about work, training, education, housing, tax benefits and other government services through a single gateway that reaches a number of different agencies. The emphasis in the medium to longer term is the 'seamless' delivery of services, without the client/customer (citizen) having to know which organisation is actually delivering the services.

3.72 Integrated services bring additional challenges and demands for the public sector, as risk parameters are different to those found in traditional approaches to the provision of public infrastructure and services. Risks that differing priorities of organisations may reduce effectiveness of service delivery, and that accountability for the total delivery of the service may be lost, must be addressed. Governance arrangements that protect the public interest and support achievement of government policy objectives need to be clearly established at the outset. All parties have to understand what is expected of them, and to be accountable for their own, and the shared, outcomes.

3.73 While there has been recognition that the use of the Internet to deliver services has the capacity to both improve, and reduce the cost of, service delivery, Internet access is not spread evenly throughout the community. To ensure equity of access to government services, service-delivery agencies will still need to consider a range of complementary options that, together, best meet the needs of their various clients.

ANAO reports examining service delivery

3.74 During January to June 2003, five performance audit reports and one better practice guide addressed this theme. One performance audit report, and the better practice guide, are outlined below.

3.75 Audit Report No.44 2002–03, *Review of the Parenting Payment Single (PPS) Program*, assessed whether the controls and measures used by the Department of Family and Community Services (FaCS) and Centrelink to deliver PPS payments were effective and efficient.

3.76 The audit concluded that, while generally contributing to the integrity of program outlays, the controls and measures used were limited in their effectiveness. Findings of previous ANAO audits of major Centrelink programs show that the effectiveness and efficiency of controls to ensure correctness of program reassessments varied depending on whether processing of reviews by Customer Service Officers involved simple or complex assessments. The ANAO found that when PPS reviews contained errors, there was a similar relationship between complexity and error rates. Where processing tasks were relatively simple, or Centrelink had been able to automate them or bring other decision support tools to bear, the proportion of errors attributable to Centrelink was low.

3.77 Most errors had a moderate impact on individual recipients' payments. However, of the 16 per cent of review cases containing errors with an immediate impact on payment, nearly one-third contained errors which represented a considerable portion of these customers' entitlements. In general, departures from expected practice by Customer Service Officers when processing reviews represented risks to quality customer service, as well as the efficiency of program delivery, and the ability to conduct compliance activity.

3.78 The better practice guide, *Managing Parliamentary Workflow*, addressed better practice in internal service delivery of a number of ministerial and parliamentary support functions common to the operations of most government agencies. Guidance was provided on the following main themes:

- organising and arranging handling of parliamentary workflow processes;
- provisions designed for effective and efficient client service;
- use of IT within parliamentary workflow functions;
- requirements for the provision of administrative assistance to and within Ministers' offices;
- better practice management principles for parliamentary workflow functions; and
- the means for informing and guiding agency practitioners in performing parliamentary workflow activities.

4. Financial Statement Audits

This chapter summarises financial audits and other assurance audit activities conducted by the ANAO during the period January to June 2003. It also outlines major findings and ratings from the annual Controls Report, and discusses the significance of moves towards the international harmonisation of accounting and auditing standards.

Audits of Individual Entities

4.1 As well as the range of assurance audit services and stakeholder liaison described in earlier chapters, the ANAO undertakes financial statement audits of all Commonwealth entities each year. The *Financial Management and Accountability Act 1997*, the *Commonwealth Authorities and Companies Act 1997* and the *Corporations Act 2001* prescribe the need for entities to prepare financial statements and arrange for their audit.

4.2 The ANAO's financial statement audits are an independent examination of the financial accounting and reporting of public sector entities. The results of the examination are presented in a standard format audit report. The report expresses the ANAO's audit opinion on whether the financial statements as a whole, and the information contained therein, fairly reflect the financial results of each entity's operation and its financial position. The disclosures and management representations made in the financial statements by the entity are assessed against relevant accounting standards as well as legislative and other reporting requirements.

4.3 The ANAO's audit opinion on the entity's financial statements adds credibility to the financial statements. However, the ANAO opinion is not an absolute guarantee of their veracity or reliability, as it is formed on the basis of reasonable evidence, not certainty. The opinion also does not provide any direct comfort about the absence of fraud or other irregularity.

4.4 The results of financial audits, together with any other important findings arising from the audits, are reported progressively to executive management of each entity. At the completion of the audit, results are also reported directly to the responsible Minister.

4.5 The ANAO's audit report on the entity's financial statements, which contains the audit opinion, is included with the financial statements of each entity in its Annual Report tabled in the Parliament. The Annual Report is the principal vehicle by which the Parliament and the public are able to hold an entity accountable for its financial performance.

Summary Reports

4.6 In addition to individual agency reports, the Auditor-General also provides the Parliament with reports in June and December of each year, that summarise the outcomes for all financial statement audits.

4.7 The first report, Audit Report No.61 2002–03, *Control Structures as Part of the Audit of Financial Statements of Major Commonwealth Agencies for the Year Ending 30 June 2003* (the Controls report), was issued in June. It summarised issues relating to internal control structures, financial systems, controls and processes arising from the interim phase of the financial statement audits of major Commonwealth entities for 2002–03.

4.8 The second report, *Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2003* will be issued in December 2003, following the completion of the financial statement audits of entities. At that time, the ANAO will also report on the operational and financial management issues arising out of the audits and their relationship to internal control structures.

4.9 Together these two reports will summarise the results of the audits of financial statements of all Commonwealth entities for 2002–03.

Issues Identified in the 2002–03 Controls Report

4.10 The Controls report assessed the reliance that could be placed on the major Commonwealth entities' control structures, systems, specific controls and processes to produce complete, accurate and valid information for financial reporting purposes. In doing so, it specifically assessed:

- the internal control environment including corporate governance arrangements;
- information systems; and
- controls procedures.

4.11 The following sections outline the adequacy of the control environments of major Commonwealth entities for each of these issues, according to the Controls report.

The internal control environment

4.12 As part of the financial statement audit, the ANAO assesses whether an entity's internal control environment contributes positively to sound corporate governance. Control measures should mitigate identified risks and reflect the specific governance requirements of each entity. For financial reporting purposes, control measures will normally include:

- a senior executive group which meets regularly;
- an audit committee composed of appropriately skilled external members, which meets on a regular basis;
- an effective internal audit function;
- a current corporate plan, business risk assessment, management plan, and fraud control plan;
- clearly specified systems of authorisation, recording and procedures;
- sound organisational business practices;
- financial and accounting skills commensurate with responsibilities; and
- a timely financial reporting regime.

4.13 Last year, the ANAO noted that improvements were required by some entities in a number of these areas. Entities generally acknowledged that enhancements were necessary in areas such as:

- increasing risk awareness assessment, and better risk management, including the use of performance management tools such as data metrics to monitor trends in risk;
- enhancing the quality and presentation of monthly financial reporting;
- integrating financial and non-financial data as part of the development of credible performance measurement frameworks; and
- improving the capacity of internal audit functions to deliver a blend of compliance, performance and risk-based audit services.

4.14 This year, ANAO audit observations indicate that progress has been achieved across most entities in these areas. However, in some cases, further progress and refinement are still required. This is particularly the case in respect of expanding the level of reporting of non-financial performance measures and reviewing the effectiveness and efficiency of entities' internal audit functions.

4.15 In addition, the review of the underlying causes of corporate failures that occurred in Australia and overseas in recent times has continued to increase the focus on sound corporate governance within the APS.

- (i) First, at the **conformance** level, agencies can improve practices by:
 - ensuring that the audit committee includes at least one independent member who has relevant subject matter expertise and financial acumen; and
 - having the audit committee chaired by a professional executive, independent of the entity's management structure.

(ii) Second, at the **performance** level by:

- ensuring its financial capability is aligned with and complements both its strategic goals and long-term organisational requirements;
- continuing risk evaluation, assessment and treatment across strategic and operational processes to integrate more fully a risk management culture within the entity. A particular emphasis arising from this year's review is the need for instigation of arrangements for the ongoing identification and analysis of risks within the operation, (i.e. not just as part of an annual review); and
- continuing emphasis on enhancing the various components of sound business practices.

4.16 These are areas where most Commonwealth entities would benefit from a review of their existing internal control framework and corporate governance arrangements. The ANAO will look to examine issues in these areas and monitor developments over the coming year.

Information technology systems

4.17 The Commonwealth Government has a significant investment in information and communications technology (ICT). During 1999–2000, the Commonwealth Government spent an estimated \$2.04 billion on ICT.

4.18 New technologies have also introduced increased complexity, speed, interconnectivity and dependence on information systems within the IT environment, which involve substantial costs and increased risks, but also provide the scope for improved productivity and better service.

4.19 Areas noted by the ANAO last year, where control improvements were required in relation to information systems included:

- greater levels of integration of IT into the corporate planning process by integrating IT planning with strategic and risk management planning;
- refining IT project management policies and procedures over the implementation of IT solutions;
- expanding the reporting of IT organisational monitoring to include the use of performance management and IT capacity;
- continued development and refining of business continuity and disaster recovery plans; and
- revising and refining IT security strategies and policies.

4.20 Overall, the results of audit testing this year indicate that most entities have taken steps to address the issues raised last year to varying degrees.

4.21 Opportunities exist for most entities in the coming year to further improve their IT processes to better align the corporate governance framework with business objectives. The following are areas where most entities could continue to improve:

- tightening information security across the entity and within key business applications;
- actively managing the security requirements specified in their outsourcing contracts;
- gaining a better understanding of their specific business continuity risks and business impact, assigning operational responsibility, establishing quality business continuity plans and disaster recovery plans and performing follow up reporting on progress; and
- maintaining the responsibility for business continuity planning and establishing more clearly defined relationships with their outsourcers to ensure they are both aware of business continuity risks.

4.22 The amount of effort necessary is dependent upon an assessment of the risk versus return equation on the level of investment required and the extent to which an entity is dependent on IT to achieve its corporate goals.

4.23 As there is a fundamental dependency, or at least a significant interdependency upon information from IT systems, an important and practical consideration will be the need to balance affordable information security against expected costs.

4.24 The ANAO will focus its attention on the above areas in the next financial year.

Control procedures

4.25 An entity's system of internal control includes the procedures established to provide reasonable assurance that operational and administrative objectives and goals are achieved. Internal control procedures within significant operational and accounting processes and financial systems are examined as part of the audit of an entity's financial statements. In most entities, key areas covered in the interim phase of the audit will include:

- appropriations and other revenues;
- payment of expenses;
- employment and related costs;

- cash management; and
- asset management.

4.26 Some entities continue to experience difficulty with a number of control processes specific to their operations covering for example, timely completion and review of reconciliations, segregation of duties, inappropriate delegations, incorrect classification of general ledger expenses, monitoring of grant and funding agreements, reconciliation of program payments, inadequate documentation relating to asset acquisitions and disposals and the timely recording of those asset movements.

4.27 Reconciliation of the asset register to the financial management information system (FMIS) is an ongoing issue. In addition, a persistent reconciliation issue, which was noted in last year's corresponding report, continues to occur in a number of entities. This relates to the need to reconcile payroll and leave costs recorded in human resource management information systems with balances recorded in the general ledger of the FMIS. The ANAO continues to reinforce the importance of this reconciliation process given the significance of personnel costs to entities and the potential impact of errors in financial reporting.

4.28 The ANAO also notes the increasing incidence of entities undertaking significant in-house software developments and the consequential issues surrounding the proper distinction between capitalised and operating expenditures. As well, there are issues related to intellectual property.

4.29 The ANAO will continue to review the above issues over the coming year in order to encourage improvements.

Key Findings from the Controls Report

Ratings

4.30 The ANAO rates its findings according to a risk scale. Audit findings which pose a significant business or financial risk to the entity, and which must be addressed as a matter of urgency, are rated as 'A'. Findings that pose a moderate business or financial risk are rated as 'B'. These should be addressed within the next 12 months. Findings that are procedural in nature, or reflect relatively minor administrative shortcomings, are rated as 'C'. Action on these 'C' findings is at the discretion of the entity.

4.31 Overall, the results of audit activity for the 21 major entities over the past year indicate that there has been a marginal improvement in the quality of control procedures over business and accounting processes. This is demonstrated by:

- the number of entities with 'A' category audit findings reduced to two in 2002–03 from four in 2001–02;
- the total number of 'B' category audit findings across all entities included in the Controls report reduced from 116 in 2001–02 to 96 in 2002–03;
- eleven of the 21 entities reported an improvement in the number of 'A' and 'B' category audit findings; four entities showed a deterioration in their position, with six entities remaining in the same position; and
- the number of entities with no category 'A' or 'B' audit findings remained at two for both years.

4.32 The ANAO has identified 11 'A' category ratings overall. Defence has 10 'A' findings, a decrease of three from the previous year. The ATO has one 'A' finding, a decrease of two over 2001–02. The Health Insurance Commission and the Department of the Environment and Heritage no longer have 'A' category audit findings.

Prospective issues to be addressed

4.33 The results of interim audits to date indicate that most entities have achieved a position where the fundamental processes relating to financial statement reporting are substantially in place. However, it is again clear this year that a small number of entities are yet to implement key elements of 'better practice' and still face considerable challenges in this regard, particularly Defence and the ATO.

