

THE AUDITOR-GENERAL ANNUAL REPORT 2013–2014



HIGHLIGHTS OF 2013–14

The ANAO successfully maintained the

high quality and timeliness

of our reports on the audits of entities' financial statements in a period of change and financial constraint.

Effective identification and management of risks and synergies to inform our audits affected by **machinery of** government changes.

Strengthened communication and engagement with **audit committees**.

Continuous improvement in practice management, audit methodology, training and support for our staff. Implementation of recommendations from external reviews

of our audit and quality assurance processes to ensure continuous alignment with better practices.

The ANAO supported 42 international engagements,

hosting international visitors and participating in international settings to **progress the development of public sector auditing**.

An external review confirmed that the ANAO's **financial statement audit quality assurance processes** were sound.

Performance audits were more **tightly focused on** whether audited entities were achieving **value for money.** Better administrative and management practices were identified and promoted through **50 performance audit reports** and **three better practice guides.**

Provided advice to the Department of Finance to **support the implementation** of the **PGPA Act**.

The ANAO's first follow-the-money audit was completed and was well received.

Targeted learning

was supported and encouraged, with a focus on **leadership development** and a **shift from classroom-based learning to e-learning.**



THE AUDITOR-GENERAL ANNUAL REPORT 2013–2014



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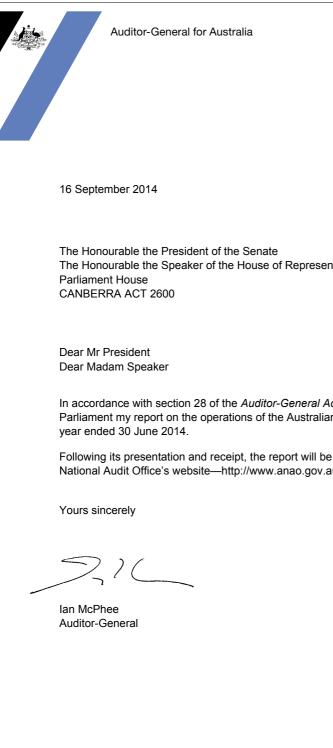


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Australian National Audit Office

The Honourable the Speaker of the House of Representatives

In accordance with section 28 of the Auditor-General Act 1997, I present to the Parliament my report on the operations of the Australian National Audit Office for the

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's website-http://www.anao.gov.au.

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About this report

This annual report documents the performance of the Australian National Audit Office (ANAO) in the financial year ending on 30 June 2014.

It addresses the *Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies* approved by the Joint Committee of Public Accounts and Audit in May 2014; the performance measures set out in the outcome and programs framework in the 2013–14 Portfolio Budget Statements; section 28 of the *Auditor-General Act 1997*; and other annual reporting requirements provided for in legislation.

- In Part 1, the Auditor-General reviews the significant issues and achievements of the past year and reflects on the challenges for the year ahead.
- Part 2 provides an overview of the ANAO—including its role and vision, the way it is organised, and how it reports on performance—and a summary of financial performance and results against key performance indicators.
- Part 3 reports on the performance of the ANAO's two programs: Assurance Audit Services and Performance Audit Services.
- Part 4 describes core elements of the ANAO's corporate governance and management of human resources, and other management issues.
- Part 5 summarises the ANAO's financial results and presents the audited financial statements for 2013–14.
- Part 6 contains appendices, with details of staffing statistics; performance audit reports; public addresses by the Auditor-General and the Deputy Auditor-General; and ways to contact the ANAO.
- Part 7 contains references to assist the reader to use the report—an abbreviations list, an index showing how reporting requirements are addressed in the main report, and a subject index.

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

To obtain further information about the content of this report, please contact:

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FOREWORD BY THE AUDITOR-GENERAL PART 1



Auditor-General Ian McPhee.

As each year of my term as Auditor-General has passed, I have come to better appreciate the significance of the contribution that the Australian National Audit Office (ANAO) makes to improving Australian Government public administration.

The mandate of the Auditor-General, supported by the ANAO, is essentially to report to the Parliament on audits of the financial statements of all Australian Government entities and on the performance of entities in administering government programs, thereby assisting the Parliament to hold the executive government to account.

At a time of overall growth in government revenues and expenses, and change in government administration designed to achieve better outcomes, the ANAO has adapted its approaches to provide effective audit coverage while its budget has been tightening. The ANAO has leveraged its experience, analysis and reports to stimulate better public administration for the national benefit.

The year in review

In the past year, we delivered high-quality outcomes across the full range of audit services and support for better practice in public administration. We met our targets for the delivery of audit opinions, reports and better practice guides, by providing assurance audit opinions on the financial statements of 260 Australian Government entities; undertaking 76 other assurance activities; completing 50 performance audits; and publishing three better practice guides. The 54 reports that we presented to Parliament for tabling comprised an assurance audit report on Department of Defence major projects, two biannual reports on the audits of the financial statements of major government entities, 50 reports covering the results of our performance audit work, and the latest in our series of reports on a pilot project to audit the key performance indicators of Australian Government entities.

It is important to recognise that the ANAO's contribution relies on our effective engagement with key stakeholders, including parliamentary committees, particularly the Joint Committee of Public Accounts and Audit (JCPAA); ministers; and public sector agencies. From the commencement of the Forty-fourth Parliament we briefed new parliamentarians and renewed our engagement with parliamentary committees and ministers. We appreciate the time that key stakeholders have taken to engage with us, the manner in which they have engaged, and the insights that they have provided.

Evidence of the effectiveness of this relationship building, and of the confidence that key stakeholders have in the independence of the ANAO and the quality of our work, can be seen in the flow of requests from parliamentary committees and ministers for the conduct of audit work. Those requests also demonstrate that our work is highly relevant, and that the Parliament looks to us for objective assurance on financial reporting by government entities and the administration of government policies and programs.

In 2013–14, by working with government entities, both directly and through their audit committees, we contributed to better public sector performance while identifying areas where further work needs to be done to achieve desired government outcomes efficiently. In particular, we made a strong contribution towards encouraging better performance in relation to Defence procurement, grants administration and the integrity of financial systems.

Our work in assessing program performance measurement and reporting by agencies continued to demonstrate the need for improvement, particularly in assessing the impact of government programs. Through its recommendations, the Government's National Commission of Audit recognised the benefits of the ANAO including regular audits of program performance information in its audit program. The JCPAA has also recognised the benefits of the ANAO undertaking further audits of program performance information.

It is the ANAO's longstanding practice to reinforce its audit findings and recommendations by publishing practical, workable guidance to promote better practice in specific areas of public administration. The three better practice guides released in 2013–14 related to the administration of grants, the administration of regulation, and public sector governance. The guides draw on our audit findings and the experiences of public sector entities, and align with

areas that have been identified by the Government as being important to the reform of public administration.

The ANAO strives to be an international leader in the provision of independent public sector audit and related services, and we contribute to the international public sector audit community where we can add value. In 2013–14, we further developed our close ties with our counterpart organisations in Indonesia and Papua New Guinea, through our ongoing capacity-building assistance, which includes having senior staff working in both locations.

During the year, the Indonesian Board of Audit released a book highlighting the strength and importance of the relationship between our two organisations. I was pleased to be able to attend the launch of the book in Jakarta in April 2014. In May 2014, along with the Australian Capital Territory Auditor-General's Office, the ANAO co-hosted a meeting of a regional working group on environmental auditing, which saw delegates from six international audit offices, along with colleagues from state audit offices, discuss how auditing can influence better water and waste management and climate change adaptation.

These very satisfactory outcomes were achieved in a tightening fiscal environment. We continue to build organisational resilience while managing to our forward budget estimates and remaining flexible in the way in which we deliver our work, with a strong focus on good governance and effective communication. We have been managing within the staffing constraints that apply to all government agencies, using contractors and short-term employment arrangements, and will keep any significant impacts on the structure of our workforce under review.

The investment that we make in the professional development of our staff continues to pay dividends. The strength of analysis that our audit professionals bring to their work is reflected in reports that provide significant insights into aspects of public administration and financial reporting while maintaining high levels of audit quality and cost effectiveness. This is particularly pleasing to me where the analysis has a strong IT focus, as this is clear evidence of the value of our past investments in our IT audit capability. We have also placed emphasis on leadership development, coaching and mentoring, to ensure that we retain the capacity required to complete our audit work program and provide value to the Parliament. While being subject to a number of savings measures and efficiency initiatives, the ANAO was able to manage within its available funding during 2013–14. However, the challenges for us continue to lie in managing to the budgets reflected in the forward estimates. Further detail on our financial position can be found in Part 5.

The role of the independent auditor, as set out in the *Auditor-General Act 1997*, is an important part of the accountability of the Auditor-General and the ANAO. In June 2014, Mr Peter van Dongen was appointed as independent auditor of the ANAO. We are looking forward to his engagement on the audit of the financial statements and administration of the office. In this context, I would also like to acknowledge the significant contribution of the previous independent auditor, Mr Geoff Wilson, who performed the role for the past eight years.

The year ahead

The role of the ANAO has never been more important for good government in Australia. Looking ahead, we will need to manage the complexity and interconnectedness in our environment to inform the Parliament and the Government on issues relating to the performance of public sector administration.

Our primary goals for the year ahead will be to discharge our responsibilities to our usual high standard, while continuing to improve the quality of our work; and to recognise, in our decision-making, the critical contribution that our staff make to our success.

We will continue to work with the Department of Finance and the JCPAA to progress changes intended to improve the public sector financial management framework, including developments in relation to performance information and reporting and the implementation of the *Public Governance, Performance and Accountability Act 2013*.

I expect that, building on our earlier efficiency initiatives, we will be able to manage within our available funding during 2014–15. However, the funding outlook is challenging and expected to impact on the number of performance audits the office will be able to undertake in the forward years. In this context, we appreciated the support of the JCPAA in recommending that steps be taken in next year's Budget to place the ANAO on a more financially sustainable footing, to ensure that our essential work in scrutinising government processes and

expenditure is properly resourced and there is no further reduction in the number of performance audits conducted.

We expect tangible benefits to emerge from our investment in our online presence and capability in the year ahead, as we progress initiatives that enhance the online accessibility of our reports. We have delayed the conduct of our regular parliamentary survey, which will now be completed in early 2015, in order to allow new members and senators in the Forty-fourth Parliament sufficient time to familiarise themselves with the ANAO's reports and better practice guides.