4.34 The priority for entities now is to continue to implement 'better practice' financial management in their operations, so they are able to meet the challenges emerging with the continued evolution of the Government's financial reform process, including:

- the progressive move over the next three years to much tighter year-end financial reporting deadlines¹⁶;
- the need to ensure budgeting and revised cash management requirements allow entities to meet their operating and reporting responsibilities; and
- continuing improved decision support through the implementation of more effective performance measurement processes and analysis in key operating areas, by better linking financial and non-financial information.

¹⁶ Recommendation 2 of *Budget Estimates and Framework Review*, Department of Finance and Administration and Department of the Treasury Joint Review, 2002.

4.35 As was noted in last year's corresponding Controls report, it is only through continued focus on these key areas that the initiatives can be achieved in a cost effective manner. They need to be targeted at priority areas where there are significant cost and operating issues to be managed. Taking such steps would enable entities to achieve a more efficient deployment of resources. As well, it would also contribute positively to sound corporate governance through an increased understanding of financial risk and related management issues.

4.36 A related matter that was also noted last year, but continues to require further attention, is the management of IT security issues. Secure IT systems are the fundamental building block for ensuring data integrity, which is a pre-requisite for reliable financial reporting. The use of measurement tools, particularly data metrics, is under-utilised as a means of monitoring movements in risk. Analysis of data metrics provides an important reference point for assistance in the validation of the integrity of IT systems. Areas where this analysis could be of value include:

- virus occurrence and detection;
- unauthorised access and denial of services;
- password management and violation reporting;
- privileged access, procedures and monitoring; and
- security and audit trail logging, reporting and monitoring.

4.37 The rationale for this approach is that risk management practices should demonstrate a coherent analysis of IT systems security issues, balanced and prioritised against defensible risk acceptance positions, as part of an overall risk management plan which acknowledges the trade-off with increasing costs.

Report Timing

4.38 The ANAO specifically recognises the increased responsibility being placed on entities to maintain an effective control structure as part of good corporate governance. The ANAO continues to be committed to the timely reporting of significant matters to assist the Parliament in its oversight of the financial aspects of public administration. The ANAO expects to report the final results of the financial statement audits to the Parliament in December 2003.

International Harmonisation of Accounting and Auditing Standards

4.39 The next 18 months are shaping up as challenging times for the accounting and auditing professions, with significant work to be completed on the harmonisation of Australian Accounting Standards with international standards (the official description is the 'adoption' of standards of the International Accounting Standards Board (IASB)).

4.40 In addition to the harmonisation of Australian Accounting Standards with international standards, harmonisation will be extended to encompass auditing standards under the International Auditing and Assurance Standards Board (IAASB). Under the Corporate Law and Economic Reform Program (CLERP 9) proposals for reform, the Government has indicated it will expand the responsibilities of the Financial Reporting Council (FRC) to oversee auditor independence requirements in Australia, including auditing standard setting arrangements.

Adoption of international accounting standards by 2005

4.41 In July 2002, the FRC announced its support for the adoption by Australia of international accounting standards (to be called International Financial Reporting Standards) from 1 January 2005.¹⁷ The FRC is established under the *Australian Securities and Investments Commission Act 2001*. It is the peak body responsible for the broad oversight of Australia's accounting standard setting process for the private, public and not-for-profit sectors.

4.42 The FRC supports the Australian Accounting Standards Board (AASB) and the AASB's work towards harmonising its standards with those of the IASB. The FRC recently required the AASB to refer to the adoption of international standards. Following the announcement by the FRC, the AASB announced its convergence (now adoption) strategy, which includes the decision to continue to issue one series of sector-neutral standards applicable to both for-profit and not-for-profit entities, including the public sector.¹⁸

4.43 From a private sector viewpoint, a single set of high quality accounting standards which are accepted across major international capital markets would greatly facilitate cross-border comparisons by investors; reduce the cost of capital; and assist Australian companies wishing to raise capital or list overseas. From a public sector perspective, a single set of high quality global accounting standards that require comparable information would aid transparency and accountability.

¹⁷ *Bulletin of the Financial Reporting Council 2002/4*, July 2002.

¹⁸ *AASB Action Alert Number 52*, August 2002.

In particular, over time, they would facilitate an improved comparison between the operations of the public sector and private enterprise for those functions and services that could be provided by either group, whether in partnership or separately. A single set of high quality auditing standards would also enhance the reputation and credibility of the auditing profession and help restore public confidence in it.

4.44 There is no room for complacency in meeting the timetable for the adoption of international accounting standards by 1 January 2005. For accounting purposes (including the provision of comparative information), this effectively means that organisations will have had to make the shift to the new framework by 1 July 2004. This is a major issue for the public sector. It will be a significant challenge for agencies to meet these tight timeframes, and will depend in large part on the extent to which agency audit committees have come to terms with the implications of the revised standards for corporate governance and reporting. At the Federal Government level, the onus is particularly on Finance, in conjunction with the ANAO, to provide suitable guidance material, as well as organise timely awareness-raising, web-based and face-to-face information sessions, such as implementation workshops.

Harmonisation of Government Financial Statistics and Generally Accepted Accounting Principles

4.45 The work required by the profession to respond to the challenge of harmonisation of International Accounting Standards is significant, and requires consideration of public sector issues within the sector-neutral standards. In addition, the public sector will also need to come to grips with the harmonisation of Government Financial Statistics (GFS) and Australian Generally Accepted Accounting Principles (GAAP).

4.46 The recommendation from the Budget Estimates and Framework Review for the harmonisation of GFS was taken up by the FRC in December 2002, when it announced the broad strategic direction for public sector accounting standard setting. The FRC announced that:

The Board should pursue as an urgent priority the harmonisation of Government GFS and GAAP reporting. The objective should be to achieve an Australian accounting standard for a single set of Government reports which are auditable, comparable between jurisdictions, and in which the outcome statements are directly comparable with the relevant budget statements.¹⁹

¹⁹ Bulletin of the Financial Reporting Council 2002/05, 18 December 2002.

4.47 The ANAO supports harmonisation towards a single reporting framework as a means of overcoming user concerns. The development of such a framework is primarily a matter for the AASB's due process for promulgating accounting standards. However, its development will need the support of respective stakeholders involved in public sector accounting. In this respect, the ANAO is represented on the Heads of Treasuries Accounting and Reporting Advisory Committee's Working Group for GFS/GAAP Convergence. The Group has identified 15 differences between the two frameworks. The Group will provide suitable material and suggestions to the AASB for any action they may wish to take in the standards arena. These issues also need to be considered in the broader context of Australia's commitment to adopt international accounting standards by 2005.

Canberra ACT
13 August 2003



P.J. Barrett
Auditor-General

Appendices

Appendix 1

Audit Reports tabled during January to June 2003: Series Titles

Audit Report No.26

Performance Audit

Aviation Security in Australia

Department of Transport and Regional Services

Audit Report No.27

Performance Audit

Management of Commonwealth Guarantees, Warranties, Indemnities and Letters of Comfort

Cross Agency

Audit Report No.28

Performance Audit

Northern Territory Land Councils and the Aboriginals Benefit Account

Aboriginal and Torres Strait Islander Commission

Anindilyakwa Land Council

Central Land Council

Northern Land Council

Tiwi Land Council

Audit Report No.29

Summary of Outcomes

Audit Activity Report: July to December 2002

Australian National Audit Office

Audit Report No.30

Performance Audit

Defence Ordnance Safety and Suitability for Service

Department of Defence

Audit Report No.31

Performance Audit

Retention of Military Personnel Follow-up Audit

Department of Defence

Audit Report No.32

Business Support Process Audit

The Senate Order for Departmental and Agency Contracts (Spring 2002 Compliance)

Cross Agency

Audit Report No.33
Performance Audit
Management of e-Business in the Department of Education, Science and Training
Department of Education, Science and Training

Audit Report No.34
Performance Audit
Pest and Disease Emergency Management Follow-up Audit
Department of Agriculture, Fisheries and Forestry—Australia

Audit Report No.35
Performance Audit
Fraud Control Arrangements in the Australian Customs Service
Australian Customs Service

Audit Report No.36
Performance Audit
Monitoring of Industry Developments Commitments Under the IT Outsourcing Initiative
Department of Communications, Information Technology and the Arts

Audit Report No.37
Performance Audit
Passport Services
Department of Foreign Affairs and Trade

Audit Report No.38
Performance Audit
Referrals, Assessments and Approvals under the Environment Protection and Biodiversity Conservation Act 1999
Cross Agency

Audit Report No.39
Performance Audit
Navy Operational Readiness
Department of Defence

Audit Report No.40
Performance Audit
R&D Tax Concession
Department of Industry, Tourism and Resources
Australian Taxation Office

Audit Report No.41
Performance Audit
Annual Reporting on Ecologically Sustainable Development
Cross Agency

Audit Report No.42
 Performance Audit
 Managing Residential Aged Care Accreditation
 The Aged Care Standards and Accreditation Agency (Ltd)

Audit Report No.43
 Performance Audit
 The Sale of Sydney (Kingsford Smith) Airport
 Cross Agency

Audit Report No.44
 Performance Audit
 Review of the Parenting Payment Single Program
 Department of Family and Community Services
 Centrelink

Audit Report No.45
 Business Support Process Audit
 Reporting of Financial Statements and Audit Reports in Annual Reports
 Cross Agency

Audit Report No.46
 Performance Audit
 Australian Industry Involvement Program
 Department of Defence

Audit Report No.47
 Performance Audit
 Implementation and Management of the Indigenous Employment Policy
 Department of Employment and Workplace Relations

Audit Report No.48
 Performance Audit
 Indigenous Land Corporation Operations and Performance Follow-up Audit
 Department of Immigration and Multicultural and Indigenous Affairs

Audit Report No.49
 Performance Audit
 Management of the Navigation Aids Network
 Australian Maritime Safety Authority

Audit Report No.50
 Benchmarking Study
 Managing People for Business Outcomes, Year Two
 Cross Agency

Audit Report No.51
Performance Audit
Defence Housing and Relocation Services
Department of Defence

Audit Report No.52
Performance Audit
Absence Management in the Australian Public Service
Cross Agency

Audit Report No.53
Business Support Process Audit
Business Continuity Management Follow-on Audit
Cross Agency

Audit Report No.54
Business Support Process Audit
Capitalisation of Software
Cross Agency

Audit Report No.55
Performance Audit
Goods and Services Tax Fraud Prevention and Control
Cross Agency

Audit Report No.56
Performance Audit
Management of Specialist Information System Skills
Department of Defence

Audit Report No.57
Performance Audit
Administration of the Payment of Tax by Non-Residents
Australian Taxation Office

Audit Report No.58
Performance Audit
Veterans' Appeals Against Disability Compensation Decisions Follow-up Audit
Department of Veterans' Affairs
Veterans Review Board

Audit Report No.59
Performance Audit
Administration of Australian Business Number Registrations
Australian Taxation Office

Audit Report No.60
Business Process Support Audit
Closing the Books
Cross Agency

Audit Report No.61
Financial Statement Audit
Control Structures as part of the Audit of Financial Statements of Major
Commonwealth Entities for Year Ending 30 June 2003
Cross Agency

Audit Report No.62
Performance Audit
Management of Selected Aspects of the Family Migration Program
Department of Immigration and Multicultural and Indigenous Affairs

Audit Report No.63
Performance Audit
Administration of the Automotive Competitiveness and Investment Scheme
Department of Industry, Tourism and Resources
Australian Customs Service

Appendix 2

Audit Reports tabled during January to June 2003: Summaries

Audit Report No.26 2002–03

Performance Audit

Aviation Security in Australia

Department of Transport and Regional Services

The main objectives of the audit were to examine DOTARS' responses to the heightened threat environment following the events of 11 September 2001, and to determine the extent to which DOTARS' monitoring and compliance regime ensures that the aviation industry complies with its security obligations. The ANAO previously audited aviation security in Australia in 1998.

Overall, the ANAO found that DOTARS responded well to the events of 11 September 2001, with a prompt escalation of the aviation security measures and effective oversight of their implementation. The regulatory framework for aviation security is comprehensive. Although DOTARS' monitoring regime is essentially sound, the quality of monitoring in practice is variable. In addition, the action DOTARS takes to correct non-compliance could be improved.

As the body with regulatory responsibilities, DOTARS could show more pro-active leadership to effectively engage the various organisations and people involved in delivering aviation security, particularly as security relies on everyone playing their part to ensure an effective outcome.

The greatest challenge for DOTARS, particularly in light of recent events, is to effectively encourage a strong security culture throughout the industry. DOTARS can demonstrate stronger leadership by setting, monitoring and reviewing performance targets for industry, and by using a wider range of management strategies to encourage industry to achieve them. In this context, progress in implementing the recommendations from the 1998 audit has been limited. Instead, DOTARS' efforts have been focused on modernising the aviation security regulatory framework. The ANAO makes no comment on policy priorities.

DOTARS agreed with all six recommendations concerning: improving accountability within the industry; improvement of monitoring of cargo handlers; tracking security breaches; action taken to correct non-compliance; identifying the root causes of issues; and performance measurement and reporting.

Audit Report No.27 2002–03

Performance Audit

Management of Commonwealth Guarantees, Warranties, Indemnities and Letters of Comfort

Cross Agency

This audit assessed action taken to implement recommendations from Audit Report No.47 1997–98 (also titled *Management of Commonwealth Guarantees, Warranties, Indemnities and Letters of Comfort*). The objectives of the current audit were to assess, with respect to guarantees, warranties, indemnities and letters of comfort: the extent of improvement in agencies' management and monitoring of the Commonwealth's exposure to these instruments; changes in the size and nature of the Commonwealth's reported exposure since 30 June 1997; and the approach of agencies to effective risk management and control of Commonwealth exposures to these instruments.

ANAO concluded that, overall, there has been a continuing improvement since the 1998 audit in most agencies' management and administrative practices associated with these types of contingent liabilities. There has also been improved public accountability by agencies through better reporting. However, there remains scope for further improvement in a number of agencies, particularly in the areas of recording relevant information, application of effective risk management, and control of exposures.

Total quantifiable exposures reported to ANAO in the current audit amounted to at least \$114.9 billion, representing almost a halving of exposures since 30 June 1997. The breakdown by category of instruments as at 30 June 2002 comprised: loan guarantees of \$5.9 billion; non-loan guarantees of \$69.2 billion; indemnities of \$39.7 billion; and letters of comfort of \$110 million. The composition of contingent liabilities has changed markedly with non-loan guarantees falling by two-thirds since 1997, and indemnities rising some thirteen-fold from \$3.1 billion in 1997 to \$39.7 billion in 2002.

Three recommendations were made, and agreed to by agencies covered, which were aimed at improving their management practices associated with Commonwealth guarantees, warranties, indemnities and letters of comfort, (where they are not already doing so) covering the:

- recording, safe custody and access arrangements for documents associated with these instruments;

- linking of corporate risk management planning with strategies for the management of contingent liabilities; and
- inclusion of control mechanisms such as time limits, termination clauses, subrogation clauses and financial limits on liability in these instruments.

Audit Report No.28 2002–03

Performance Audit

Northern Territory Land Councils and the Aboriginals Benefit Account

Aboriginal and Torres Strait Islander Commission

Anindilyakwa Land Council

Central Land Council

Northern Land Council

Tiwi Land Council

The audit assessed the operations of the four Northern Territory Land Councils, which provide a range of services to Aboriginal people under the *Aboriginal Land Rights (Northern Territory) Act 1976*. The audit also assessed the Aboriginal and Torres Strait Islander Commission's (ATSIC) administration of the Aboriginals Benefit Account (ABA), which provides funding to the Land Councils under the same Act. The objectives of the audit were to assess whether the governance arrangements used by the ATSIC Native Title and Land Rights Centre and the Land Councils are appropriate. The audit addressed two sub-objectives and assessed whether:

- the ATSIC Native Title and Land Rights Centre meets its legislative requirements concerning the Aboriginals Benefit Account in an effective and efficient manner; and
- the Land Councils are effective and efficient in managing their resources to meet the objectives of the *Aboriginal Land Rights (NT) Act 1976*.

The ANAO found that ATSIC's Native Title and Land Rights Centre and the four Northern Territory Land Councils could strengthen elements of their governance arrangements for greater effectiveness. All five agencies have appropriate procedures in place to assist them to comply with relevant legislation. There is, however, significant scope for all five agencies to improve their performance monitoring and communication with stakeholders. In the case of the Land Councils, there is a particular need to place greater emphasis on outcomes, outputs and cost effectiveness, rather than simply reporting on the level of inputs. This would improve the transparency of their operations and allow stakeholders to better assess whether the Land Councils are achieving value for money. This cannot be assessed simply on the basis of inputs used.

The ANAO concluded that, while ATSIC's Native Title and Land Rights Centre had appropriate procedures in place to ensure the efficient achievement of the functions of the ABA, these could be improved for greater effectiveness. In particular, there is a need to develop an explicit objective for the management of ABA equity and to develop and use performance indicators for the investment of available monies.

Because of a lack of systematic performance assessment supported by suitable performance information, the ANAO was unable to assess whether the Land Councils were fulfilling their functions and delivering their services in an effective and efficient way. While the Land Councils were focused on delivering services to traditional owners, the lack of performance information also meant that the ANAO was also unable to assess, in any conclusive way, whether the current level of resources provided to the Land Councils was appropriate.

The Land Councils deliver a variety of services to a diverse number of stakeholders, including traditional owners, other Aboriginals living in their area, mining companies and tourists. However, the Land Councils do not have processes in place to determine whether stakeholders are satisfied with the quality of the services that they deliver. Land Councils, therefore, are unable to report on the level of stakeholder satisfaction.

The ANAO made seven recommendations: two were directed at improving ATSIC's management of the ABA; one related to the establishment of audit committees in the Anindilyakwa Land Council and the Central Land Council; and four were principally directed at improving the Land Councils' risk management and planning processes and the development of performance information. ATSIC agreed to the recommendations related to ATSIC. The Anindilyakwa Land Council and Northern Land Council agreed with all recommendations relating to them. The Central Land Council agreed with four recommendations and disagreed with one. The Tiwi Land Council agreed with two recommendations and agreed with qualification to two other recommendations.

Audit Report No.29 2002–03

Summary of Outcomes

Audit Activity Report: July to December 2002

Australian National Audit Office

The report summarised performance audit, financial statement audit and other related activities for the ANAO in the period July to December 2002. The key issues arising from performance audits tabled in this period were summarised against the ANAO themes of:

- human resource management including workforce planning;
- financial management and reporting;
- performance management and reporting;
- procurement and contract management;
- application of information technology and resources; and
- service delivery.

Financial statement audit activities undertaken by the ANAO during the period July to December 2002 were also addressed and, in particular, issues in relation to:

- audits of financial statements;
- the consolidated financial statements and the final budget outcome;
- the timing of financial statement preparation; and
- audit of the consolidated financial statements 2001–02.

Appendix 1 of the Activity Report provided a short summary of each audit tabled between 1 July 2002 and 31 December 2002, while Appendix 2 provided an outline of any better practice guides completed in the relevant period. Appendix 3 listed performance and other audit services in progress on 1 January 2003, and Appendix 4 listed all presentations and papers given by the Auditor-General and ANAO staff during the abovementioned period.

Audit Report No.30 2002–03

Performance Audit

Defence Ordnance Safety and Suitability for Service

Department of Defence

The audit report deals with the way that the Australian Defence Force's (ADF's) three Service Chiefs are assured of the technical integrity of the ADF's ordnance systems. These systems include munitions, such as missiles, shells and mines, and auxiliary materiel necessary to aim, launch and guide munitions. The financial value of the ADF's ordnance assets is difficult to estimate, given the degree to which these systems are integrated into ADF weapons platforms. However, the ADF's munitions inventory is valued at approximately \$1.8 billion.

The audit focused on ordnance technical regulation by each Service's Technical Regulatory Authority and Defence Materiel Organisation's Ordnance Safety Group, and on the Joint Ammunition Logistics Organisation, which has major responsibilities regarding the safety and suitability for service of ADF munitions. It also included: the ordnance acceptance into service process; personnel training; ordnance safety and suitability assessment records and test capability; and Defence audits of explosives safety.

In recent years, particularly during 2002, Defence has improved its ordnance safety and suitability for service arrangements, mainly by improving technical regulation and administrative policy and processes. The ANAO concluded that progress needs to continue in areas such as: munitions engineering management; the tri-Service process for accepting ordnance systems into service; and establishing and maintaining records of ordnance system technical assessments.

The ANAO's four recommendations concerned: the cost effective use of guided munitions nearing the end of their safe service lives; completion of the munitions engineering management improvements; ordnance technical publications; and upgrades of ordnance test and evaluation facilities. Defence agreed with the thrusts of the recommendations and advised the ANAO that implementation action had commenced.

Audit Report No.31 2002–03

Performance Audit

Retention of Military Personnel Follow-up Audit

Department of Defence

The objective of this follow-up audit was to assess Defence's implementation of the nine recommendations made in Audit Report No.35 1999–2000, *Retention of Military Personnel*, which focused on the management of personnel retention in the Australian Defence Force (ADF). Since the original audit, the ADF has seen an improvement in annual separation rates for the full-time force, which, in 2001–02, was the lowest rate for nearly five years. The follow-up audit did not seek to make further recommendations but observed progress towards implementing the original audit recommendations. The ANAO found that Defence has made variable progress in implementing these recommendations, with significant progress having been made on several recommendations.

The ANAO considers Defence is currently meeting recommendations concerning issues relating to: the education of ADF members' children through the Ministerial Council on Education, Employment, Training and Youth Affairs; management of retention issues relating to members deployed to East Timor; action to address the physical training issues raised in the *ADF Health Status Report*; and development of a system to ensure an understanding of factors motivating ADF members to remain in the Services.

Defence has made significant progress towards establishing the recommended system to continuously evaluate the cost-effectiveness of quality of life measures. Defence is continuing to develop a costing model to assist with assessing the cost of replacing personnel, which Defence expects to complete by August 2004.

A criteria-based management framework outlining retention policies, procedures, benchmarks and performance indicators is expected to be completed by July 2004. Consequently, there has been slow progress in implementing recommendations contingent on this key recommendation. Defence agreed with the ANAO's findings about the current implementation status of the original audit recommendations.

Audit Report No.32 2002–03

Business Support Process Audit

The Senate Order for Departmental and Agency Contracts (Spring 2002 Compliance)

Cross Agency

The *Senate Order for Departmental and Agency Contracts* requires *Financial Management and Accountability Act 1997* (FMA Act) agencies to place on the Internet, lists of contracts of \$100 000 or more by the tenth day of the Spring and Autumn sittings of Parliament. Among other things, the lists are to indicate whether the contracts contain any confidential provisions or other requirements of confidentiality. The Order provides for a new contracting accountability framework, and is based on the general principle, sometimes called the reverse onus principle, that information in contracts should not be made confidential unless there is good reason to do so.

The Auditor-General agreed to the Senate request to undertake twice-yearly examinations of agency contracts required to be listed on the Internet and report whether there has been any inappropriate use of confidentiality provisions.

This summary relates to the third audit report undertaken by the Office in relation to the Senate Order, namely, the audit of the contract information to be listed on the Internet by 17 September 2002 sitting of Parliament. The audit involved a desktop review of all FMA Act agencies' Internet listings, and a detailed review of the processes for making the Internet listings and the policies and practices for determining confidentiality provisions in contracts at six selected agencies.

The ANAO concluded that most agencies had reported their contracts of \$100 000 or more on the Internet and had generally complied with the requirements of the Senate Order. Furthermore, the Internet listings of the six selected agencies were generally complete and accurate.

Most of the six agencies selected for a more detailed review were in the process of updating their policies and procedures to reflect the requirements of the new accountability framework. However, the ANAO considered that only five of 33 contracts reviewed were appropriately classified as confidential.

Audit Report No.33 2002–03

Performance Audit

Management of e-Business in the Department of Education, Science and Training

Department of Education, Science and Training

The objective of the audit was to determine whether the Department of Education, Science and Training (DEST): had effective governance practices for its IT and e Business; had adequate systems in place to measure the efficiency and effectiveness of its IT and e-Business; implemented and maintained appropriate quality standards within its IT and e-Business systems; and implemented proper controls, including risk management, to achieve maximum benefit from its IT and e-Business. The audit examined education and training services provided, or managed, by DEST via IT or the Internet.

The ANAO concluded that DEST's management of its Internet presence and its e-Business was sound. Where improvements could be made, such as in measuring the benefits and assuring the quality of its e-Business systems, DEST was addressing these aspects with the introduction of a new DEST Systems Development Methodology.

Governance arrangements for IT and e-Business in DEST were satisfactory in that responsibility for budgets and structures resides with the Corporate Leadership Group. The role of the other committees was appropriate. However, the ANAO found that the respective responsibilities and relationship between the Corporate Information Technology Committee and the Information and Business Technology Committee could be clarified in their Terms of Reference and all of the committees would also benefit from a regular review to assess their achievements.

Based on the audit analysis of the Training and Youth Internet Management System (TYIMS) and the Provider Registration and International Students Management System (PRISMS), the ANAO considered that DEST has adequate procedures in place to measure the effectiveness and efficiency of its IT and e-Business. However, the ANAO concluded that, while an assessment of e-Business project benefits was undertaken in some post implementation reviews, both the occurrence and contents of reviews were inconsistent.

The ANAO considered that DEST had developed a management culture that encouraged a focus on quality in relation to its IT and e-Business. The department regularly benchmarked its IT performance against that of comparable external organisations with generally favourable results. The ANAO also concluded that

DEST appropriately reviewed its IT and e-Business standards and guidelines. However, there was no independent capacity in the Information Services Group to take responsibility for ensuring adherence to the standards.

The ANAO made six recommendations concerning improvements to the governance, record-keeping, performance monitoring and review of IT and Internet services provided by DEST. The Department agreed with all six recommendations.

Audit Report No.34 2002–03

Performance Audit

Pest and Disease Emergency Management Follow-up Audit

Department of Agriculture, Fisheries and Forestry—Australia

The objective of this follow-up audit was to assess the Department of Agriculture, Fisheries and Forestry—Australia (AFFA)'s implementation of the recommendations from the previous audit (Audit Report No.9 1999–2000, *Managing Pest and Disease Emergencies - AFFA*) and whether implementation of these recommendations, or appropriate alternative measures, has improved the Commonwealth's planning and response strategies for pest and disease emergencies. The ANAO also observed and assessed relevant parts of the September 2002 foot and mouth disease simulation, Exercise Minotaur.

In the three years since the previous audit, AFFA has adopted a systematic approach to addressing the recommendations of the audit. Six of the ANAO recommendations have been fully, or largely, implemented. The other three are in the process of being implemented, with progress to some extent being influenced by the Council of Australian Governments giving priority to national foot and mouth disease preparedness. It is important, however, to recognise that AFFA's responsibilities are part of broader whole-of-government arrangements for dealing with agricultural emergencies. Thus AFFA often has to work in partnership with other stakeholders to carry forward some of the agenda.