We will also progress initiatives designed to enhance the performance audit operating model and achieve more balance in the timing of the delivery of our performance audit program. These include plans to improve the scheduling and project management of audits and the ability of our staff to effectively identify and exploit opportunities for improvement. At the same time, we will continue to invest in leadership initiatives directed at achieving our desired business outcomes and building organisational capability.

As we progress these initiatives in the coming year, we will retain our clear commitment to audit quality, better public administration and better outcomes for Australia.

Concluding comments

The high regard in which the ANAO is held is due to the commitment and professionalism of my staff and senior leadership group, and the contractors who work with us. Our work has gained wide parliamentary and community respect, and is also well regarded internationally. I wish to thank all ANAO staff and those who work with us for their skills, knowledge and dedication, and for the strong support given to me this year, and in previous years, to allow me to discharge my statutory responsibilities.

I also appreciate the respect shown to the office by the key stakeholders we engage with, including the Parliament and its committees particularly the JCPAA, and the executive government.

lan McPhee Auditor-General

overview PART 2

Role

The role of the Australian National Audit Office (ANAO) is to improve public sector performance and accountability through independent reporting on Australian Government administration to Parliament, the Executive and the public.

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

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

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

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



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

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

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



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

Vision

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

Organisation

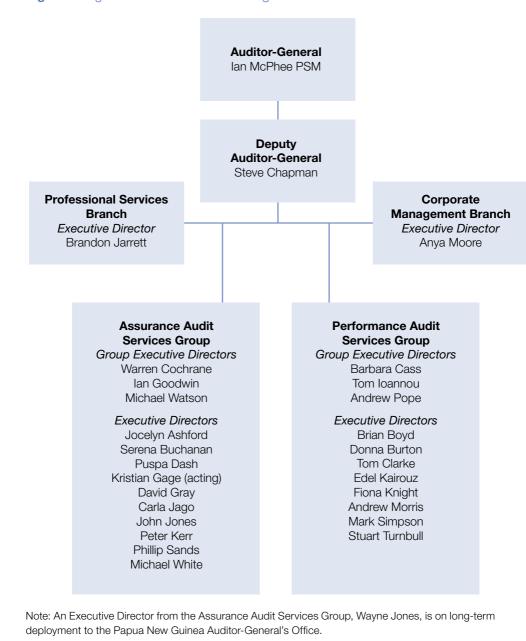
The ANAO is organised into two service groups and two support branches:

- The Assurance Audit Services Group provides independent assurance on the financial statements and financial administration of all Australian Government entities. It also conducts assurance reviews such as the review of the annual Defence Materiel Organisation major projects report.
- The Performance Audit Services Group contributes to improved public sector administration and accountability by conducting performance audits of Australian Government entities and producing related publications.
- The Professional Services Branch provides technical support—including quality assurance and the provision of information to auditees through newsletters and technical seminars—to the service groups and the Auditor-General.
- The Corporate Management Branch provides administrative support, including the coordination of corporate governance activities, human resources, finance, external relations, IT and building services.

The ANAO is located in Canberra.

The organisational and senior management structure of the ANAO at 30 June 2014 is shown in Figure 1.





Outcome and programs framework

The ANAO's outcome and programs framework is set out in its Portfolio Budget Statements, which sit administratively within the portfolio of the Prime Minister and Cabinet. Part 3 of the annual report describes the ANAO's performance against the measures set out in its Portfolio Budget Statements and Business Plan for 2013–14.

The framework for 2012–13 consisted of two outcomes and two programs. In 2013–14, the ANAO transitioned to a single outcome, to better reflect the ANAO's role in providing assurance to Parliament, the Executive and the public. The two programs were retained with a fresh statement of objectives, as shown in Figure 2. In addition to its two programs, the ANAO administers a special appropriation for the remuneration of the Auditor-General.

Figure 2 Outcome and programs framework, 2013–14

Outcome 1

To improve public sector performance and accountability through independent reporting on Australian Government administration to Parliament, the Executive and the public.

Program 1.1 Assurance Audit Services	Program 1.2 Performance Audit Services
The objectives of this program are:	The objectives of this program are:
 to provide assurance on the fair presentation of financial statements of the Australian Government and its entities by providing independent audit opinions and related reports for the information of Parliament, the Executive and the public to contribute to improvements in the 	to report objectively on the performance of Australian Government programs and entities, including opportunities for improvement, by undertaking a program of independent performance audits and related reports for the information of Parliament, the Executive and the public
financial administration of Australian Government entities	 to contribute to improvements in Australian Government administration by identifying and promoting better practice
 to contribute to the auditing profession and public sector developments nationally and internationally. 	



Financial summary

The ANAO's overall financial position remains sound. The year 2013–14 ended with a modest operating surplus of \$0.444 million (down from \$3.395 million in 2012–13). A major factor contributing to the decreased surplus was a greater use of contractors and a contingent workforce, partly to meet the short-term workloads associated with machinery of government changes. The ANAO continues to tightly monitor ongoing costs, implications for the forward budget years, and opportunities to introduce additional efficiencies in work practices.

Financial resources for 2013–14, on an outcome–program basis, are summarised in Table 19 and Table 20 in Part 5 of this report. Part 5 also includes the ANAO's financial statements and commentary on financial performance for 2013–14.

Results at a glance

As part of revising its outcome and programs framework for 2013–14, the ANAO updated its key performance indicators to improve overall readability and clarify the performance being measured. In particular:

- new indicators were added in relation to the percentage of entities that acknowledge the value added by ANAO services, for both programs
- the annual Defence Materiel Organisation major projects report, previously a deliverable of Program 2.1, was incorporated into the deliverables for Program 1.1.

As Table 1 shows, the performance measures for 2013–14 were met and in some cases exceeded.

The gross cost of delivering Outcome 1 in 2013–14 was \$78.37 million.

Table 1 Summary of performance against 2013–14 Portfolio Budget Statements deliverables and performance indicators Indicators

	Target	Result
Deliverables		
Program 1.1		
Number of financial statement audit opinions issued	260	260
Number of other assurance reports produced ^a	60	76
Number of financial statement related reports produced	2	2
Program 1.2		
Number of performance audit reports presented ^b	50	50
Number of better practice guides and other reports produced	3	3
Number of appearances and submissions to parliamentary committees	20	22
Shared		
Number of engagements that contribute to public sector auditing and support developing nations	40	42
Key performance indicators		
Program 1.1		
Percentage of parliamentarians surveyed expressing satisfaction with assurance provided by ANAO audit opinions issued in relation to the financial statements of the Australian Government and its entities ^c	90	n/a
Percentage of Australian Government entities that are provided with an audit opinion for tabling in the Parliament	100	100
Percentage of Australian Government entities that acknowledge the value added by ANAO services	90	96
Program 1.2		
Percentage of parliamentarians surveyed expressing satisfaction with ANAO services directed towards improving Australian Government administration ^c	90	n/a
Percentage of recommendations included in performance audit reports agreed by audited entities	90	99.5
Percentage of Australian Government entities that acknowledge the value added by ANAO services	90	84

a Includes the annual Defence Materiel Organisation major projects report and a report on the ANAO's pilot project to audit entity key performance indicators.

b These deliverables are dependent on ANAO capacity and changes to the public sector environment which influence the scale and scope of the performance audits undertaken.

c The ANAO Parliamentary Survey planned for 2013–14 was deferred by one year following the commencement of the Forty-fourth Parliament. The next ANAO Parliamentary Survey will be completed during 2014–15 and the results will be included in the 2014–15 Annual Report.

REPORT ON PERFORMANCE PART 3

Program 1.1—Assurance Audit Services

Financial statement audits

The audit reports that the Australian National Audit Office (ANAO) prepares on the financial statements of Australian Government entities provide independent assurance that the financial statements have been prepared in accordance with the Government's financial reporting framework and give a true and fair view of entities' financial performance. In 2013–14, the ANAO's audits of financial statements assisted Australian Government entities to fulfil their annual accountability obligations under the *Financial Management and Accountability Act 1997* (FMA Act), the *Commonwealth Authorities and Companies Act 1997* or the *Corporations Act 2001*.

Methodology

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

- have been prepared in accordance with the Government's financial reporting framework
- give a true and fair view (in accordance with Australian Accounting Standards) of the entity's financial position, financial performance and cash flows.

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

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

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

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

Financial statement audits—period ended 30 June 2013

The report *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2013* was tabled in December 2013. This report summarised the final result of the audits of the 2012–13 financial statements of Australian Government entities and the Consolidated Financial Statements of the Australian Government. It also provided information about audit findings and key governance and control activities, such as the certificate of compliance, and commented on key developments in the financial reporting and auditing framework that affect the Australian Government and its reporting entities.

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

Internal control issues identified by the ANAO during the final phase of the 2012–13 audits related to:

- controls in entities' IT environments, such as user access and the segregation of duties
- asset management processes, including the valuation of assets and reporting of inventory
- business system processing controls
- documentation of defined policies and procedures.

These issues are generally consistent with the issues identified by audit findings in previous years.

Financial statement auditors' reports

Where an entity's financial statements have been prepared in accordance with the Government's financial reporting framework, and fairly represent its financial operations and position, the audit opinion is 'unmodified'. Without modifying the opinion, an auditor's report may include:

- an 'Emphasis of Matter' paragraph, which draws the reader's attention to matters disclosed in the financial statements that, in the auditor's judgement, are of fundamental importance to the understanding of the financial statements
- a 'Report on Other Legal and Regulatory Requirements', which addresses additional responsibilities supplementary to the auditor's reporting responsibilities for the financial statements.

The need to modify an audit opinion can arise for a number of reasons, including material misstatement of the final balances or insufficient appropriate audit evidence to enable the Auditor-General to form an opinion. By developing and maintaining professional working relationships, the ANAO seeks to support efforts by each entity's management to mitigate factors that may result in a modified audit opinion.

As shown in Table 2, for the 2012–13 financial year, 260 financial statement audit reports were issued, of which none included a modified opinion, five contained an emphasis of matter, and 22 included a reference to other legal and regulatory requirements.