The effectiveness of the Commonwealth's planning and response strategies for pest and disease emergencies has improved as a result of AFFA's actions in responding to the previous audit recommendations. Response capability is strongest for a major terrestrial animal emergency, and further enhancement of response strategies for such an emergency is likely to follow assessment of the lessons from Exercise Minotaur. Further improvements in the effectiveness of planning and response strategies for pest and disease emergencies in the aquatic animal and plant sectors, and for lower level terrestrial animal emergencies, are likely to result from projects currently underway. No new recommendations were made.

Audit Report No.35 2002–03

Performance Audit

Fraud Control Arrangements in the Australian Customs Service

Australian Customs Service

The audit objective was to assess whether the Australian Customs Service (Customs) has implemented appropriate fraud control arrangements consistent with the Commonwealth's Fraud Control Guidelines and the administrative effectiveness of these arrangements. Audit scope included internal and external fraud. The following key elements of fraud control were reviewed: Customs' fraud control arrangements as part of its corporate governance framework; the strategies, systems and processes used by Customs to prevent and detect internal and external fraud; the management of internal and external fraud investigations; and reporting of internal and external fraud.

The ANAO concluded that Customs has developed and implemented a fraud control framework for preventing, detecting, investigating and reporting internal and external fraud in accordance with the Commonwealth Fraud Control Guidelines, which is underpinned by Customs' Fraud Control Plan 2001. The plan identifies fraud risks, incorporates control strategies and action plans and reinforces responsibility and accountability at all levels of the organisation. Customs largely meets its reporting requirements under the guidelines but needs to include details of internal fraud referrals and investigations in its annual report. Customs also needs to advise the AFP of its current identified major fraud risks and serious or complex fraud cases under investigation.

Overall, administrative effectiveness of Customs' fraud control arrangements is sound, but the ANAO considers these arrangements could be strengthened if Customs:

- completed outstanding protective security reviews;
- regularly evaluated and analysed fraud referrals, investigations and case outcomes to identify and react to emerging fraud trends, risks and system weaknesses;
- maintained accurate records of court-imposed debts owing to the Commonwealth following successful prosecutions and ensure every effort is made to recover and manage these debts; and
- built on its ongoing work to review performance measures for preventing, detecting and controlling fraud and move towards developing a range of

measures that will more accurately assess the effectiveness of its fraud strategies.

Although Customs' Audit Committee was involved in developing its Fraud Control Plan, the ANAO considers the Committee should take a more active oversight role in relation to fraud control. This would provide ongoing assurance that fraud control strategies are being properly implemented and continue to be effective. The ANAO made nine recommendations aimed at improving Customs' systems and processes for preventing, detecting, investigating and reporting internal and external fraud. Customs agreed with all recommendations.

Audit Report No.36 2002–03

Performance Audit

Monitoring of Industry Development Commitments Under the IT Outsourcing Initiative

Department of Communications, Information Technology and the Arts

Five contracts have been executed under the IT Outsourcing Initiative, with an initial total contract value of \$1.2 billion. The External Service Providers (ESPs) committed contractually to a range of in-scope and out-of-scope Industry Development outcomes through the Industry Development Plan included in each Services Agreement. The ESPs are required to report to the Department of Communications, Information Technology and the Arts (DCITA) on progress in meeting annual targets.

The objective of the performance audit was to review the progress in the delivery of contractual commitments for Industry Development for the five contracts awarded under the IT Outsourcing Initiative. In particular, the audit: examined the effectiveness of the monitoring by DCITA of achievement against contractual commitments for Industry Development; assessed the impact of changes to the IT outsourcing environment on the management and monitoring of ongoing Industry Development obligations; and identified practices that have improved administrative arrangements.

The ANAO found that DCITA has effectively negotiated variations to Industry Development Plans without diminishing overall Industry Development commitments, and that progress in the delivery of Industry Development commitments under the IT Outsourcing Initiative has been effectively monitored by DCITA. The ANAO made one recommendation to enhance the collection of data for assessing the implementation and effectiveness of Industry Development policy for major IT contracts. DCITA agreed with the ANAO's conclusions and recommendation.

Audit Report No.37 2002–03

Performance Audit

Passport Services

Department of Foreign Affairs and Trade

The objective of this audit was to assess whether the Department of Foreign Affairs and Trade (DFAT) had effective processes for issuing passports in Australia. In particular, the audit focused on whether DFAT had: effective strategies for managing passport services; provided quality client service; and had effective and secure processes for passport issue to entitled persons.

Overall, the audit found that DFAT operated sound processes for the delivery of passport services including risk identification and management, strategic management, operational processing, quality assurance, and international benchmarks. International benchmarking and other relevant feedback indicated that the Australian passport administration was regarded as a better practice provider of passport services. However, there were limitations in a number of areas. These included certain aspects of the performance management framework, the measure of timeliness of passport processing, the clarity of reporting against performance standards to the Parliament, and meeting the performance standard for applications set out in the Client Service Charter. Overall, the procedures and evidential requirements to determine applicant eligibility were sound and reasonable and DFAT's approach to managing the physical security features of the passport booklet was sound.

The ANAO made four recommendations to improve Passport Services, including:

- strengthening performance management and reporting;
- monitoring turnaround performance for significant categories of applications against appropriate timeliness targets;
- ensuring that procedures related to IT security administration for passport services are adequately documented; and
- reviewing the potential to strengthen operational processes for issuing passports.

DFAT agreed with all four recommendations and considered that they would further improve the delivery of passport services to the Australian public.

Audit Report No.38 2002–03

Performance Audit

Referrals, Assessments and Approvals under the Environment Protection and Biodiversity Conservation Act 1999

Cross Agency

The objective of the audit was to examine and report on the quality and timeliness of environmental assessments and approvals under the *Environment Protection and Biodiversity Conservation Act 1999*, and on Environment Australia's compliance with, and administration of, the Act. The ANAO also examined whether other Commonwealth agencies were aware of the Act's requirements and were referring relevant actions to the Minister for a decision.

The ANAO concluded that the referral, assessment and approval processes under the Act are generally thorough and well documented. Processes are improving as more experience is gained with the operation of the legislation. Environment Australia has established and implemented rigorous processes to provide assurance that matters required to be considered under the Act are comprehensively taken into account.

Environment Australia has informed stakeholders of their obligations, and has assisted organisations to determine whether their action would need approval under the Act, though more specific guidance about what constitutes a 'significant impact' (especially within industry sectors or regions) would encourage relevant and complete referrals from key industry groups. Drawing attention to the specific responsibilities of Commonwealth agencies under the Act would also assist in this area.

The timeliness of decision-making is sound and generally compares favourably with similar State and Territory level processes. However, this could be further improved. Monitoring of compliance with the terms and conditions attached to approvals under the Act is yet to be implemented although plans have been put in place for this to occur. Finalising compliance and enforcement guidelines and ensuring a more timely and effective approach to potential breaches of the Act would also assist in enhancing the objectives of the Act.

The ANAO made six recommendations to Environment Australia which aim to:

- improve the consistency and quality of referrals made under the Act;
- address the risks from referrals of 'staged developments' that may circumvent the objectives of the Act;

- improve awareness of the requirements of the Act;
- strengthen monitoring and review arrangements;
- finalise compliance and enforcement procedures and guidelines and ensure that there are timely and effective responses to all potential breaches of the Act; and
- enhance the quality of public reporting on the administration of the Act.

Environment Australia agreed with all recommendations.

Audit Report No.39 2002–03

Performance Audit

Navy Operational Readiness

Department of Defence

The audit sought to provide assurance concerning the Navy's progress in developing operational readiness management and evaluation systems and to identify areas for improvement in these systems.

It focused on the specific and detailed components of the Navy's approach to managing readiness, that is, those aspects relating to operational, short time-frame issues of management rather than the longer time-frame aspects inherent in the capability acquisition program or in issues such as sustaining operations over long periods of force deployment. In examining the relevant systems, it did not purport to identify readiness problems in specific Navy human and materiel resources.

The Navy's management of its operational readiness seeks to integrate long-established mechanisms and processes for the commissioning, crew training and maintenance of its ships, submarines and aircraft with wider Department of Defence (Defence) systems to plan, administer, cost and report the Australian Defence Force's (ADF's) preparedness for military operations.

Although the systems that the Navy uses to achieve operational readiness of its assets are generally sound, and effective reforms and technology have been introduced in some areas to control sea training and equipment condition, their impact is uneven. As well, movement towards a whole-of-Navy approach to sea training has been delayed by the heightened operational tempo in which Navy assets have been engaged in recent years. The Navy has not fully introduced readiness proficiency measures arising from ADF-wide preparedness reforms.

The management of Navy operational readiness takes place within a broader preparedness management construct. The audit found that the Navy has undertaken a range of steps to improve its readiness management framework. Nevertheless, there is scope to refine the arrangements employed in readiness management so as to optimise their effectiveness in relation to Navy-specific purposes as well as for ADF-wide preparedness management.

Defence acknowledged that the report identifies a number of areas where improvements may be made and agreed to the ANAO's six recommendations.

Audit Report No.40 2002–03

Performance Audit

Research and Development Tax Concession

Department of Industry, Tourism and Resources

Australian Taxation Office

The audit assessed the Commonwealth's administration of the Research and Development (R&D) Tax Concession. The audit examined: key governance arrangements; program performance and targets; customer service and information processes; the process for registration of eligible R&D activity; and management of tax expenditure claims.

The ANAO concluded that the R&D Tax Concession is well managed by each individual agency. However, aspects of joint governance and performance management for the program as a whole could be strengthened for better results. The roles and responsibilities of the Industry Research and Development Board, AusIndustry and the Australian Tax Office (ATO) are clear, well understood, and consistent with legislative responsibilities. However, overall administration of the program would benefit from incorporating measurement criteria in the Memorandum of Understanding (MOU) between the parties to require reporting on the provisions of the MOU for performance and co-operation between agencies. It would also be desirable for the Department of Industry, Tourism and Resources (DITR) to establish some means of assessing increasing investment by eligible companies in defined R&D in its performance management framework.

Customer service and information processes are well managed. Customers were generally satisfied with the quality of information available. Customer service is also supported by AusIndustry's R&D Tax Concession Regional Delivery Strategy.

Registration has required companies to provide a substantial amount of information on R&D activities, some of which has not been used for performance reporting or compliance monitoring activities. The ANAO concluded that there would be benefit both in confirming what data is needed for program administration, and considering alternative and less costly means of obtaining information required to manage the program. The Industry Research and Development Board has approved a new registration application form for 2003. This form will reduce data requirements compared with previous years.

AusIndustry has a sound approach to compliance monitoring, supported by detailed standard operating procedures, which are well documented and implemented. Some 90 per cent of companies reviewed are not subject to further action. There may, therefore, be merit in reviewing the need for the current level of compliance activity, and its targeting, on risk management grounds.

The ATO has a structured approach to establishing that legal requirements for registration have been fulfilled prior to claiming the concession, through data matching with AusIndustry. The ANAO made four recommendations to improve the administration of the R&D Tax Concession. DITR and the ATO agreed with all recommendations, and have made progress towards their implementation.

Audit Report No.41 2002–03

Performance Audit

Annual Reporting on Ecologically Sustainable Development

Cross Agency

The audit objective was to examine the quality of Commonwealth agencies' annual reports on Ecologically Sustainable Development (ESD). The scope encompassed an examination of the quality of guidance to agencies by Environment Australia, the frameworks agencies have in place to be able to report on ESD, and the quality of their reporting.

Commonwealth agencies have only been required to report annually on their ESD performance for two years. It is therefore understandable that most agencies are still developing appropriate management and reporting frameworks. Consequently, there is considerable scope for improvement in relation to the quality of agencies' annual reports, especially in relation to compliance with the *Environment Protection and Biodiversity Conservation Act 1999* (EPBC Act) and articulating agencies' contribution to broader ESD outcomes.

Environment Australia has a key role to play in terms of assisting agencies to improve the quality of their reports. The ANAO considered that Environment Australia could do more to support agencies through the dissemination of practical reporting tools, in publicising the requirements of the EPBC Act, and by sharing examples of better practice.

A challenge for Environment Australia is that, in spite of the Commonwealth's 10 year commitment to ESD, many agencies are focused solely on the impact of their operations on the natural environment, and are yet to come to terms with the broader implications of ESD and its relevance to their operations.

The ANAO made three recommendations, which form part of an integrated package for improving annual reporting on ESD and environmental issues. Environment Australia agreed with all of the recommendations, although a number of parts of the recommendations were agreed with qualification, subject to judgement on relative priorities for the application of available resources, and subject to the continuation of the Sustainability Support Service.

Audit Report No.42 2002–03

Performance Audit

Managing Residential Aged Care Accreditation

The Aged Care Standards and Accreditation Agency (Ltd)

The objective of the audit was to form an opinion on whether the Aged Care Standards and Accreditation Agency Ltd's (the Agency's) management of the residential aged care accreditation process is efficient and effective. The ANAO examined whether:

- the Agency has clearly identified its legislative responsibilities and implemented an effective process to meet them;
- business operations, people management and budgeting practices support management of the accreditation process;
- the Agency collects, uses and disseminates information on the accreditation process; and
- the Agency has a credible quality assurance system for the accreditation process.