Table 2 Summary of auditors' reports on financial statements for the 2011–12and 2012–13 financial years

	Financial year ended	
	30 June 2013	30 June 2012
Reports issued with an unmodified opinion	260	261
 including an Emphasis of Matter paragraph 	5	6
 including a Report on Other Legal and Regulatory Requirements 	22	21
Reports issued with a modified opinion	0	0
Total reports	260	261
Reports outstanding	0	0
Total audits ^a	260	261

a Includes the auditor's report on the Consolidated Financial Statements of the Australian Government. There were eight outstanding auditors' reports at the time of tabling of report No.13 2013–14, *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2013.* The reports were subsequently finalised during 2013–14.



Governor of the Reserve Bank of Australia Glenn Stevens and Auditor-General Ian McPhee signing off on the audit of the bank's 2012–13 financial statements.

Clearance deadlines

The ANAO plans financial statement audits so that audit clearance and audit reports are able to be issued in accordance with Australian Government timelines. For the 2012–13 financial year, the then Department of Finance and Deregulation set 15 August 2013 as the audit clearance deadline for material entities (which comprise some 99 per cent of the income, expenses, assets and liabilities of the Australian Government). For non-material entities, the date was 30 August 2013.

Some 80 per cent of material entities and 68 per cent of non-material entities met their clearance deadlines for 2012–13. This was an increase from 2011–12, when 79 per cent of material entities and 64 per cent of non-material entities met the deadlines.

As in previous years, the ANAO completed approximately 90 per cent of the 2012–13 audits within four months of the end of the financial year. The proportion of auditors' reports signed within two days of the signed financial statements dropped slightly, to 98 per cent for the 2012–13 financial statements from 100 per cent for the 2011–12 financial statements.

Certificates of compliance

The chief executives or directors of Commonwealth entities are required to annually provide the minister responsible for their entity with certification that the entity has complied with the requirements of legislation governing financial management.

The ANAO monitors the results of entities' certificate of compliance reporting to help assess whether there are any significant or systemic compliance issues that may have an impact on the audits of the financial statements.

In January 2014, the Department of Finance advised that entities reported a total of 14,027 breaches in 2012–13. This represents an increase in reported non-compliance of about 10 per cent since 2011–12, when 12,798 breaches were reported. The department also advised that the increase in non-compliance for 2012–13 can be attributed to a new mandatory reporting requirement in the *Commonwealth Procurement Rules*, which came into effect on 1 July 2012.



Interim phase of the financial statement audits—period ended 30 June 2014

The report Interim Phase of the Audits of the Financial Statements of Major General Government Sector Agencies for the year ending 30 June 2014 was tabled in June 2014. This report presented the results of the interim phase of the audits of the 2013–14 financial statements of 23 agencies that collectively represent some 95 per cent of total general government sector revenues and expenses.

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

Although there was a small increase in the number of audit findings compared to the results for 2012–13, the results of the 2013–14 interim audit phase identified that, overall, control activities relating to financial and accounting processes had continued to be maintained at an effective level. Control issues identified by the audits related to areas such as: IT general and application controls, particularly the management of privileged and other user access to key financial business systems; the timely capitalisation of assets to enable the accurate calculation of depreciation; the maintenance of complete and accurate asset registers; and consistency of impairment assessments.

The ANAO's financial statements audits include an assessment of the internal controls in relation to systems that produce material financial statement balances. Significant balances that are reported in the Australian Government's Consolidated Financial Statements, and in the financial statements of individual Australian Government entities, include payments to the states and territories under the *Federal Financial Relations Act 2009*. Those payments are made in accordance with various National Partnership agreements. The ANAO suggested that, as those arrangements continue to evolve, relevant agencies will benefit from exploring opportunities to introduce mechanisms for obtaining additional assurance over the integrity of information provided by the states and territories, particularly where Commonwealth payments depend on that information.

Machinery of government changes affected several portfolio departments and their programs as a result of the Administrative Arrangements Order of 18 September 2013. The audits of the 2013–14 financial statements of the affected departments will consider a number of significant matters related to these changes, including the establishment of new delegations, the transfer of appropriations and related financial reporting balances between departments, and cross-agency agreements and dependencies in relation to service delivery.

Significant machinery of government changes include the following:

- Resources and energy functions of the former Department of Resources, Energy and Tourism were transferred to the Department of Industry. The Department of Industry also assumed responsibility for the Adult Migrant English Program from the former Department of Immigration and Citizenship, and the Anti-Dumping Commission from the Australian Customs and Border Protection Service.
- Eight functions were transferred from the former Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education to other Australian Government entities, covering a broad spectrum of government initiatives in areas such as carbon pricing and markets, international climate change policy, tertiary education, Indigenous education, and student support.
- Responsibility for aged care and population ageing was transferred from the former Department of Health and Ageing to the Department of Social Services. A number of Indigenous-specific programs and functions, involving major personal benefit activity, were transferred to the Department of the Prime Minister and Cabinet. The Department of Health assumed responsibility for sport and recreation policy from the former Department of Regional Australia, Local Government, Arts and Sport.
- The Department of Education assumed responsibility for functions relating to education previously undertaken by the former Department of Education, Employment and Workplace Relations and the former Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education. These changes involve complexities in relation to the integration of accounting, including the establishment of a shared services centre with the Department of Employment.



- A number of functions of the former Department of Immigration and Citizenship were transferred to other departments, including arrangements for the settlement of migrants and humanitarian entrants, and multicultural affairs, which were transferred to the Department of Social Services; and migrant adult education, which became the responsibility of the Department of Employment.
- The Australian Agency for International Development was abolished and responsibility for international development was transferred to the Department of Foreign Affairs and Trade from 1 November 2013.
- Responsibility for the arts was transferred to the Attorney-General's Department from the former Department of Regional Australia, Local Government, Arts and Sport.

CASE STUDY

The Australian Government's Administrative Arrangements Order of 18 September 2013 made substantial changes to the machinery of government. As a result of the order, many major functions were transferred between portfolios, requiring considerable planning and negotiation between entities and impacting on the ANAO's approach to the audits of the 2013–14 financial statements of affected entities.

The experience of the former Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education, now the Department of Industry, demonstrates the extent and complexity of the issues that the ANAO's financial statement audit teams face.

Several functions were transferred to and from the department, with the most significant change being the transfer of the resources and energy functions from the former Department of Resources, Energy and Tourism (which was abolished on 18 September 2013). That change has presented challenges for both the department and the financial statements audit team, as the Department of Industry is required to report on the transferred functions from 1 July 2013, as if they had always been that department's responsibility.

Additionally, the value of other functions transferred as a result of the Administrative Arrangements Order has been significant: one example is the transfer of the higher education functions previously administered by the Department of Industry, including the Higher Education Loan Program scheme, to the newly established Department of Education.

Although the volume of assets, staff and systems affected by the recent changes has been greater than on some previous occasions, the fact that the department has managed other significant changes in recent years and undertaken sound planning has meant that the department has been well placed to manage this transition. However, the breadth and magnitude of the changes have meant that the implementation has been both resource- and time-intensive. A challenge for the department has been the task of reconciling 'what was' with 'what is'.

The success of the transition and subsequent audit has been made possible by the planning and cooperation of the ANAO and the departmental staff. The ANAO's financial statement audit team has worked in consultation with the department's staff to incorporate a level of flexibility within the ANAO's audit approach and to facilitate the effective completion of the audit within the whole-ofgovernment timeframes.

The audit team has also entered into agreements with a number of other ANAO audit teams that each have some responsibility for auditing the assets, liabilities or functions transferred to or from the department as a result of the Administrative Arrangements Order. Effective communication and consultation between the teams have been critical, given that different audit teams are responsible for the audit of elements of the assets, liabilities and functions in the periods up to or following 18 September 2013.

The final outcome of this financial statement audit will be included in the ANAO's report on the audits of the financial statements of Australian Government entities for the period ended 30 June 2014, which is scheduled to be tabled in Parliament in December 2014.

Fees

Under section 14 of the Auditor-General Act, audit fees are based on a scale determined by the Auditor-General. The audit fees calculated for financial statement audits are based on a cost-recovery model using accrual-based costing to determine an hourly charge-out rate for each staff category. The costing model takes into account all relevant costs, including the attribution of overhead costs. The audit fees for each financial statement audit are disclosed in the annual financial statements of each entity audited by the ANAO.

Agencies that were governed by the FMA Act in 2013–14 will disclose the notional cost (fee) for auditing their financial statements as advised by the ANAO. Notional cost recovery involves accounting for the costs of performing the service without actually billing the recipient.

Commonwealth companies and authorities and their subsidiaries are liable to pay fees for the audit of their financial statements by the ANAO in 2013–14. The ANAO receives such payments as administered receipts on behalf of the Government. The revenue is not used to fund the operations of the ANAO but is instead paid directly into Consolidated Revenue. The revenue and receipts are reported as administered activities in the ANAO annual financial statements.

The principle inherent in these arrangements is that the Parliament should appropriate funds directly to the ANAO for its essential auditing responsibilities, and the ANAO should not be dependent on audit fee income to fund its operations.

An entity may request additional assurance audit services that involve the payment of fees to the Auditor-General under section 20(2) of the Auditor-General Act. Revenue from such payments is retained by the ANAO.

Assurance reviews

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

Key performance indicator pilot project

The Auditor-General Act provides authority for the Auditor-General to audit the appropriateness of Australian Government entities' key performance indicators (KPIs) and the reporting by those entities against their KPIs.

As a basis for the implementation of a future program of audits of entities' KPIs, the ANAO conducted a pilot project to assess the status of the Australian Government's performance measurement and reporting framework, and to develop a suitable audit methodology. The second report on the project, ANAO Report No.21 2013–14, *Pilot Project to Audit Key Performance Indicators*, was tabled in February 2014. The report is summarised in Appendix 2.

The second report of the pilot project confirmed that the administrative framework supporting the development and auditing of KPIs remains problematic and that agencies' implementation of performance measurement and reporting requires more focused attention.

In response, the Department of Finance advised that it was progressing a more coherent framework through the Public Management Reform Agenda, the development of which will be finalised during 2014.

In the longer term, once an enhanced performance measurement and reporting regime has been established, greater assurance will be provided if agency information is subjected to audit. However, the extent of future work undertaken by the ANAO will need to be agreed and resourced appropriately in order to implement a broader regime of KPI audits.

Major projects report

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

The intention was for the ANAO to report on up to 30 major projects. In the sixth and most recent report, Audit Report No.12 2013–14, *2012–13 Major Projects Report*, the ANAO reported on 29 projects. The report is summarised in Appendix 2.

The major projects review is based on guidelines endorsed by the Joint Committee of Public Accounts and Audit (JCPAA) and the Auditor-General's review scope, and is not as extensive in terms of evidence gathering as the scope of a performance audit.

The 2013–14 major projects report will be the seventh such annual report to Parliament and will report on 30 projects. It will build on previous reports, further enabling longitudinal analysis of Defence major projects.

Other assurance engagements

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

Ministers or entities can request the ANAO to review activities on a cost-recovery basis, and a number of entities seek reviews or audits of their half-year financial statements as part of their corporate governance arrangements. ANAO services also include grant acquittal certificates, assurance on performance information and other special purpose engagements.

In addition to its work on agency key performance indicators and Defence major projects, the ANAO conducted 74 other assurance engagements during 2013–14 (an increase from 62 in 2012–13). The increase was mainly due to additional special purpose engagements relating to Norfolk Island, the Future Fund, Australia Post, and other entities.

DEVELOPMENTS IN PUBLIC SECTOR FINANCIAL REPORTING AND AUDIT

Ongoing developments in accounting and auditing frameworks and standards continue to have an impact on the financial reporting responsibilities of public sector entities and on the ANAO's auditing methodology. The ANAO assists entities through client seminars and publications that explain new regulatory and accounting requirements.

As a result of changes flowing from new accounting standards released by the Australian Accounting Standards Board (AASB), most government agencies are now required to explain, in more detail, how they calculated the reported fair values of their assets and liabilities. From 2014–15, they will also report their performance against budget, and explain any major variances from budget estimates.

On 1 July 2013, the AASB implemented an optional reduced disclosure regime which allows certain entities to reduce the length of their financial reports by omitting specified note disclosures, with the approval of the relevant regulator. The Finance Minister is the regulator for Australian Government entities and has not endorsed the adoption of the reduced disclosure regime at this time. In addition to the changes in Australian Accounting Standards during 2013–14, significant changes to the financial reporting framework are underway, both in Australia and internationally. Projects specific to the public sector include work in the areas of: disclosure of transactions with related parties; reporting of service performance; and new accounting rules for grants, taxes and appropriations. Projects that are aimed primarily at the private sector, but have public sector implications, include major revisions to the accounting standards on reporting of financial instruments, revenue recognition and lease accounting.

The main change to auditing requirements during the year flowed from the issuing of a substantially revised standard, ASA 610 *Using the Work of Internal Auditors*, by the Australian Auditing and Assurance Standards Board in November 2013. The revised standard applies to reporting periods commencing on or after 1 January 2014, and includes an express prohibition on using the internal auditor to perform audit procedures under the direction, supervision and review of the external auditor.

Program 1.2—Performance Audit Services

Performance audits

The ANAO's performance audit activities commonly involve the audit of all or part of an entity's operations and will usually consider the extent to which intended outcomes are being achieved, whether processes can be undertaken more effectively or efficiently, and the extent of compliance with relevant legal and policy frameworks. The ANAO reports to Parliament on areas where improvements can be made to aspects of public administration and makes specific recommendations to assist public sector entities to improve their program management performance.

Performance audits may also involve multiple entities and examine common aspects of administration or the joint administration of a program or service. In 2013–14, cross-entity audits covered topics as diverse as procurement, security of agencies' ICT systems, and implementation of ANAO audit recommendations.

The Auditor-General Act authorises the Auditor-General to conduct a performance audit of any Commonwealth entity or company or its subsidiaries. The Auditor-General may also conduct a performance audit of a fully owned government business enterprise or its subsidiaries, if the responsible minister, the Minister for Finance or the JCPAA requests the audit.

The Act also authorises the Auditor-General to conduct a performance audit of a Commonwealth partner in certain circumstances. Commonwealth partners include contractors and state and territory bodies that have received money to achieve a Commonwealth purpose and have agreed to use the money in achieving that purpose or have entered into a contract which relates to that purpose. Audits of Commonwealth partners that involve state or territory governments must be requested by the JCPAA or the responsible minister.

Audit focus areas in 2013-14

The ANAO's audit work program is informed by regular assessment of contemporary issues in the Australian public sector environment, the operations of entities, the expectations of government, and the views of parliamentary committees.

The ANAO also takes into account risks, financial materiality, program significance, audit impact, program visibility and the extent of recent audit and evaluation coverage when implementing its audit work program. Audits undertaken in 2013–14 covered a range of areas of public administration identified by the ANAO through its planning processes, including service delivery, grants management and procurement.

In addition, the Auditor-General receives requests from individual parliamentarians, parliamentary committees and members of the public to conduct audits or investigations of elements of public administration. Where necessary to inform consideration of those requests, the ANAO may seek additional information—for example, by making inquiries to the relevant Australian Government entity.

In 2013–14, the Auditor-General received requests to examine a number of topics. Some matters were general in nature and did not result in an audit or review, while others related to matters outside the Auditor-General's remit. The following requests either fell within the scope of existing work or became the subject of an audit or review:

- The Senate Environment and Communication References Committee made a request in the context of its inquiry into the effectiveness of threatened species and ecological communities protection in Australia. This topic was already being audited.
- Senator Nick Xenophon made two requests in relation to the 'By boat, no visa' government advertising campaign. The ANAO published responses to the requests on its website.



The Joint Standing Committee on Electoral Matters made a request in relation to the Australian Electoral Commission's implementation of previous audit recommendations. The ANAO responded by initiating a series of three audits. The report of the first of these, Audit Report No.31 2013–14, *The Australian Electoral Commission's Storage and Transport of Completed Ballot Papers at the September 2013 Federal General Election*, was tabled in May 2014. The second audit is ongoing and the third audit has been included in the ANAO's forward audit work program.

Also during 2013–14, the ANAO completed the report of its first audit involving Commonwealth partners, which was undertaken in response to a request made by the JCPAA in March 2012.

CASE STUDY

In August 2013, the report of the first audit completed under section 18B of the *Auditor-General Act 1997* was tabled in Parliament. Section 18B was introduced in 2011, and allows the ANAO to audit, at the request of the responsible minister or the Joint Committee of Public Accounts and Audit, a Commonwealth partner that is part of, or controlled by, the government of a state or territory.

The report, Audit Report No.2 2013–14, Administration of the Agreements for the Management, Operation and Funding of the Mersey Community Hospital, examined the management, operation and funding of the only Australian hospital that is both owned and directly funded by the Commonwealth. At the time of the audit, the Mersey Community Hospital, which is located in North West Tasmania, was administered under a heads of agreement between the then Australian Government Department of Health and Ageing and the Tasmanian Government Department of Health and Human Services. The Tasmanian Health Organisation-North West assumed day-to-day management responsibility for the hospital from 1 July 2012, and was also involved in the audit.

The objective of the audit was to assess the effectiveness of the arrangements established for the management, operation and funding of the hospital. Emphasis was given to whether Commonwealth funds were being used in accordance with the agreement, and the audit scope included consideration of whether the Commonwealth's objectives for acquiring the hospital were being achieved.

Although the audit objective was similar to those of other performance audits, the need for detailed consultation and ongoing engagement with state government agencies made this audit unique. The audit team placed a heavy emphasis on effective communication, with senior officers from the ANAO travelling to meet with senior managers from the Tasmanian agencies involved in the audit.

The audit report concluded that, in general, the administration of the heads of agreement for the hospital had been effective in facilitating the delivery of a range of agreed clinical services. However, the audit also observed that the unique arrangements for the management and operation of the hospital involved additional cost, complexity and risk compared to the standard model for Commonwealth funding of public hospitals.

The ANAO made five recommendations designed to enhance the utility of the hospital, provide greater assurance regarding the use of Commonwealth funds, and strengthen the measurement of achievements against the hospital's program objectives. All three agencies agreed to the recommendations.

In its response to the audit, the Tasmanian Department of Health and Human Services acknowledged the collaborative approach adopted by the ANAO, noting that the audit was the first to be conducted under section 18B of the Act and thus new territory for a state government. The ANAO also acknowledged the constructive approach taken by all parties to the audit.



The Mersey Community Hospital.



Issues identified in 2013-14

In 2013–14, 50 performance audits were tabled, involving all Australian Government portfolios (51 performance audits, involving all portfolios, were tabled in 2012–13). Appendix 2 includes a summary of each performance audit tabled during the year.

The range of topics covered by performance audit reports conveys the diversity of Australian Government programs and services. The findings in 2013–14 were often complimentary of the standard of public administration. However, they also highlighted recurring issues and shortcomings.

An analysis of the performance audit reports tabled in the past two financial years identified a variety of matters subject to audit findings. Three key areas for improvement in administration are outlined in Table 3.

Element of performance	Areas for improvement
Performance monitoring and reporting	Developing and implementing meaningful key performance indicators from the early stages of a program continues to be a challenge for many entities. As a result, the ability to measure and report on program effectiveness and provide informed policy advice to government can be constrained.
Risk management	Entities have improved risk identification and management. However audits have indicated that risk management is not consistently applied within entities and used as a management tool across the life-cycle of programs.
Consistency with policy frameworks for grants and procurements	While entities have generally improved their management of grants and procurement, examples still arise where practices have not been consistent with all aspects of the relevant frameworks and requirements. There are opportunities for entities to make greater use of implementation experience that may exist within the entity to inform and guide approaches in other parts of entities which would assist in developing stronger capabilities overall.

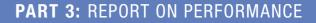
Table 3 Common areas for improvement identified in performance audits,2013–14

The introduction of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) on 1 July 2014 places a strong emphasis on performance reporting and its role in assisting the public sector to meet the Government's goals. Public sector entities will continue to be required to develop and implement effective KPIs that allow for informed assessment and reporting of progress against program objectives. Quality reporting will help the Government to make better informed decisions about the potential continuation, expansion or discontinuation of programs. ANAO performance audit reports over the past decade have consistently reported that entities have fallen short in developing and reporting against meaningful KPIs, and this is likely to be an area of continuing challenge for all entities.

The PGPA Act also introduces a requirement for the accountable authority of each entity to establish an appropriate risk oversight and management system. This presents an opportunity for entities to review their current engagement with risk and to embrace the potential for productivity gains and innovation through a combination of prudent risk taking and active risk management.



Performance auditors Kate Cummins, Jillian Blow and Jay Reid conducting fieldwork.