While operating under challenging circumstances, the Agency successfully assessed all residential aged care homes by 1 January 2001, as required by the *Aged Care Act 1997*, implementing a process to accredit and support services.

The ANAO concluded that the Agency has identified its legislative responsibilities for accreditation and has implemented an adequate process to meet them. In general, its management of its people and workflow supports the management of the accreditation process.

However, the ANAO also concluded that there are some weaknesses in the Agency's management systems, which impact adversely on its management of the accreditation process. These include the Agency's costing systems, information management, and quality assurance mechanisms. The ANAO made six recommendations addressing these weaknesses including one recommendation to the Department of Health and Ageing. All recommendations were agreed to.

Audit Report No.43 2002–03

Performance Audit

The Sale of Sydney (Kingsford Smith) Airport

Cross Agency

The audit examined the sale of Sydney (Kingsford Smith) Airport, Australia's busiest passenger and cargo airport and major international gateway airport. The Airport was sold in June 2002 to Southern Cross Airports Corporation Pty Limited for a purchase price of \$4.233 billion.

The objectives of the audit were to:

- evaluate the extent to which the Government's sale objectives were achieved, with a focus on those objectives relating to the optimisation of sale proceeds and minimisation of risk to the Commonwealth;
- examine the effectiveness of the management of the sale process to ensure the Commonwealth received fair value; and
- within the context of broader Commonwealth debt management considerations, assess the application of the sale proceeds to repaying Commonwealth debt and the extent to which public debt interest payments may be reduced.

In terms of the objectives, the audit concluded that:

- the sale of Sydney (Kingsford Smith) Airport for a purchase price of \$4.233 billion represents a very good financial outcome for the Commonwealth. The sale maximised financial returns on a risk-adjusted basis while achieving optimal outcomes in relation to the other sale objectives;
- the sale process was effectively managed by the Department of Finance and Administration and its advisers, in consultation with the Department of Transport and Regional Services; and
- a total of \$2.2 billion in sale proceeds was used to finance maturing debt with the remainder invested in deposits with the Reserve Bank of Australia and used on an as required basis to assist seasonal financing requirements, including the financing of subsequently maturing debt.

No recommendations were made.

Audit Report No.44 2002–03

Performance Audit

Review of the Parenting Payment Single Program

Department of Family and Community Services

Centrelink

The objective of the audit was to determine whether the controls and measures employed by the Department of Family and Community Services (FaCS) and Centrelink to deliver Parenting Payment Single (PPS) payments are effective and efficient. To achieve this, the audit focused on four key areas. These were: the quality of performance measures used by FaCS and Centrelink; the effectiveness of FaCS' methodology for estimating the levels of risk of incorrect payment to PPS customers and the impact of these incorrect payments on the integrity of program outlays; the correctness of Centrelink's processing of reassessments; and the improvements to preventive controls such as training, guidance material, and the Quality On-Line system.

The ANAO concluded that FaCS and Centrelink have an extensive system of controls and measures that aim to safeguard the delivery of PPS payments. On the basis of practices in place at the time of audit fieldwork, the ANAO concluded, that, while generally contributing to the integrity of program outlays, these controls and measures had limitations in their effectiveness.

While performance measures for the PPS program reported externally by FaCS were generally compliant with both the Department of Finance and Administration (Finance) guidelines and ANAO better practice principles, the ANAO had concerns relating to specific measures. The ANAO examined FaCS' methodology for estimating the levels of error (administrative and customer) and the consequent impact of these errors on program outlays. The ANAO concluded that FaCS' methodology has a number of limitations which could potentially misinform any calculations of the material impact of this error and non-compliance on FaCS' financial statements.

The audit found that the effectiveness and efficiency of controls ensuring correctness of program reassessments varies depending largely on whether processing by Customer Service Officers involved simple or complex assessments. The ANAO found significant errors in earnings reviews, with approximately 48 per cent of cases it examined containing an errors of some kind. Similarly, examination of Centrelink's processing of new child reviews also indicated a high level of error. Both are complex assessments.

Positive findings are that Centrelink has improved consistency in the delivery of its training, and that FaCS and Centrelink have been progressing changes to their preventive controls.

The ANAO made four recommendations aimed at improving the effectiveness and efficiency of the PPS program. The recommendations relate to improvements in the reporting of performance information through the FaCS/Centrelink Outcomes/Outputs framework, improvements to the Random Sample Survey residual methodology and the processing of earnings and new child program reviews. Both FaCS and Centrelink agreed with all four recommendations.

Audit Report No.45 2002–03

Business Support Process Audit

Reporting of Financial Statements and Audit Reports in Annual Reports

Cross Agency

The report examined the publication of financial statements and audit reports in the hardcopy and website forms of the annual reports of 117 Commonwealth reporting entities. The audit objective was to determine whether the published financial statements and audit reports agreed in all respects with those that had been certified by the chief executive or governing body of the reporting entity and the Auditor-General or his delegate (as appropriate). In all but two instances, the reporting period covered was the year ended 30 June 2002.

The ANAO found that the majority (71 per cent) of the reporting entities examined had successfully replicated their financial statements and audit report into both forms of their annual report with nil or only insignificant errors. However, the remainder (29 per cent) of the reporting entities scored at least one significant error as a result of the replication process. Although most of the significant errors would be unlikely to adversely affect decisions by users, or the discharge of accountability by management, most of the errors resulted in the publication of incorrect or confusing information.

The ANAO concluded that there is room for significant improvement in the replication process. There is a strong need for the reporting entities with at least one significant error, and for entities in general, to implement more stringent checking procedures to ensure complete and accurate public reporting of their audited financial statements and audit reports.

The ANAO also found that some reporting entities were slow in placing their annual reports on their websites, the reporting of which became a requirement as a result of the *Government Online Strategy* issued in 2000.

The ANAO made four recommendations, which were all accepted by the 60 reporting entities requested to comment. The recommendations related to improving procedures for ensuring the completeness and accuracy of the information and the timeliness of reporting on websites, and the need to follow proper corrective processes when identifying errors before and after publication.

Audit Report No.46 2002–03

Performance Audit

Australian Industry Involvement Program

Department of Defence

The audit examined the management by the Department of Defence (Defence) of its Australian Industry Involvement (AII) Program. AII is the major program through which Defence gives effect to government policy on Australian industry. The objective of the audit was to assess the extent to which the AII Program has achieved its two policy objectives, which are to:

- develop and sustain strategically important capabilities in Australian industry to support Australian Defence Force operations and Defence capability development; and
- maximise Australian industry involvement in Defence's procurement of goods and services, consistent with the government procurement policy objective of achieving best value for money to the Commonwealth.

The ANAO found that Defence had set up a well structured approach to ensure that AII considerations are addressed in procurement phases of capital equipment projects. Stakeholders in the AII Program, including industry, with near-unanimity, agreed that the AII framework is an essential element in achieving reasonable outcomes in Defence procurement for Australian industry and Defence. Evidence in the audit also indicated that, in contract negotiations for major contracts, Defence, in addition to seeking to obtain best value for the Commonwealth, usually presses for a good deal for Australian industry and generally achieves a reasonable outcome for the latter. Exceptions tend to occur when the requirements of the Defence users, including their need for speedy acquisition, overwhelm the AII aspects.

In the four major capital equipment projects used as case studies, the ANAO found that Australia and New Zealand (ANZ) content targets were met and, in some cases, exceeded. Defence used the AII Program to develop and sustain capabilities in Australian industry which have provided strategic benefits to Defence in terms of better through-life support by shorter lead-times in the procurement of parts, faster turn-around times for repairs, and the ability to carry out modifications to meet Defence operational and/or capability requirements. Rejuvenation in the use by Defence and its contractors of the Industrial Supplies Offices network in capital equipment projects would also help ensure that Defence is able to make best use of the capabilities in ANZ industry.

Defence had no agreed outcomes or outputs to be achieved in the pursuit of either of its AII Program objectives. Although, in the four case studies, ANZ content targets were met, there was no reliable information available in Defence on the cost-effectiveness of the Australian industry capabilities created under the projects or how they contributed to high level defence or project outputs and outcomes. The ANAO could not find any systematic reporting to Ministers on significant developments in the AII Program, as a whole, nor on AII aspects in the four capital equipment projects examined in the audit.

In the absence of quantitative and/or qualitative performance measures for the AII Program as a whole, it was not practicable for Defence to demonstrate whether, over the many years of its existence, the AII Program has been making real progress, or is losing ground, in seeking to meet its objectives.

The ANAO made six recommendations, directed at improving the management of, and reporting on, the AII Program. Defence agreed to all of them.

Audit Report No.47 2002–03

Performance Audit

Implementation and Management of the Indigenous Employment Policy

Department of Employment and Workplace Relations

The audit examined the efficiency and effectiveness of the Department of Employment and Workplace Relations (DEWR)'s implementation and subsequent management of the Indigenous Employment Policy (IEP). The audit sought to determine whether, in relation to the IEP, DEWR had appropriately planned, monitored and evaluated, and reported performance. Further, the ANAO sought to determine if DEWR conducted effective marketing and promotion of the IEP, identified enhancements and addressed performance issues.

The ANAO concluded that, overall, DEWR has implemented all the elements of the IEP in a changing and challenging environment. DEWR's ongoing management of the policy is broadly effective, although some areas warrant improvement for greater effectiveness.

The ANAO found that DEWR has many aspects of strategic planning in place that could be drawn together in an IEP strategic plan. DEWR has devoted significant effort to reviewing the IEP overall, as well as individual elements of the policy. The ANAO concluded that DEWR has responded promptly as difficulties and performance issues have emerged, and developed appropriate approaches to address them. Furthermore, DEWR has engaged in considerable marketing, promotion, and education activities that address the public awareness project initiatives established in the IEP.

At the time of the audit, DEWR was developing its performance management framework for the IEP and was unable to adequately measure the performance of the IEP, and the extent of its contribution to the departmental outcome – 'An effectively functioning labour market'. This is a result of DEWR not defining what impact the policy seeks to have on Indigenous employment, or how the activities of the IEP link to the departmental outcome.

DEWR research has identified the number of jobs required to maintain Indigenous labour force status (25 000) and/or to achieve parity with non-Indigenous job seekers (77 000) over the period 2000–06. ANAO analysis of DEWR data indicates that the number of employment opportunities facilitated by the IEP is growing at a steady rate. However, DEWR's focus on

commencements and percentage outcome rates does not enable the department to readily determine, or report, whether the growth observed is sufficient to improve Indigenous employment.

The ANAO made seven recommendations focused on the need for DEWR to define what results are sought for each IEP element and determine the extent to which the IEP is generating more employment opportunities for Indigenous job seekers. DEWR agreed with all seven recommendations, two with qualification.

Audit Report No.48

Performance Audit

Indigenous Land Corporation Operations and Performance Follow-up Audit

Department of Immigration and Multicultural and Indigenous Affairs

In 2000, the ANAO tabled Audit Report No.49 1999–2000, *Indigenous Land Corporation—operations and performance*. The 2000 audit made nine recommendations for improvement.

This follow-up audit focused on the Indigenous Land Corporation's (ILC's) implementation of the recommendations of the 2000 audit. The objective was to evaluate the action taken by the ILC in addressing the recommendations of the 2000 audit, taking account of any changed circumstances or new administrative issues identified as impacting on the implementation of these recommendations.

The ANAO found that the ILC has made progress in implementing the nine recommendations of the 2000 audit, with four recommendations implemented and five recommendations partially implemented.

As a result of the follow-up audit, the ANAO made four recommendations primarily aimed at improving aspects of the ILC's operations and performance. These include: enhancing performance measurement and reporting; developing its strategic planning; developing an appropriate evaluation regime including stakeholder feedback; and the introduction of a quality assurance program to ensure compliance with its land acquisition and land management procedures and relevant provisions of the *Aboriginal and Torres Strait Islander Commission Act 1989*. The ILC agreed with all four recommendations.

Audit Report No.49 2002–03

Performance Audit

Management of the Navigation Aids Network

Australian Maritime Safety Authority

A significant number of ships pass through Australian waters each year. Navigation aids (lighthouses, buoys, tide gauges, etc) play a vital role in ensuring the safety of these ships, their crews, and sensitive environments like the Great Barrier Reef.

The objectives of the limited scope audit were to determine whether the Australian Maritime Safety Authority's (AMSA)'s management of the navigation aids network provides for the strategic needs of marine navigation in Australian waters, and whether AMSA efficiently and effectively manages the navigation aids network. This included the capital works program for new aids and the ongoing maintenance of the network.

The audit focused on: AMSA's strategic planning for navigation aids; the management of revenue and expenditure to support the navigation aids network, including the Marine Navigation Levy; the ongoing management and maintenance of the navigation aids network in an outsourced environment; and AMSA's accountability and performance reporting arrangements.

The audit methodology included consultations with AMSA staff, the prime contractors and some other stakeholders, as well as examination of key related documents.

The ANAO found that AMSA demonstrated elements of better practice in each of the areas examined during the audit. AMSA demonstrated a sound and comprehensive approach to strategic planning that has yielded clear objectives and a range of suitable strategies for their achievement.

AMSA manages the budgets for the current and future needs of the network within the levy revenue, and has worked steadily to deliver a progressive reduction in the levy over time. The ANAO found scope for improvement in the methodology AMSA used to set a clear benchmark cost when the shipping support services and engineering functions were outsourced. In addition, there is scope for improvement in its monitoring and reporting of the quantum of costs actually saved since the outsourcing of these services.