Number, duration and cost of performance audit reports

Table 4 shows the average cost and length of time taken to complete performance audits in the past three financial years.

Table 4 Number, cost and duration of performance audit reports,

2011-12 to 2013-14

Year	Number of performance audits		Time taken to complete reports (months)		Cost per report (\$'000)ª	
	Target	Result	Average	Range	Average	Range
2013–14	50	50	12.1	2.4–26.6	500	200–900
2012–13	52	51	11.4	2.9–21.2	390	200–700
2011–12	55	52	12.3	4.5–19.8	460	200–900

a Cost is calculated on a nominal cost-recovery basis using an accrual-based costing model.

Responses from audited entities

2011-12

ANAO performance audits make recommendations to improve the administration, accountability and service delivery performance of the audited entity. Entities are not required to agree to the recommendations of performance audits. However, where an entity has agreed to a recommendation, implementation of that recommendation should be timely and in line with its intended outcome to achieve the full benefit of the recommendation.

In 2013–14, 94.3 per cent of the recommendations made by the ANAO were fully agreed by the relevant agencies. Table 5 provides details of the extent to which entities have agreed with ANAO performance audit recommendations in the past three financial years.

Year Recommendations Recommendations **Recommendations** Recommendations fully agreed (%) agreed with some not agreed (%) (no.) qualification (%) 2013-14 5.2 113 94.3 0.5 2012-13 98 99.0 1.0 0.0

95.1

Table 5 Agreement to recommendations in performance audit reports,2011–12 to 2013–14

144

0.0

4.9

Better practice guides

The ANAO's better practice guides aim to improve public administration by sharing better practice and providing practical guidance. They may be developed in response to an identified need for guidance in a particular area of public administration, or as a result of the conduct of an ANAO performance audit which indicates a new or challenging area of public administration in which guidance would be useful.

The ANAO published three better practice guides in 2013–14, replacing existing guides in the areas of grants management, administering regulation and public sector governance. The new guides are summarised in Table 6.

Title	Description
Implementing Better Practice Grants Administration 6 December 2013	Grants administration is an important activity for many Commonwealth entities, involving the payment of billions of dollars in public funds each year. In the light of the significant outlay of public funds and the issues arising from performance audits, since 1994 the ANAO has published a better practice guide on the administration of grants to encourage better administrative outcomes.
	The latest version was prepared in the environment of the revised legislative and policy framework for grants administration which came into effect on 1 June 2013, with the release of the second edition of the <i>Commonwealth Grant Guidelines</i> . The focus of the revised framework remains on the establishment of transparent and accountable decision-making processes for the awarding of grants, but also includes a renewed focus on risk management and the achievement of outcomes. It includes a number of mandatory requirements, as well as outlining various better practice principles of the <i>Commonwealth Grant Guidelines</i> .
Administering Regulation 10 June 2014	An appropriate level of effective regulation is an essential part of well- functioning economies and supports the achievement of economic, social or environmental policy objectives. In designing regulatory approaches governments need to strike a balance between the obligation to protect the community or public interest, and the need to avoid imposing unnecessary costs on those they regulate or on the broader community.
	In providing updated guidance on how to efficiently and effectively administer regulation, this guide has been revised to reflect the changing focus of regulatory administration. In particular, greater attention is given to the importance of risk management, effective stakeholder engagement, the value of data analysis as a source of regulatory intelligence, regulator behaviour, and regulator and regulatory performance. Better practice principles are outlined in the guide to assist Australian Government regulators in assessing the quality of their administrative practices and identifying where improvements can be made.

Table 6 Better practice guides published in 2013–14

Title	Description
Public Sector Governance 26 June 2014	Good governance arrangements position public sector entities to achieve the best results for government and the Australian community, consistent with legislative and policy requirements, and to efficiently and effectively
20 0010 2014	meet their responsibilities in a sustainable manner. This guide reinforces the fundamental elements of good governance and builds on them to address contemporary issues and challenges. Particular attention is given to the importance of showing leadership, engaging in beneficial stakeholder relationships, and working collaboratively across entity, jurisdictional and sector boundaries to enhance policy outcomes. The guide emphasises the importance of a highly performing public sector in the context of fiscal constraints and public expectations for continuous improvements in services, transparent processes, and increasing levels of stakeholder engagement in aspects of governance, policy development and planning. The release of the revised guide was timed to coincide with the commencement of the substantive provisions of the <i>Public Governance</i> , <i>Performance and Accountability Act 2013</i> .

Shared components

Assistance to Parliament

The ANAO supports the work of Parliament by providing independent assurance and opinion, including information and assistance, to ministers, shadow ministers and other parliamentarians and to parliamentary committees, particularly the JCPAA. This includes briefings on audit reports and the contribution that the implementation of audit recommendations can make to improvements in public administration.

Joint Committee of Public Accounts and Audit

The primary purpose of the JCPAA has remained essentially unchanged since the committee was established in 1913: to hold Commonwealth agencies to account for the lawfulness, efficiency and effectiveness with which they use public moneys.

Among its responsibilities, the committee considers the operations and resources of the ANAO. The committee is also required to review all ANAO reports which are tabled in Parliament and to report the results of its deliberations to both houses of Parliament. The JCPAA's primary purpose in reviewing audit reports is to assess whether audited agencies have responded appropriately to the Auditor-General's findings. Officers of the ANAO attend private briefings and public hearings as part of the JCPAA's review of audit reports. The JCPAA completed two reviews of the Auditor-General's reports in 2013–14:

- Report 442: Inquiry into the 2012–13 Defence Materiel Organisation Major Projects Report was tabled on 26 May 2014 and commented on Assurance Report No.12 2013–14, 2012–13 Major Projects Report
- Report 443: Review of Auditor-General's Reports Nos. 23 and 25 (2012–13) and 32 (2012–13) to 9 (2013–14) was tabled on 16 June 2014 and reviewed the following audit reports in detail:
 - Audit Report No.25 2012–13 Defence's Implementation of Audit Recommendations
 - Audit Report No.53 2012–13 Agencies' Implementation of Performance Audit Recommendations
 - Audit Report No.6 2013–14 Capability Development Reform.

The reports are available for download via the Parliament of Australia website.

The JCPAA also conducted an inquiry to consider the process for the development of rules, and the impact and purpose of those rules, for the PGPA Act. The committee's *Report 441: Inquiry into* Public Governance, Performance and Accountability Act 2013 *Rules Development*, was tabled on 13 May 2014.

The ANAO's submission and evidence to the inquiry drew on the ANAO's ongoing involvement in the consultative processes established by the Department of Finance in relation to the Australian Government's Public Management Reform Agenda. Representatives of the ANAO participated, as observers, on the Public Management Reform Agenda Project Board and various steering committees established by the department, to assist in the development of the rules and associated ministerial instruments and guidance material needed to support the PGPA Act (which came into full effect on 1 July 2014). The ANAO also liaised directly with the department on a range of associated issues.



Other parliamentary committees

Parliamentary committees other than the JCPAA may also conduct reviews which require representatives from the ANAO to appear or provide written submissions. In 2013–14, representatives of the ANAO made 22 appearances before and submissions to parliamentary committees, which was consistent with expectations. The decrease from 32 appearances and submissions in 2012–13 reflects a reduction in the number of opportunities to engage with parliamentary committees during the transition to a new Parliament.

In February 2014, the Joint Standing Committee on Electoral Matters wrote to the ANAO requesting further performance audit activity relating to the Australian Electoral Commission's implementation of earlier ANAO recommendations. The committee asked the ANAO to give priority to the commission's response and performance in implementing a recommendation relating to the physical security of completed ballot papers, and sought a report on the subject by mid-May 2014 if possible. Through the good work of ANAO staff, within a significantly compressed performance audit schedule, the first of three planned reports was tabled in Parliament in early May 2014.

National representation

As part of its objective to further the profession of public sector auditing, the ANAO engages with state and territory audit offices and relevant Australian professional associations.

Australasian Council of Auditors-General

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

The ANAO contributes to the council's work by attending business meetings, preparing discussion papers, participating in information exchanges, undertaking an annual benchmarking survey, and conducting peer reviews and training courses.

In 2013–14, staff from the ANAO were active on a number of the council's subcommittees, including the:

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

Executive memberships

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

- Auditor-General Ian McPhee is a member and deputy chair of the Australian Accounting Standards Board.
- Executive Director Peter Kerr is a member of the CPA Australia ACT Divisional Council.
- Executive Director Carla Jago is the public sector representative on the Audit and Advisory Committee of the Institute of Chartered Accountants Australia.
- Senior Director Summer Wesche is a member and chair of the CPA Australia ACT Public Sector Accountants Committee.

Information services

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

As part of this work the ANAO conducts client seminars to advise on topical and emerging issues, with a focus on improved financial reporting. Client seminars cover changes in financial reporting requirements affecting Australian Government entities. Two seminars, which over 99 per cent of participants rated as 'useful', were delivered via a web-based format in 2013–14.

During the year, ANAO staff accepted invitations to speak to Australian Government entities and other bodies on topical matters and issues arising from audit reports and better practice guides. More information on those presentations is in Appendix 3.

The forum of audit committee chairs, which is co-hosted by the ANAO and Department of Finance, met several times during 2013–14. The forum provides an opportunity for the ANAO to share knowledge and experience with the chairs of a range of audit committees.

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

- AUDITFocus captures lessons from audit work that are likely to be of general interest and application to entities. The September 2013 edition included articles on the ANAO's first performance audit involving Commonwealth partners, and an increased focus on public sector performance indicators, information and reporting.
- Opinions provides audit clients with information on developments in financial reporting together with details of the ANAO's recent performance audit activity and better practice guides. Four editions were published in 2013–14.

Both newsletters are available via the ANAO's website.

The ANAO maintains a web-based portal to support firms providing contract audit services. The website provides contractors with access to relevant ANAO policies, templates and technical guidance material.

CASE STUDY

Each year, the ANAO holds seminars to update financial management staff of Australian Government entities on changes to the Australian Accounting Standards and other financial reporting requirements.

Until recently, the seminars were held in Canberra, Melbourne and Sydney. For people not based in those cities, attendance at the seminars involved travel time and cost. The seminars were also costly in time and money for the ANAO. In 2012, the ANAO decided to reduce administrative effort and costs by delivering the seminars over the internet.

The ANAO held its first live online training seminar in March 2013. The seminar was well received by participants and the ANAO was satisfied that the online delivery medium was viable. The ANAO has now held four online seminars, with external service provider CPDlive successfully delivering all the logistical and administrative aspects.

The format of the online presentation is similar to that of the face-to-face presentation. Participants see a digital slide show and hear the presenters in real time. They can ask questions via a 'chat box'.

After the seminar, participants receive the slide show, speakers' notes and handouts by email. In addition, they can view a recorded version of the online presentation up to three times and hear a recording of the commentary, which allows them to extract elements for discussion within their teams. Feedback from participants has been very positive: more than 97 per cent of recent attendees rated the effectiveness of the seminars as 'good' or better and 100 per cent stated that the seminars met their objectives. Some wanted shorter sessions and more examples to illustrate the principles discussed. Based on that feedback, the ANAO is increasing the yearly number of seminars to three, making each seminar shorter and focused on a single topic, and providing worked examples.

As well as reducing costs, the online seminars have added value. For clients, they add flexibility: unlimited numbers of staff can participate in the live sessions, and staff can access the seminar content again at their convenience. For the ANAO, through the expertise of the service provider, online seminars reduce administrative overheads and allow presenters to deliver important content more effectively.



Professional Services Branch officers Vy Duong and Roger Cobcroft delivering a client seminar over the internet.



International representation and support to developing nations

During the year the ANAO maintained its commitment to engagements that contribute to public sector auditing internationally and support developing nations.

Supreme audit institutions and international visitors

The ANAO is a member of the International Organization of Supreme Audit Institutions (INTOSAI), which is dedicated to promoting the exchange of audit and financial management information among its member nations and providing a network for the international public sector audit community.

The ANAO also contributes to the activities of two INTOSAI regional organisations:

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

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

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



Performance Audit Services Group Executive Director Mark Simpson addressing a meeting of the Asian Organization of Supreme Audit Institutions Working Group on Environmental Auditing.

During 2013–14, the ANAO also:

- contributed to an Exposure Draft review of the International Standards of Supreme Audit Institutions
- participated in ASOSAI projects regarding fraud and corruption prevention
- responded to requests from other SAIs for written advice, on topics including citizen engagement, auditing taxation revenue, strategic planning, and the conduct of follow-up audits
- sent a representative to attend the PASAI congress in Guam
- participated in the INTOSAI Working Group on IT Audit, including by sending a representative to attend a meeting in Kuwait
- participated in the INTOSAI Working Group on Environmental Auditing, including by sending a representative to attend a meeting in Vietnam
- jointly hosted, with the Australian Capital Territory Auditor-General's Office, a meeting of the PASAI Working Group on Environmental Auditing in Canberra
- provided briefings to delegations from the Vietnamese Ministry of Finance, the Lao National Assembly, the Thai Ministry of Foreign Affairs, the Indonesian Ministry of Finance, the Papua New Guinea Department of Finance and the Malaysian Public Accounts Committee
- hosted visits by representatives from the Office of the Comptroller and Auditor General of Bangladesh, the Office of the Auditor General of Canada, the Office of the Auditor General of New Zealand, the State Audit Office of Vietnam, and the Audit Office of the Qingdao province in China.

The Auditor-General contributes to developing and maintaining these relationships by personally participating in international activities. In 2013–14, the Auditor-General:

- attended the twenty-first International Congress of Supreme Audit Institutions in China
- visited the Organisation for Economic Co-operation and Development in France to discuss areas of mutual interest, en route to attending the Commonwealth Auditors-General Conference in Malta
- visited the Indonesian Board of Audit (BPK) to attend the launch of a book highlighting the strength and importance of the relationship between the two organisations.

CASE STUDY

The International Organization of Supreme Audit Institutions (INTOSAI) is the world's second largest international organisation (second only to the United Nations). INTOSAI was established with 20 members in 1953; today it has 192 full members.

As Australia's representative audit body and a keen contributor to the international auditing community, the ANAO is an active member of INTOSAI. This role includes participation in the Asian and Pacific regional groups of supreme audit institutions and in international working groups on particular issues such as IT audits and environmental audits.

INTOSAI meets every three years at the International Congress of Supreme Audit Institutions (INCOSAI). The twenty-first meeting—the sixtieth anniversary—of the congress was held in Beijing in October 2013.

Three ANAO delegates, including the Auditor-General, attended the Beijing congress and contributed to the presentations and negotiations on behalf of Australia. The delegation prepared papers for each of the two major themes addressed at the congress: Theme 1—National Audit and National Governance, and Theme 2—The Role of Supreme Audit Institutions in Safeguarding the Long-term Sustainability of Finance Policies.

Australia was most heavily involved in the discussions of Theme 2, which concluded that supreme audit institutions should perform audits on public debt and medium- and long-term budgetary planning in order to play an effective role in sustainable development.

As joint rapporteurs for Theme 2, Australia and the United States were responsible for drafting the report on the discussions to be presented to the congress. The key elements of that report were endorsed by the congress and reflected in the *Beijing Declaration on Promotion of Good Governance by Supreme Audit Institutions*, which was adopted by the congress on its final day.

As well as contributing expertise, through its interactions with other delegations the Australian delegation gained an improved appreciation of current challenges facing the global auditing community and individual member countries. Such experience is invaluable in the ANAO's pursuit of its vision to be an international leader in the provision of independent public sector audit and related services.



ANAO delegates Kylie Jackson and Ben Sladic with Auditor-General Ian McPhee, attending the twenty-first International Congress of Supreme Audit Institutions.

Development cooperation

Through a strategic partnership agreement with the Department of Foreign Affairs and Trade, the ANAO participates in Australia's international aid program to assist and support other SAIs to build their institutional capacity. The agreement recognises the Australian Government's strategic whole-ofgovernment approach to enhancing good governance as an integral part of meeting development challenges, reducing poverty and protecting Australia's national interests. The ANAO participates in Australian Government programs in Indonesia and Papua New Guinea.

Indonesia

The Australia Indonesia Government Partnerships Fund (GPF) is a whole-ofgovernment program that facilitates and strengthens government-to-government partnerships and policy dialogue between Australia and Indonesia, in the pursuit of economic and public sector development. Through the program, the ANAO provides assistance to contribute to strengthening the BPK's performance and financial statement audit capacity.

The ANAO's activities under the GPF program align with key focus areas for strengthening public sector governance, such as institutional leadership engagement; senior management engagement; and technical assistance. A senior ANAO staff member is deployed to the BPK to offer performance audit support and advice.

Operating within the GPF program framework, the ANAO looks for innovative ways to assist the BPK to strengthen the technical and managerial aspects of its performance auditing and financial auditing. In 2013–14, the ANAO's activities included:

- work to strengthen the BPK's quality assurance processes
- support for the BPK's performance audit reporting, including the development and delivery of performance audit training for auditors in regional offices
- assistance with issues related to financial auditing, focusing on auditing in an accrual environment, which included engaging with the New South Wales Audit Office to develop and deliver training for BPK auditors

assistance with the development of the BPK's electronic working papers system.



Papua New Guinea

The ANAO has maintained links with the Papua New Guinea Auditor-General's Office (AGO) since the 1970s. Currently, the ANAO participates in two Australian Government programs in Papua New Guinea:

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

The Strongim Gavman Program is a whole-of-government engagement program involving Australian Government agencies, which provides capacity development assistance and advice to counterpart Papua New Guinea Government agencies. Its overarching goal is to assist the Papua New Guinea Government to strengthen the performance of key public sector agencies. The ANAO has been providing advisers to the AGO through the program since 2004. Two senior ANAO staff members are currently based in the AGO: a senior adviser to the Auditor-General and a performance audit adviser.

The goal of the Papua New Guinea–Australia Audit Office Twinning Scheme is to improve governance in Papua New Guinea by strengthening the performance of the AGO through individual capacity building. Under the scheme in 2013–14:

- AGO officers participated in the graduate programs of the Audit Office of New South Wales and the ANAO
- AGO managers were placed in the Queensland Audit Office
- AGO officers visited the ANAO to gain knowledge and insight into the ANAO's approach to human resource management, focusing on contemporary learning and development practices
- ANAO officers were seconded to the AGO to provide technical support for the development of the AGO's financial audit capability.

Stakeholder satisfaction

Feedback from stakeholders assists the ANAO to improve the quality and effectiveness of its audit services, providing an insight into the effectiveness of current practice and informing the development of new audit practices and approaches.

Client surveys

The ANAO conducts an annual survey to gain feedback from entities on the conduct of the audit of their financial statements for the previous financial year. The report on the conduct of the audit of 2012–13 financial statements presented the views of 165 entities (a response rate of 89 per cent, showing improvement compared to 85 per cent in 2012–13). The survey results were very positive and showed that 96 per cent of respondents acknowledged that ANAO services added value (an increase from 90 per cent in 2012–13) and 97 per cent acknowledged that ANAO staff had the required understanding and skills to perform their audits (an increase from 93 per cent in 2012–13).

After each performance audit report is tabled, the ANAO seeks feedback on the audit process by means of a survey and an interview with the responsible manager of the audited entity. The survey is completed by an independent firm of consultants engaged by the ANAO. Key matters on which feedback is sought include the audit process, audit reporting and the value of the ANAO's performance audit services more generally.

The response rate from auditees surveyed for the 2013–14 reporting period was 81 per cent, an increase from 74 per cent in 2012–13. The proportion of respondents that acknowledged the value added by ANAO services was 84 per cent, an increase from the 78 per cent recorded in 2012–13. The percentage of agencies that agree that ANAO staff have the necessary understanding and skills to carry out the work was 87 per cent, a slight decrease from the 2012–13 result of 90 per cent.

Feedback from Parliament

The contribution of performance audit services to the work of Parliament is reflected, in part, in the ANAO's appearances before and submissions to parliamentary committees. Parliamentary committee reviews of audit reports give entities an impetus to implement audit recommendations and contribute to the overall improvement of public administration resulting from performance auditing. In 2013–14, various parliamentary committees drew on the work of the ANAO and referred to ANAO reports during hearings.

The ANAO also formally surveys parliamentary stakeholders once every two years. The survey that was due to be conducted in early 2014 has been postponed until early 2015, to allow new members and senators in the Forty-fourth Parliament sufficient time to familiarise themselves with the ANAO's reports and better practice guides.