The contract management procedures AMSA uses adhere to the practices outlined in the ANAO's better practice guide *Contract Management*. Accordingly, the contracts are delivering good outcomes.

Overall, the ANAO considers that AMSA demonstrated well-established and effective consultative mechanisms with its various stakeholders and robust accountability frameworks. A minor area for improvement is the need for AMSA to take care that reporting against Key Performance Indicators is consistent across years. The ANAO further considered there is the potential for a more strategic focus in reporting on the effectiveness of the navigation aids network. The ANAO made some suggestions for improvement to AMSA's administration, but did not make any recommendations.

Audit Report No.50 2002–03

Benchmarking Study

Managing People for Business Outcomes, Year Two

Cross Agency

This is the second year of the study that reviewed the effectiveness and efficiency of people management in a range of Australian Public Service (APS) agencies. To do so, the study focused on two major aspects: how line managers plan for and manage their staff to help achieve agency and program outcomes; and how the human resource function supports people management practices to achieve agency outcomes. Thirteen agencies participated in Year Two, compared to 14 in Year One (one agency was unable to participate in Year Two). The agencies participating in Year Two employ around 36 per cent of APS employees.

As for Year One of the study, people management was categorised into nine 'practice areas', to enable comparisons between the participating agencies. In Year Two there was general improvement in all of the nine practice areas across the study group. The practice areas where the greatest number of agencies showed improvement were: learning and development; workforce planning; organisation development; and reward and recognition. The practice area that showed the least overall improvement was performance management, with six agencies improving, one unchanged and six agencies scoring lower in Year Two.

The report outlines suggested improvements in people management for agencies. It notes that agencies require a continued and sharpened focus in the areas of implementing, embedding and measuring the contribution of people management to business outcomes. As well, challenges in relation to recruitment and development issues need to be addressed at both a strategic and operational level.

All agencies responded to the recommendations provided by the study team in Year One. During Year Two, 10 agencies formally advised the ANAO that they had either taken specific action as a result of their agency report, or that the findings confirmed studies already under way. In fieldwork for Year Two, the ANAO observed that the remaining three agencies had acted upon the recommendations in their Year One agency report. That is, agencies' improvement can be at least partly attributed to their involvement in the study.

The report included better practice principles but did not make any overall recommendations.

Audit Report No.51 2002–03

Performance Audit

Defence Housing and Relocation Services

Department of Defence

The objective of the audit was to: assess the Department of Defence's (Defence's) management of its housing and relocation services to meet specified requirements; and to make practical recommendations for more efficient, effective and economical use of public resources provided for this purpose.

Australian Defence Force (ADF) members and their families continue to acknowledge the quality of housing they receive under Defence housing arrangements. Defence aims to maintain a high satisfaction rate among members and their families in respect of those arrangements, but should also monitor and contain the associated costs. With a focus on member satisfaction, the standard of housing provided exceeds Defence's specified requirement despite the cost implications. As a whole, housing and related services constitute a program of rising costs, which amounted to some \$594 million in 2001–02.

Most of these costs arise from the Services Agreement signed between Defence and the Defence Housing Authority in 2000 (valued at \$3.5 billion over 10 years). The ANAO considers that it would have been preferable had Defence done more to meet the Ministers' request for a properly constructed commercial contract and to act on legal advice that the Agreement would not adequately protect Defence's interests. The Ministers and Defence heads should have been informed of the extent of the legal advice before they were asked to endorse and sign the Agreement.

The report underlines a need for Defence to manage the arrangements strategically and ensure that services both meet requirements and provide value for money. Defence should also seek to implement the Service Agreement's provisions for programs of continuous improvement and cost control, which, although not clearly expressed, offer the prospect of better value for money for the taxpayer.

In response, Defence said that the report identifies a number of areas where improvements may be made. Noting that housing is an ongoing retention issue, Defence acknowledged its responsibility to better monitor and contain costs associated with housing. Defence agreed, or agreed with qualification, to the ANAO's five recommendations.

Audit Report No.52 2002–03

Performance Audit

Absence Management in the Australian Public Service

Cross Agency

This across-agency audit included a survey of 74 Australian Public Service (APS) agencies and eight Statutory Authorities. The audit objective was to: assess the extent and cost of unscheduled absence in the APS; examine whether unscheduled absence in the APS was being managed efficiently and effectively; and identify opportunities for improvement.

The audit found that the 2001–02 median and mean APS unscheduled absence rates were 8.9 and 11.9 days per employee respectively, compared to a median of 6.8 days in the private sector. The APS is very diverse and there are many factors influencing individual agencies' rates of unscheduled absence. However, both the high levels of staff absence reported by many agencies compared to those in the private sector and the wide variation within the APS, suggest that, although there are some pockets with elements of better practice across the APS, unscheduled absence is not generally being managed well by many agencies. Active management with well-targeted initiatives and strategies can minimise absence levels. However, the audit found that very few agencies were effectively managing absence in a strategic sense to improve their performance, both in achieving required results and as a model employer.

The audit concluded that there is considerable scope for APS agencies to improve their performance and service delivery through an integrated, comprehensive and more pro-active approach to the systematic measurement and management of unscheduled absence and the adoption of appropriate better practices. Such an approach could include: greater management commitment and accountability; the introduction of specific absence management policies and strategies; improved data collection and reporting; and effective intervention and training, both at an overall organisation and individual level.

Estimated potential direct cost savings in the order of \$79–\$114 million could be realised if lower performing agencies could reduce their unscheduled absence levels to those achieved by the top APS agencies. The bulk of these potential savings are concentrated in a relatively small number of large agencies.

The ANAO made no specific recommendations, but responding agencies supported the findings and conclusions of the audit report and advised that the issues and options raised would be considered for implementation.

Audit Report No.53 2002–03

Business Support Process Audit

Business Continuity Management Follow-on Audit

Cross Agency

The primary objective of this audit was to examine Business Continuity Management (BCM) arrangements across four Commonwealth organisations, in particular to assess whether their existing BCM frameworks (or frameworks under development) exhibited the principles espoused in the *Business Continuity Management Better Practice Guide*, published by the ANAO in January 2000. At the Commonwealth-wide level, the ANAO considered the continuing relevance of the principles presented in the guide, and concluded that these principles remain relevant to Commonwealth organisations. The guide continues to provide useful guidance to assist organisations to establish and maintain BCM frameworks, controls and plans.

All organisations audited had implemented a number of preparatory controls to minimise the likelihood that their identified business continuity, and related, risks would impact on their business operations. Most organisations rely on existing disaster recovery and emergency management plans to re-establish their operations in a timely manner following a business interruption event. However, these plans do not contain, or refer to, interim processing procedures designed to enable the uninterrupted availability of business resources and activities. In addition, the ANAO concluded that one of the continuing problems with the approach to BCM observed in the organisations was that they did not recognise that BCM is an ongoing process. Organisations should be continually reviewing the effectiveness and efficiency of their BCM arrangements in light of changes to their operating and external environments.

The ANAO made one recommendation to Commonwealth organisations, which was agreed to by audited agencies. Specifically, the ANAO recommended that organisations should continue to consider relevant better practice guidance when assessing their business continuity risks and developing their BCM arrangements (framework, controls and/or plans). Organisations also need to adequately document the analysis and findings from the steps in the BCM process, as well as regularly review and test the BCM arrangements to ensure that they remain relevant to the organisations' evolving operating environments and identified risk priorities.

Audit Report No.54 2002–03

Business Support Process Audit

Capitalisation of Software

Cross Agency

The audit examined the management of computer software assets at four Commonwealth bodies. It focused on the capitalisation of computer software for the purposes of annual financial reporting. The specific objectives were to:

- determine whether the selected bodies had established effective internal control frameworks for the capitalisation of externally acquired and internally developed software; and
- assess whether software costs were capitalised in accordance with organisational policy, accounting standards and relevant legislation.

The ANAO concluded that most of the audited bodies had established internal control frameworks and mechanisms that effectively addressed software capitalisation control risks and supported the identification and capitalisation of computer software costs, in accordance with internal policy, accounting standards and Commonwealth Government financial reporting requirements.

The ANAO found that most bodies had established reasonably comprehensive policies, procedures and guidelines for the capitalisation of computer software. However, none of the bodies had established asset management plans, and, as a result, there was no formalised link between the accounting policies and plans for future software asset acquisition or replacement. Furthermore, most bodies had not implemented robust arrangements to ensure that timely information was provided to the finance area on software assets that had become operational or were ready for use so that the relevant assets could be accounted for appropriately. Finally, the approach to accounting for software assets was not always consistent with standard accounting practice or commonly accepted practice in Commonwealth bodies.

The ANAO made six recommendations aimed at improving the management of computer software assets in Commonwealth bodies generally. The recommendations are based on the establishment of a sound internal control framework and were accepted by each of the audited bodies. In addition, the ANAO observed a number of sound and better practices in software capitalisation arrangements that could be adopted by other Commonwealth bodies.

Audit Report No.55 2002–03

Performance Audit

Goods and Services Tax Fraud Prevention and Control

Australian Taxation Office

The audit objective was to assess whether the Australian Taxation Office (ATO) has implemented administratively effective Goods and Services Tax (GST) fraud control arrangements, consistent with the Commonwealth Fraud Control Guidelines. The audit addressed the following key elements of fraud control:

- fraud control arrangements integrated within the ATO's corporate governance framework;
- strategies, systems and processes used to prevent and detect GST fraud, including the crucial role that the ATO's Risk Rating Engine (RRE)²⁰ plays in detecting fraudulent and non-compliant behaviour;
- management of GST fraud investigations; and
- reporting of GST fraud.

The ANAO concluded that ATO has systems and processes in place to prevent, detect, investigate and report GST fraud. These activities are undertaken and implemented across business lines. However, the ANAO considers that these activities need to be better integrated and coordinated if they are to underpin an effective GST fraud control framework and fully meet the requirements of the Commonwealth Fraud Control Guidelines.

The ATO is currently revising its GST fraud control plan. This will allow it to undertake a comprehensive assessment of all GST fraud risks. The plan should also integrate GST fraud prevention, detection and mitigation strategies across the ATO. The ANAO has identified a number of areas where improvements could be made to strengthen the ATO's fraud control framework. These include:

- articulating to staff the ATO's overall fraud control strategy and how the Commonwealth's definition of fraud is to be interpreted and implemented;
- recognising that external fraud should be treated as a separate component of the ATO's compliance continuum;

²⁰ The RRE profiles risk in a 'real-time environment' for GST registrations at the time of lodgement of the registration application and incoming activity statements of clients registered for the GST. This is prior to the issue of any refund.

- reviewing data collection requirements and the integrity of data to be included in fraud reports; and
- enhancing the effectiveness of the RRE as a fraud detection tool.

The ANAO made eight recommendations aimed at improving the ATO's systems and processes for preventing, detecting, investigating and reporting GST fraud. The ATO agreed with all recommendations.

Audit Report No.56 2002–03

Performance Audit

Management of Specialist Information System Skills

Department of Defence

The Department of Defence (Defence) seeks to develop ‘the knowledge edge’ to allow Australia to use its relatively small force to maximum effectiveness. Defence’s military and administrative information systems combine to form the Defence Information Environment (DIE).

In June 2001, the Joint Committee of Public Accounts and Audit (JCPAA) commented²¹ that its major concern about Defence’s ability to develop a knowledge edge with adequate coherence, centred on Defence’s ability to recruit, develop and retain skilled individuals needed in all parts of the DIE. The JCPAA recommended that the ANAO conduct an audit of Defence’s strategies for recruiting, developing and retaining skilled IT personnel.

The objective of the audit was to report to the Parliament on the progress Defence has made since June 2001 in implementing appropriate strategies for recruiting, developing and retaining skilled IT personnel. The audit focused on management of specialist information system skills and did not examine skills needed by users of information systems.

It was difficult to accept that, given the major concern expressed by the JCPAA in 2001, Defence had not acted more swiftly to develop a strategy for IT skills in its workforce, but left individual groups to address the issue separately. Each group in Defence has taken action to address its own skilling problems. As much of this action is still in the early stages of implementation, its effectiveness is yet to be realised.

Defence has made changes in its management and governance structures that, to a degree, are intended to improve its use of IT. Creation of the position of Chief Information Officer as a member of the Defence Committee is a significant strategic change that unites responsibility for both administrative and operational information. Defence is attempting to standardise its computing platforms in order to provide consistency of operation. As part of strategic planning for the DIE, Defence is now developing workforce related initiatives.

²¹ JCPAA Report 383 *Review of Auditor-General’s Reports 2000–2001 First Quarter*, 2001, June, p. 69, commenting on Audit Report No.11 2000–01, *Knowledge System Equipment Acquisition Projects in Defence*.

The ANAO made four recommendations that covered priority strategic actions for IT personnel, employment conditions, linking training to changes in IT skilling requirements and maintaining in-house IT skills for operational requirements. Defence agreed with the ANAO's four recommendations.

Audit Report No.57 2002–03

Performance Audit

Administration of the Payment of Tax by Non-Residents

Australian Taxation Office

The audit objectives were to:

- provide the Parliament with assurance about how efficiently and effectively the Australian Taxation Office (ATO) administers the payment of tax in respect of non residents;
- identify any scope for more effective and efficient administration of the function; and
- identify any opportunities for the cost effective collection of additional revenue.

The scope of the audit covered the administration of tax law generally, including the double taxation agreements, as applied to non residents.