MANAGEMENT AND ACCOUNTABILITY PART 4

Corporate governance

The Australian National Audit Office (ANAO) has a structured governance framework that facilitates the effective management of business resources and other corporate activities to support the delivery of the ANAO's outcome.

Executive Board of Management

The Executive Board of Management assists the Auditor-General to meet his statutory responsibilities. The board is responsible for setting and monitoring the ANAO's strategic directions, oversighting key business opportunities and risks, and managing the ANAO's budget and workforce.



The Executive Board of Management at 30 June 2014. Front: Michael Watson, Steve Chapman, Ian McPhee and Anya Moore. Back: Ian Goodwin, Andrew Pope, Barbara Cass, Mitchell Frost and Tom Ioannou. Absent: Warren Cochrane.

The board meets each month. At 30 June 2014, the board's membership comprised:

- ▶ Ian McPhee (Chair), Auditor-General
- Steve Chapman, Deputy Auditor-General
- ▶ Warren Cochrane, Group Executive Director, Assurance Audit Services
- ▶ Ian Goodwin, Group Executive Director, Assurance Audit Services
- Michael Watson, Group Executive Director, Assurance Audit Services



- Barbara Cass, Group Executive Director, Performance Audit Services
- ► Tom Ioannou, Group Executive Director, Performance Audit Services
- Andrew Pope, Group Executive Director, Performance Audit Services
- > Anya Moore, Executive Director, Corporate Management Branch
- Mitchell Frost, Chief Finance Officer.

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

Audit Committee

The objective of the Audit Committee is to provide independent assurance and assistance to the Auditor-General and the Executive Board of Management on the ANAO's risk, control and compliance framework, and its financial statement responsibilities. Section 46 of the *Financial Management and Accountability Act 1997* (FMA Act) required each Chief Executive to establish and maintain an audit committee.

The Audit Committee met five times in 2013–14. At 30 June 2014, its membership comprised:

- Will Laurie (Chair), external independent member
- Steve Chapman, Deputy Auditor-General
- Brandon Jarrett, Executive Director, Professional Services Branch
- Stuart Turnbull, Executive Director, Performance Audit Services.

A number of observers regularly attend meetings. They include the Executive Director of the Corporate Management Branch, the Chief Finance Officer, the Chief Internal Auditor and the Independent Auditor.

Qualifications and Accounting Policy Committee

The Qualifications and Accounting Policy Committee (QAPC) provides a forum for staff responsible for financial statement audits to consult on difficult and contentious matters and, where necessary, deal with and resolve differences of opinion on audit-related matters. ANAO policy identifies those matters that must be referred to QAPC. The committee engages with the Auditor-General on significant matters. In 2013–14 the QAPC met seven times. As at 30 June 2014 membership comprised:

- Steve Chapman, Deputy Auditor-General
- Ian Goodwin, Group Executive Director, Assurance Audit Services
- Michael Watson, Group Executive Director, Assurance Audit Services
- Brandon Jarrett, Executive Director Professional Services Branch
- Carla Jago, Executive Director, Assurance Audit Services
- Jocelyn Ashford, Executive Director, Assurance Audit Services

Relevant support staff attend the meetings as observers and provide secretariat support.

Information Strategy Committee

The Information Strategy Committee advises the Executive Board of Management on business systems and ICT strategic directions. The committee also provides strategic direction to the Information Technology Projects Governance Group.

The committee met four times in 2013–14. At 30 June 2014, its membership comprised:

- Steve Chapman (Chair), Deputy Auditor-General
- Ian Goodwin, Group Executive Director, Assurance Audit Services
- ▶ Tom Ioannou, Group Executive Director, Performance Audit Services
- Anya Moore, Executive Director, Corporate Management Branch
- Gary Pettigrove, Chief Information Officer
- Mitchell Frost, Chief Finance Officer
- Lee Ward (Observer), Unisys Strategic Advisor.

Relevant support staff attend the meetings as observers and provide secretariat support.

Information Technology Projects Governance Group

The Information Technology Projects Governance Group is responsible for the implementation of all ICT projects and the alignment of IT service delivery with business requirements. The group reports to the Deputy Auditor-General and receives strategic direction from the Information Strategy Committee.



The group met 11 times in 2013–14. At 30 June 2014, the committee's membership comprised:

- > Anya Moore (Chair), Executive Director, Corporate Management Branch
- Tom Clarke, Executive Director, Performance Audit Services
- David Gray, Executive Director, Assurance Audit Services (IT Audit)
- Sean Benfield, Business Manager, Assurance Audit Services
- Anne Svarcas, Business Manager, Performance Audit Services
- Gary Pettigrove, Chief Information Officer
- Thomas Cho, Finance Manager
- Ben Ares (Observer), Unisys Service Delivery Manager.

Relevant support staff attend the meetings as observers and provide secretariat support.

People and Capability Strategy Committee

The People and Capability Strategy Committee advises the Executive Board of Management on a range of people and capability matters. It oversees the development and implementation of the ANAO's People and Capability Investment Strategy 2012–15, which includes setting the strategic direction and priorities relating to workforce planning, people management, capability building, staff development and conditions of employment. The committee also makes decisions relating to people and employment framework matters, including setting parameters for the performance assessment scheme and remuneration model.

The committee met five times in 2013–14. At 30 June 2014, the committee's membership comprised:

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

Relevant support staff attend the meetings as observers and provide secretariat support.

People and Capability Projects Governance Committee

The People and Capability Projects Governance Committee is a subcommittee of the People and Capability Strategy Committee. The committee monitors the implementation of projects and initiatives in the areas of workforce planning, recruitment, learning and development, people management and capability building. It also provides advice and guidance on human resources management matters.

The committee met five times in 2013–14. At 30 June 2014, the committee's membership comprised:

- Anya Moore (Chair), Executive Director, Corporate Management Branch
- Phillip Sands, Executive Director, Assurance Audit Services
- Brandon Jarrett, Executive Director, Professional Services Branch
- Mark Simpson, Executive Director, Performance Audit Services
- Sean Benfield, Business Manager, Assurance Audit Services
- > Anne Svarcas, Business Manager, Performance Audit Services
- Christine King, Senior Director HR, Corporate Management Branch.

Relevant support staff attend the meetings as observers and provide secretariat support.

International Steering Committee

The International Steering Committee assists the Executive Board of Management by providing strategic oversight and coordination of the ANAO's capacity-building activities relating to Indonesia and Papua New Guinea. The committee is sponsored by the Deputy Auditor-General.

The committee meets quarterly with additional meetings as required; it met four times in 2013–14. At 30 June 2014, the committee's membership comprised:

- Andrew Pope (Chair), Group Executive Director, Performance Audit Services
- Puspa Dash, Executive Director, Assurance Audit Services
- Anya Moore, Executive Director, Corporate Management Branch
- Mitchell Frost, Chief Finance Officer
- Ben Sladic, Senior Director, Corporate Management Branch
- > Alex McElwee, Director (acting), Corporate Management Branch.

Relevant support staff attend the meetings as observers and provide secretariat support.



Security Committee

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

The committee met four times in 2013–14. At 30 June 2014, the committee's membership comprised:

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

Relevant service group and support branch staff attend each quarterly meeting of the Security Committee as observers. Members also hold regular operational meetings as required. The Assistant Agency Security Adviser provides secretariat support.

Environmental Management Committee

The Environmental Management Committee monitors the implementation of the ANAO's Environmental Management Strategy.

The committee met four times in 2013–14. At 30 June 2014, the committee's membership comprised:

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

The Operations Manager provides secretariat support.

Strategic planning framework

Key elements of the ANAO's strategic planning framework for 2013–14 are presented in Figure 3.

Figure 3 Strategic planning framework, 2013–14

Portfolio Budget Statements

(Annual update)

Our primary focus, detailing our commitments to the Parliament.

Considered and validated each November and April by Senior Executive Service managers.

Strategic Statement

(Evergreen-reconsider each November)

Sets strategic direction with four key focus areas:

- 1. Independent and responsive
- 2. Value-adding audit services
- 3. Capability to deliver world class services
- 4. Confidence in delivery of our services.

Business Plan

(Annual update each April)

Annual consideration of our environment in light of the Strategic Statement and ANAO risks.

Lists Portfolio Budget Statements commitments and details key initiatives and supplementary business strategies for each key focus area.

Focuses on key ANAO deliverables and initiatives.

Commitments and initiatives are reported quarterly to the Executive Board of Management.

Service group and support branch business plan and deliverables

Summary of Business Plan commitments and deliverables, and key work area initiatives, provided quarterly to the Executive Board of Management.

Individual performance agreements

Each performance agreement can be linked to the four key focus areas set out in the Strategic Statement and the ANAO capability framework.

Risk management framework

Based on the Risk Management Policy and Fraud Control Policy.

Comprises strategic and operational risk management plans, supported by more detailed plans and reviews as required.

Strategic Statement

The Strategic Statement sets out the four key focus areas and the values that will shape the achievement of the ANAO's goals and continue to strengthen the standing of the ANAO in pursuit of its vision. The key focus areas are:

- 1. Independent and responsive
- 2. Value-adding audit services
- 3. Capability to deliver world class services
- 4. Confidence in delivery of our services.

Business Plan

The annual Business Plan is produced each year with reference to the Strategic Statement. The plan outlines the ANAO's Portfolio Budget Statements commitments and key initiatives in support of the key focus areas.

Risk management framework

The ANAO's risk management framework comprises an overarching Risk Management Policy and Risk Management Plan. The Risk Management Plan, reviewed by the Audit Committee, underpins the ANAO's corporate governance framework. The plan complies with international standard ISO 31000:2009.

The ANAO's risk plans are reviewed and updated annually to identify risks associated with business objectives, at both strategic and operational levels. The annual review is designed to take into account any changes in the ANAO operating environment, including revised business requirements and changes in the control environment. In particular, the ANAO considers whether:

- its vision and direction are appropriate
- its services meet client needs and expectations
- ▶ it has sufficient resources and capacity to deliver its services.

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

The Executive Board of Management reviews any serious risk incidents each month, and any risk assessed as 'high' or above is monitored as a standard

agenda item. Business risks are reviewed at least annually. There were no serious risk incidents in 2013–14, and all risks with controls in place were assessed as 'medium' or 'low'.

The ANAO takes part in the annual Comcover Risk Management Benchmarking Survey. In the 2014 survey the ANAO scored 7.9 (the same as the 2013 score), exceeding the peer group survey average of 6.9, which indicates that the ANAO's risk management regime rated better than the peer group average. The risk management regime was assessed as 'structured'. In 2014, based on the quality of its risk management, the ANAO received an 8.73 per cent discount on its Comcover premium, an improvement on the 8.24 per cent discount in 2013.

Emergency and business continuity plans

The ANAO has a comprehensive Business Continuity Plan which establishes policies, procedures and responsibilities to ensure the survival and continuation of key business activities in the event of a business disruption. Business continuity arrangements are tested annually with realistic simulations designed to test the working knowledge of members of the crisis management team.

Fraud control framework

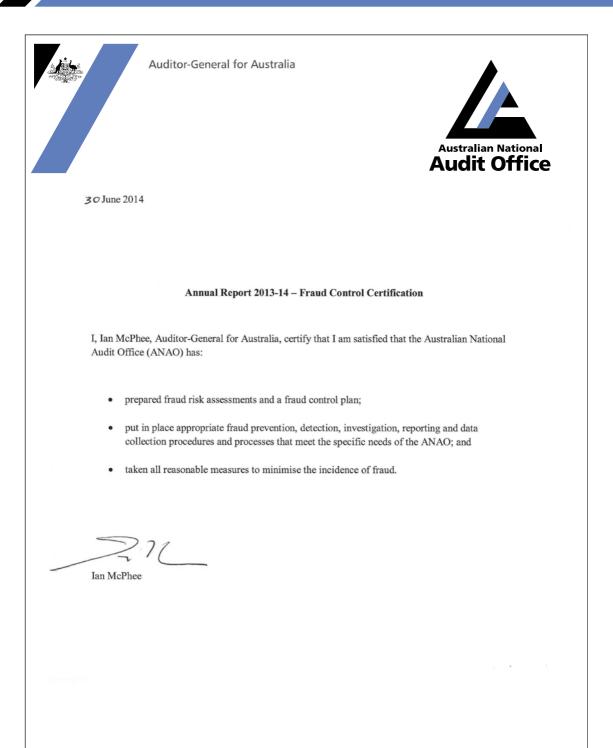
The ANAO maintains a comprehensive fraud control framework, based on a Fraud Control Policy, Fraud Risk Assessment and Fraud Control Plan, in accordance with the requirements of the *Commonwealth Fraud Control Guidelines*. The Fraud Control Plan is linked to the risk management framework and consolidates all fraud prevention and detection initiatives in one document.

Having particular regard to the risk to the ANAO's reputation should fraudulent activity occur, the ANAO periodically reviews the fraud control framework to take into account changes in its operating environment. The Fraud Control Policy, Fraud Risk Assessment and Fraud Control Plan are also reviewed at least every two years.

There were no known incidents of fraud in 2013–14. All fraud risks were assessed and appropriate controls were in place.

The Auditor-General's fraud control certification follows.

PART 4: MANAGEMENT AND ACCOUNTABILITY



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Information and Communications Technology Strategic Plan

The ICT Strategic Plan 2012–15 guides decisions relating to the selection and management of information services and technology. It is linked to the Strategic Statement and Business Plan, and identifies initiatives from the Business Plan that require technology support to facilitate the delivery of operational benefits.

In 2013–14, the ANAO benchmarked its ICT and portfolio delivery services for the previous financial year using the Australian Government Information Management Office data. The benchmark results demonstrated that the ICT services are efficient and the ANAO has established processes that deliver business and productivity benefits.

Senior Executive Service conferences

Senior Executive Service (SES) conferences provide the executive and senior management with a forum to consider business issues and plan future strategic directions.

Two conferences were conducted for SES officers during 2013–14, in November 2013 and April 2014. The conferences focused on developments in the ANAO's external environment and their potential impact on the ANAO Strategic Statement. They also informed the development of key initiatives in the 2014–15 Business Plan.

The November conference included a presentation from the then Secretary of the Department of Finance, Mr David Tune PSM, on developments impacting the longer term fiscal environment. The April conference included a presentation from the Chief Human Capital Officer for the Australian Public Service Commission, Mr Ian Fitzgerald, on the importance of capability development and clear lines of responsibility and accountability.

Ethical standards and independence

The ANAO's commitment to high ethical and professional standards underpins the quality of its work. For audit professionals, professional independence is a central element of the quality of each audit. It is the avoidance of circumstances that could compromise any member of the audit team's capacity to act with integrity and exercise objectivity and professional scepticism. The ANAO's independence policy requires staff engaged in audits to comply with the relevant provisions of APES 110 *Code of Ethics for Professional Accountants* relating to independence. In planning the audit, the audit team must identify and deal with any threats to independence, so that independence in substance and appearance is maintained throughout the audit.

There are also robust processes in place surrounding rotation of audit team members. As a general rule, no key personnel in a financial statements audit team for a significant public sector entity shall be a member of the audit team for more than five years within a seven-year period. Compliance with independence arrangements is reviewed annually during the annual quality assurance process.

The Guide to Conduct, which is part of ANAO induction training, provides information on the conduct expected of all employees in carrying out their responsibilities, including interacting with clients, fellow employees and other stakeholders. The guide is framed around the central theme of the Australian Public Service (APS) Values and the APS Code of Conduct set out in the *Public Service Act 1999*. It also refers to *APS Values and Code of Conduct in Practice: A Guide to Official Conduct for APS Employees and Agency Heads*, a package produced by the Australian Public Service Commission.

The Guide to Conduct reflects the ANAO's core values and behaviours and is based on the key elements of 'respect, integrity and excellence'. The guide also recognises the importance of auditing and accounting standards developed by Australian auditing and accounting professional bodies.

Quality Assurance Framework

The ANAO's Quality Assurance Framework is supported by policies and procedures that promote an internal culture which recognises that quality is essential in the conduct of audits.

The Auditor-General is ultimately responsible for the system of quality control in place for audits conducted by the ANAO. At a day-to-day level, the Deputy Auditor-General is responsible for ensuring that the system of quality control satisfies the requirements of the ANAO auditing standards. The Deputy Auditor-General is assisted by the Group Executive Directors, who also report at least annually to the Executive Board of Management on audit quality and business management matters. Internal and external reviews also provide important scrutiny and reference points on the effectiveness of the ANAO quality framework. Based on the results of internal reporting to the Executive Board of Management and completed internal and external reviews, the Auditor-General is satisfied that the system of quality control functioned effectively in 2013–14, for both financial statement audits and performance audits.

Quality assurance reviews

The annual quality assurance (QA) reviews of ANAO assurance engagements are designed to provide confidence that ANAO audits comply with relevant auditing standards and other legal and regulatory requirements. They also identify opportunities for refinement in audit methodologies and processes.

The QA programs are managed by the Professional Services Branch under the authority of the Deputy Auditor-General. The branch also communicates the results of QA processes to audit staff, and additional training and guidance are provided to support continuous improvement.

Assurance Audit Services Group

In 2013–14, the financial audits of 11 executives were reviewed through the inspection of six audits performed by ANAO staff and five audits undertaken by contracted firms. Generally, the audits had been undertaken in accordance with the auditing standards and the QA program did not identify issues that were indicative of systemic, repetitive or other significant deficiencies. Improvement areas included: presentation and disclosure in the financial statements; rationale to support the classification of audit risks; the auditor's response to the risk of fraud; documentation of systems and judgements; and substantive analytical procedures.

To gain assurance that the QA methodology met contemporary standards, the National Quality Partner of an international audit firm was engaged to review the financial statement QA processes and provide recommendations. The review confirmed that the QA program was sound, and made a number of recommendations aimed at improving administrative processes.

Performance Audit Services Group

The 2013–14 QA program reviewed five tabled performance audits. The reviews identified that the audits generally complied with the auditing standards and ANAO policies. Improvement areas included: documenting supervisory review; the consistent presentation of audit findings and information in reports; project management arrangements relating to budget and timeline variations; and recordkeeping practices relating to key audit documentation.

Internal audit

Internal audit provides an independent and objective audit and advisory service which is designed to add value and improve the ANAO's operations. These services are provided by a contracted specialist firm (Protiviti). A systematic and disciplined approach is taken to evaluate and improve the effectiveness of risk management, control and governance processes.

In 2013–14, the ANAO's internal audit program included the following reports:

- Delivery of IT services
- Procurement Practices
- Financial Controls Compliance
- Review of Certificate of Compliance Process
- Fraud Controls
- Protective Security Policy Framework Compliance.

The internal audit provider also advised ANAO managers and staff on good governance, risk management, controls and policies. In following better practice arrangements, the Chief Internal Auditor met periodically with the Chair of the Audit Committee in addition to attending formal Audit Committee meetings.

External scrutiny

The ANAO's operations, processes and reports are periodically subjected to independent external review.

External audits

Part 7 of the *Auditor-General Act 1997* provides for the appointment of an independent auditor who undertakes the audit of the ANAO's financial

statements and carries out selected performance audits. The independent auditor position is a part-time statutory appointment for a period of at least three years and not more than five years.

Mr Peter van Dongen, National Managing Partner, Assurance, PricewaterhouseCoopers, was appointed as the independent auditor in June 2014.

The ANAO received an unmodified auditor's report on its financial statements for the year ended 30 June 2014.

Judicial and administrative decisions

No decisions made by a court or administrative tribunal or by the Australian Information Commissioner had an impact on the operations of the ANAO in 2013–14.

Reports on operations

Information on parliamentary committee reports involving the ANAO in 2013–14 is provided in the 'Shared components' section of Part 3 of this annual report.

The ANAO was not the subject of any agency capability reviews or reports by the Commonwealth Ombudsman in 2013–14.



Transparency reporting

The Corporations Legislation Amendment (Audit Enhancement) Act 2012 introduced measures to ensure that Australian audit practice maintains a standard in line with international best practice. They included new regulations for annual transparency reporting by auditors.

Although the ANAO is not subject to the same transparency reporting requirements associated with the conduct of private sector audits as specified in the Act, the ANAO has embraced the principles of transparency reporting. Table 7 summarises the requirements that are relevant to the ANAO, and shows where the required information is presented in this annual report.

Table 7 Transparency reporting

Prescribed information ^a	Coverage in the annual report
Description of the auditor's legal structure and ownership	The 'Role' section of