Overall, the ANAO concluded that the ATO's administration of the non resident function is sound. The administration of the function has been strengthened by administrative reforms implemented by the ATO during the period of the audit. The new withholding regulatory framework has the potential to tighten compliance and provide opportunities for additional revenue, if implemented effectively.

There is scope for more effective and efficient administration of the non resident function through the better use of data and by improving the quality of ATO research into non resident activity, particularly in categories relating to non resident landlords and independent personal services.

The ANAO made one recommendation aimed at improving the ATO's administration of the payment of tax by non residents. This recommendation complements the administrative reforms recently implemented by the ATO, and was agreed to with qualification by the ATO.

Audit Report No.58 2002–03

Performance Audit

Veterans' Appeals Against Disability Compensation Decisions Follow-up Audit

Department of Veterans Affairs

Veterans Review Board

The disability pension compensates veterans, war widows, orphans and dependants for loss of physical and mental well-being resulting from war or defence service. The Department of Veterans' Affairs (DVA) and the Veterans' Review Board (VRB) share responsibility for the disability compensation appeal system. The first level of review of disability compensation decisions is internal review by DVA. If dissatisfied with the decision, the applicant may appeal to the VRB.

The objective of this follow-up audit was to assess the extent to which DVA and the VRB had implemented the four recommendations of Report No.29 2000–01, *Review of Veterans' Appeals Against Disability Compensation Entitlement Decisions*. The audit examined DVA's and the VRB's progress on improving the quality of primary claims decisions, settlement of appeals at the earliest possible stage, documentation of evidence, strategic planning for advocacy support to veterans and the counting of appeal cases and decisions.

The ANAO found that DVA had fully implemented the recommendation relating to improving the efficiency and effectiveness of the information exchange between DVA and the VRB and partially implemented the remaining three. The ANAO also concluded that the VRB had implemented both recommendations applicable to it.

The ANAO considered that DVA's and the VRB's progress in implementing the recommendations had contributed to substantial reductions in the time necessary to resolve appeals against disability pension decisions.

DVA and the VRB agreed with the ANAO's assessment of progress in implementing the recommendations of Report No.29 2000–01. The ANAO made one new recommendation as a result of this follow-up audit, recommending that DVA and the VRB encourage all veterans to seek Ex-Service Organisation advocacy support with their compensation appeals. DVA and the VRB agreed with the new recommendation.

Audit Report No.59 2002–03

Performance Audit

Administration of Australian Business Number Registrations

Australian Taxation Office

The objective of the audit was to assess the administrative effectiveness of the Australian Business Number (ABN) registration process and the Australian Taxation Office's (ATO's) implementation and management of the Australian Business Register (ABR). In addressing the audit objective the ANAO reviewed:

- the implementation of the ABR;
- governance arrangements for the effective ongoing administration of the ABR;
- ABN registration systems and procedures;
- the integrity of ABR data; and
- progress towards achieving the whole-of-government outcome for the ABR.

The ABN and ABR initiatives were implemented as part of the Government's comprehensive reform of the taxation system in 2000. Their introduction involved challenging issues of technology and governance for the ATO, including the imperative to process and register significant numbers of ABN applications in a short period of time.

Overall, the ANAO concluded that the ABN registration process is operating effectively. However, matters relating to the eligibility of some ABN applicants need to be reviewed. Further, some data integrity issues remain outstanding. These relate to:

- data quality problems with Tax File Number information used to assess many ABN applications;
- the migration of ABN data from other ATO systems that does not conform to ABR business rules; and
- for operational reasons, the switching off of some ABR business rules.

The ANAO concluded that the ATO has made significant progress towards implementing an effective ABR system. However, there have been delays in implementing the project and only limited progress has been achieved in meeting whole-of-government initiatives.

The ANAO has made eight recommendations aimed at improving the ATO's systems and processes for administering the ABN registration process. The ATO has agreed with six recommendations and agreed in principle with the remaining two.

Audit Report No.60 2002–03

Business Support Process Audit

Closing the Books

Cross Agency

This audit focused on the monthly Closing the Books processes undertaken at six material Commonwealth organisations, in order to provide some generic conclusions on the operation and effectiveness of these periodic processes in the Commonwealth and to identify opportunities for improvement. Closing the Books processes—sometimes referred to as ‘month-end or year-end processing’—are those processes undertaken by organisations to generate periodic financial information.

Closing the Books is a standard financial process that should be routine and performed well. The audit found that all organisations had implemented adequate control frameworks and processes to mitigate the risks associated with closing their books, although there is a need to improve the quality of basic activities such as month-end reconciliations in half of the organisations.

Organisations continue to experience changes in the reporting environment as well as challenges in attracting and retaining appropriately qualified and experienced staff in their Closing the Books Teams. While there was evidence of an encouraging number of better practices across the organisations, some still faced challenges because systems are not integrated and most could improve the Closing the Books processes through the application of materiality in considering accruals and adjustments.

The ANAO made five recommendations directed at improving: the efficiency of the Closing the Books processes through the application of the materiality principle; and in quality through the involvement of operating units, ensuring reconciliations are undertaken and that authorisations occur before information is reported. Audited agencies agreed with the recommendations.

Audit Report No.61 2002–03

Financial Statement Audit

Control Structures as part of the Audit of Financial Statements of Major Commonwealth Entities for the Year Ending 30 June 2003

Cross Agency

This report updates the ANAO's assessment of audit findings relating to major entity internal control structures, including governance arrangements, information systems and control procedures, through to March 2003. The findings summarised in this report arise from the interim phase of the financial statement audits of 21 major Commonwealth entities for 2002–03. Examinations of such issues are designed to assess the reliance that can be placed on control structures to produce complete, accurate and valid information for financial reporting purposes. This year's report also considers a number of strategic issues that will potentially have a significant influence over the continuing evolution of better practice financial management practices in the public sector.

Audit findings have been classified into three groups:

- those concerned with entities' internal control environment;
- their information technology (IT) systems; and
- their specific control procedures over significant business and accounting processes.

Internal Control Environment

As part of the financial statement audit process, the ANAO assesses whether an entity's internal control environment comprises measures that contribute positively to sound corporate governance.

ANAO audit observations this year indicate that progress has been achieved across most entities in these areas. However, in some cases, further progress and refinement are still required. This is particularly the case in respect of expanding the level of reporting of non-financial performance measures and reviewing the effectiveness and efficiency of entity internal audit functions.

Information technology systems

The Commonwealth Government has a significant investment in information and communications technology (ICT). The Commonwealth Government spent an estimated \$2.04 billion during 1999–2000 on ICT.

Overall, the results of audit testing indicate that most entities have taken steps to address the issues raised in last year's corresponding report, but to varying degrees.

Opportunities exist for most entities in the coming year to further improve their IT processes which will continue to assist in better aligning the IT corporate governance framework with business objectives.

Control Procedures

Internal control procedures within significant operational and accounting processes and financial systems are examined as part of the audit of an entity's financial statements. In most entities, key areas covered in the interim phase of the audit will include:

- appropriations and other revenues;
- payment of expenses; employment and related costs;
- cash management; and
- asset management.

Some entities continue to experience difficulty with a number of control processes specific to their operations covering for example, timely completion and review of reconciliations, segregation of duties, inappropriate delegations, incorrect classification of general ledger expenses, monitoring of grant and funding agreements, reconciliation of program payments, poor documentation relating to asset acquisitions and disposals, and the timely recording of those asset movements.

Reconciliation of the asset register to the financial management information system (FMIS) is an ongoing issue. In addition, a persistent reconciliation issue, which was noted in last year's corresponding report, continues to occur in a number of entities. This relates to the need to reconcile payroll and leave costs recorded in human resource management information systems (HRMIS) with balances recorded in the general ledger of the FMIS.

Key findings

Overall, the results of audit activity over the past year indicate that there has been a marginal improvement in the quality of control procedures over business and accounting processes. This is demonstrated by:

- the number of entities with 'A' category audit findings reduced to two in 2002–03 from four in 2001–02;
- the total number of 'B' category audit findings across all entities reduced from 116 in 2001–02 to 96 in 2002–03;

- eleven of the 21 entities reported an improvement in the number of 'A' and 'B' category audit findings; four entities showed a deterioration in their position, with six entities remaining in the same position; and
- the number of entities with no category 'A' or 'B' audit findings remained at two for both years.

Prospective issues to be addressed

The results of interim audits to date indicate that most entities have achieved a position where the fundamental processes relating to financial statement reporting are substantially in place. However, it is again clear this year that a small number of entities are yet to implement key elements of 'better practice' and still face considerable challenges in this regard, particularly the Department of Defence and the Australian Taxation Office.

The priority for entities now is to continue to implement 'better practice' financial management in their operations, so they are able to meet the challenges emerging with continued evolution of the Government's financial reform process, including:

- the progressive move over the next 3 years to much tighter year end financial reporting deadlines²²;
- the need to ensure budgeting and revised cash management requirements allow entities to meet their operating and reporting responsibilities; and
- continuing improved decision support through the implementation of more effective performance measurement processes and analysis in key operating areas, by better linking financial and non-financial information.

²² Recommendation 2 of *Budget Estimates and Framework Review*, Department of Finance and Administration and Department of the Treasury Joint Review, 2002.

Audit Report No.62 2002–03

Performance Audit

Management of Selected Aspects of the Family Migration Program

Department of Immigration and Multicultural and Indigenous Affairs

The objective of the audit was to examine the effectiveness and efficiency of the Department of Immigration and Multicultural and Indigenous Affairs (DIMIA's) decision-making processes and management systems for delivering the parent and partner aspects of the family stream of the Migration Program. The audit methodology was based on compliance testing of a sample of 208 completed parent and partner visa cases to determine whether decisions were: transparent; made in accordance with legislation and guidelines; and well documented.

In recent years, there have been improvements in the efficiency and effectiveness of the family stream of the Migration Program. After examining a sample of visa cases, the ANAO concluded that decision-making by DIMIA officials was generally sound, although there are elements of the department's administrative systems which require attention at the first opportunity, including:

- the lack of documentation which supports certain elements of the decision-making processes. The variable standard of record keeping makes it difficult to assess the merits and risks attached to particular decisions;
- the administrative systems for managing the queue and allocating visas in queue date order do not have the functionality to enable DIMIA to continually monitor, or automatically allocate, visa places in queue date order, thereby potentially compromising the queuing process; and
- greater consistency between the department's existing offshore and onshore quality assurance processes would also support the maintenance of appropriate standards and continuous improvement in applications processing.

Current health risk assessments for migrants and the roles and responsibilities for each of the stakeholder departments are poorly defined. DIMIA does not have reliable information on the number and type of health waivers that are granted to new migrants. The costing guidelines currently in use have not been agreed by relevant agencies. DIMIA, the Department of Health and Ageing and the Department of Family and Community Services are seeking to improve cooperation and information exchange. This should be resolved as a matter of priority to protect the various interests of the Commonwealth.

Five recommendations were made, directed at improvements to published performance information, record-keeping, quality assurance and the need to review and formalise consultative arrangements for setting health policy for migrants. DIMIA agreed with four recommendations and agreed with qualification to one.

Audit Report No.63 2002–03

Performance Audit

Administration of the Automotive Competitiveness Investment Scheme

Department of Industry, Tourism and Resources

Australian Customs Service

The Automotive Competitiveness and Investment Scheme (ACIS) is part of an assistance package for the automotive industry, announced by the Government in 1998. A transitional assistance scheme, it provides around \$2.8 billion in import credits for production and investment to eligible companies over the five years 2001–05. Eligible companies (including motor vehicle producers, component producers, machine toolers, and automotive service providers) may use credits to offset customs liabilities on vehicles and some components, or sell credits to other businesses.

The scheme is administered by the Department of Industry, Tourism and Resources (DITR) under the *ACIS Administration Act 1999* (the Act); and by the Australian Customs Service (Customs), under the *Customs Tariff Amendment (ACIS Implementation) Act 1999*. The objective of this audit was to assess the Commonwealth's administration of ACIS. The audit reviewed: program governance; scheme promotion and registration; management of credit allocations; and compliance processes.

The audit concluded that overall, DITR's administration of ACIS is timely in delivering credits to participants. DITR provides good client service, and processing is secure and accurate. Nevertheless, a more risk-managed and better documented approach to registration is necessary to provide adequate assurance that required conditions are met before registration is granted. AusIndustry has recently made some changes to the application of threshold tests to claims to ensure they are fully consistent with legal requirements.

DITR has established the basis of an appropriate governance framework for the delivery of ACIS. However, two years into the scheme, some important elements are underdeveloped. In particular, DITR has yet to finalise a Memorandum of Understanding with Customs, or a policy and procedures manual to support sound administration and decision-making. The lack of outcome, or intermediate outcome, performance measures limits DITR's ability to assess the effectiveness of ACIS.

AusIndustry has initiated a focus on managing risk, but this focus would be strengthened by implementing a comprehensive risk management plan. Program management would also benefit from sounder compliance audit practice in a number of areas, to be more consistent with recognised standards. The use of a fiscal cap for the major part of the scheme has limited the cost to revenue of ACIS. However, DITR substantially underestimated the demand for credits and their distribution. DITR did not update forecasts for almost three years, which would have provided better informed advice to the Government prior to, and after, commencement of the scheme.

Six recommendations were made aimed at strengthening aspects of governance, administrative processing and compliance auditing, which were all agreed to by DITR. Customs agreed with the two recommendations that related to them.

Appendix 3

Better Practice Guides published during January to June 2003: Summaries

AMODEL Agency: Illustrative Financial Statements for the Year Ended 30 June 2003, and AMODEL Non-Commercial Authority: Illustrative Financial Statements for the Year Ended 30 June 2003

The ANAO's role includes encouraging improved accounting and financial management practices that contribute to the efficient administrative processes, functioning and transparency of the public sector. The AMODEL better practice guides, now in their eighth year of publication, are prepared to assist Commonwealth entities in the preparation of their financial statements.

These guides outline developments in the Finance Minister's requirements and in professional reporting requirements, and provide examples of better practice in Commonwealth public sector financial reporting and disclosure.

Goods and Services Tax (GST) Administration

This better practice guide has been prepared as a practical tool to assist Commonwealth organisations in improving Goods and Services Tax (GST) administration. It is a joint publication by the Australian National Audit Office (ANAO) and the Australian Taxation Office (ATO) and is designed to assist practitioners in the Commonwealth public sector establish appropriate frameworks for the effective management of GST administration in their organisations.

The guide is supported by an accompanying workbook. The workbook provides example templates and checklists that can be used by an organisation in implementing the better practice framework discussed in the guide.

The guide focuses on the administration of GST—how to manage and process GST rather than specific technical or system treatments. The guide addresses gaps and weaknesses in GST administration identified by the ANAO in recent audit work.²³

²³ Audit Reports No.52 2001–02, *Payment of Accounts*; and Audit Report No.22 2002–03, *Payment of Accounts and Goods and Services Tax Administration by Small Commonwealth Organisations*.

Managers at organisations with effective and efficient GST processes use the following six better practices to administer their GST obligations:

- apply a risk management approach to GST administration;
- establish an internal control environment that effectively supports GST processing;
- identify and document all GST impacted transactions in the organisation's operations and the technical positions that relate to them;
- process and report GST transactions in an accurate, complete and timely manner;
- manage changes that impact on GST administration; and
- monitor and review the effectiveness of GST administration.

Internal Budgeting

This better practice guide is designed to assist managers responsible for making decisions on the allocation, use and administration of resources. In particular, it outlines a series of better practice elements that, if adopted, will encourage more efficient and effective management of resources and improve the capacity of internal budgeting to support the achievement of organisational goals and objectives.

The framework has three broad components:

- integrating internal budgeting processes with strategic planning, including the setting of priorities, and supporting them with a robust control and financial management structure putting efficient and effective internal budget development processes in place, including the use of appropriate technology to provide decision-support tools;
- regularly analysing performance against budgets, using consistent and timely flows of information; and
- implementing auditable accountability measures.

Building Capability: a framework for managing learning and development in the APS

This better practice guide came about as a result of performance audit No.64 of 2001–02, *Management of Learning and Development in the APS*. That audit found that although agencies had made significant efforts to align learning and development strategies with business needs, there was some way to go in demonstrating the efficiency and cost-effectiveness of their investment in

learning and development and its contribution to organisational outcomes. The audit also identified several aspects of better practice in the management of learning and development in agencies. During the audit the ANAO and the Australian Public Service Commission (APSC) agreed to collaborate to jointly publish a better practice guide.

The guide takes the view that learning and development requires the same rigour and attention as any other management task. When well managed, learning and development can deliver the right people with the right skills at the right time to enable agencies to deliver government objectives into the future. The intention is to inform and influence key agency stakeholders as well as to encourage ongoing improvement by those directly responsible for learning and development.

The guide is tailored specifically to the public sector through examples of APS agency better practice experience and is based around a framework of seven principles:

- align learning with business;
- integrate learning with human resource and other business processes;
- create a learning culture;
- provide appropriate learning options;
- manage learning effectively;
- support application of skills in the workplace; and
- evaluate learning and development.

Managing Parliamentary Workflow

The term ‘parliamentary workflow’ refers to a number of Ministerial and Parliamentary support functions, common to the operations of most government agencies, which are coordinated within and/or handled through Ministerial and Parliamentary services units.

The ANAO decided to update its 1999 better practice guide *Managing Parliamentary Workflow* to reflect more contemporary approaches implemented by agencies in managing parliamentary workflow. In addition we wished to draw on the experiences of a wider range of agencies than had been involved in the preparation of original guide. Essential parts of the updating process were the participation of agency parliamentary workflow practitioners in a series of workshops, along with agency input provided in discussions and in response to a draft of the proposed guide.

The focus of the guide is to provide the ANAO's assessment of better practice principles and practices involved in this core government function. Guidance to agencies is provided on the following main themes:

- means of organising and arranging the handling of parliamentary workflow processes;
- provisions designed for effective and efficient client service;
- use of information technology within parliamentary workflow functions;
- requirements for provision of administrative assistance to and within Ministers' offices;
- better practice management principles for parliamentary workflow functions; and
- means of informing and guiding agency practitioners in performing parliamentary workflow activities.

Appendix 4

Better Practice Guides: Series Titles

AMODEL Non-Commercial Authority: Illustrative Financial Statements for the Year Ended 30 June 2003	June 2003
AMODEL Agency: Illustrative Financial Statements for the Year Ended 30 June 2003	May 2003
Goods and Services Tax (GST) Administration	May 2003
Building Capability: a framework for managing learning and development in the APS	April 2003
Managing Parliamentary Workflow	April 2003
Internal Budgeting	Feb 2003
Administration of Grants	May 2002
Performance Information in Portfolio Budget Statements	May 2002
AMODEL Illustrative Financial Statements 2002	May 2002
Life-Cycle Costing	Dec 2001
Some Better Practice Principles for Developing Policy Advice	Nov 2001
Rehabilitation: Managing Return to Work	Jun 2001
Internet Delivery Decisions	Apr 2001
Planning for the Workforce of the Future	Mar 2001
Contract Management	Feb 2001
Business Continuity Management	Jan 2000
Building a Better Financial Management Framework	Nov 1999
Building Better Financial Management Support	Nov 1999
Managing APS Staff Reductions(in Audit Report No.49 1998-99)	June 1999
Commonwealth Agency Energy Management	June 1999
Corporate Governance in Commonwealth Authorities and Companies—Principles and Better Practices	June 1999
Managing Parliamentary Workflow	June 1999
Cash Management	Mar 1999
Management of Occupational Stress in Commonwealth Agencies	Dec 1998

Security and Control for SAP R/3	Oct 1998
Selecting Suppliers: Managing the Risk	Oct 1998
New Directions in Internal Audit	Jul 1998
Controlling Performance and Outcomes	Dec 1997
Management of Accounts Receivable	Dec 1997
Protective Security Principles (in Audit Report No.21 1997-98)	Dec 1997
Public Sector Travel	Dec 1997
Audit Committees	July 1997
Core Public Sector Corporate Governance	June 1997
Management of Corporate Sponsorship	Apr 1997
Telephone Call Centres	Dec 1996
Telephone Call Centres Handbook	Dec 1996
Paying Accounts	Nov 1996
Asset Management	June 1996
Asset Management Handbook	June 1996
Managing APS Staff Reductions	June 1996

Appendix 5

Presentations delivered by the Auditor-General and ANAO Staff during January to June 2003

Mr Pat Barrett AM

Public Private Partnerships—Are There Gaps in Public Sector Accountability?
Australasian Council of Public Accounts Committees
Melbourne, 3 February 2003

Mr Pat Barrett AM

Governance and Joined-up Government—Some Issues and Early Successes
Australasian Council of Auditors-General
Melbourne, 6 February 2003

Mr Pat Barrett AM

Better Practice Public Sector Governance
Australian Communications Authority Business Planning Workshop
Canberra, 11 February 2003

Mr Steven Lack

Achieving Better Practice Corporate Governance: Lessons from the Public Sector
Australasian Corporate Governance Congress
Sydney, 19-20 February 2003

Mr Richard Rundle

New Directions in Business Continuity Management
Marcus Evans Continuity Forum
Sydney, 26 February 2003

Mr Darren Box

Generally Accepted Accounting Principles/Government Finance Statistics Harmonisation
CPA CFO Breakfast
Canberra, 6 March 2003

Mr Peter McVay

Panel Discussion on Evaluation
Land and Water Research and Development Corporation
Canberra, 12 March 2003

Mr Richard Rundle

The ABC of Compliance
CPA Government Business Symposium
Melbourne, 14 March 2003

Mr Richard Rundle
Business Continuity Management
Survive Business Continuity Conference
Canberra, 18 March 2003

Ms Lesley Jackman
Doing Evaluations—Public Sector Guidance: ANAO Range of better practice guides and audit reports
Canberra Evaluation Forum
Canberra, 17 April 2003

Mr Richard Rundle
Emerging Better Practices in Corporate Governance and Risk Management
CPA Audit and Risk Management Seminar
Melbourne, 29 April 2003

Mr Phil Hagen
Fair Enough?—Transition from Deprival to Fair Value Method of Valuation
CPA Australia—Asset Management Day
Canberra, 29 April 2003

Mr Richard Rundle
Audits of Physical Security Performance
Attorney General's Department Security in Government Conference
Canberra, 2 May 2003

Mr Kevin Caruana
Financial Statements Technical Updates
ANAO clients
Canberra, 8-9 May 2003
Sydney, 12 May 2003
Melbourne, 13 May 2003

Mr Pat Barrett AM
The Provision of Audit Services to the Public Sector: Establishing Sound Corporate Governance and Auditing Practices
IBC Conferences' Second Annual New Directions in Australian Auditing and Accounting Standards Conference
Sydney, 19 May 2003

Mr Pat Barrett AM
Government Sector Accountability—The Impact of Service Charters in the Australian Public Service
Queensland Commonwealth Regional Heads Forum, 15th Annual Government Business Conference
Gold Coast, 22 May 2003

Mr Eric Turner

E-Corruption: the Australian Experience. An Auditor's Viewpoint

Global Forum III

Seoul, 29–31 May 2003

Mr Richard Rundle

Fraud Control

Comcover Getting Wired Seminar

Canberra, 6 June 2003

Mr Pat Barrett AO

Strategic Insights into Enterprise Risk Management

Address to the ACT Chapter of the Australasian Institute of Risk Management

Canberra, 13 June 2003

Appendix 6

Audits in progress on 30 June

Ministerial Portfolio	Audit Title
Agriculture, Fisheries and Forestry—Australia	<ul style="list-style-type: none"> • Agriculture Advancing Australia and Related Programs • AQIS Cost Recovery Systems
Attorney-General	<ul style="list-style-type: none"> • Australian Customs Service National Marine Unit
Communications, Information Technology and the Arts	<ul style="list-style-type: none"> • The Administration of Telecommunications Grants
Defence	<ul style="list-style-type: none"> • Airborne Early Warning and Control Project • Airforce Fast-jet Pilot Workforce • Defence's Project Bushranger • Defence Recruiting Contract • Management of Defence Force Preparedness
Employment and Workplace Relations	<ul style="list-style-type: none"> • Special Employee Entitlements Scheme for ex-Ansett Employees
Environment and Heritage	<ul style="list-style-type: none"> • Commonwealth Management of the Great Barrier Reef Follow-up • Management of Greenhouse Gas Reduction
Family and Community Services	<ul style="list-style-type: none"> • Business Continuity Management and Emergency Management in Centrelink • Internet Portals—FaCS
Finance and Administration	<ul style="list-style-type: none"> • Administration of Entitlements of Staff Engaged Under the <i>Members of Parliament (Staff) Act 1984</i>
Foreign Affairs and Trade	<ul style="list-style-type: none"> • Aid to East Timor • Consular Services Follow-up • Management of Australia's Bilateral Relations with Selected Countries
Health and Ageing	<ul style="list-style-type: none"> • Financial Management in the Health Insurance Commission • National Health and Medical Research Council: Effectiveness of Governance and Administrative Systems • Rural Health • Management of the Extension Option Review - Plasma Fractionation Agreement

Ministerial Portfolio	Audit Title
Immigration and Multicultural and Indigenous Affairs	<ul style="list-style-type: none"> • Onshore Detection and Prevention of Unlawful Non-Citizens • Management of Processing of Asylum Seekers • ATSIIC's Law and Justice Program
Industry, Tourism and Resources	<ul style="list-style-type: none"> • Textile, Clothing, Footwear—Strategic Investment Program Scheme
Transport and Regional Services	<ul style="list-style-type: none"> • Administration of Telecommunications Grants • Management of Federal Airport Leases
Treasury	<ul style="list-style-type: none"> • ATO Management of Activity Statements • ATO Management of Aggressive Tax Planning • ATO Use of Investment and Income Returns in Taxation Administration • HIH Claims Support Program • Prudential Regulation of Superannuation
Cross-Agency Performance Audits	<ul style="list-style-type: none"> • Agency Management of Special Accounts • Annual Performance Reports • Follow-up Survey on Fraud Control Arrangements in APS Agencies • Management of Intellectual Property in Commonwealth Agencies • Monitoring and Evaluation of Internet-delivered Government Programs and Services • Performance Management in the APS
Better Practice Guides	<ul style="list-style-type: none"> • Annual Performance Reports • Public Sector Governance • Project Management of Research, Development and Innovation Projects
Business Support Process Audits	<ul style="list-style-type: none"> • Acts of Grace and Defective Payments • Audit of the Senate Order for Department and Agency Contracts Progress Report (Autumn 2003 Compliance) • Discretionary Payments and Waivers of Debt • Financial Delegations • Property Management • Record-keeping Phase 2 • Risk Management and Insurance • Use and Effectiveness of HR Information Systems

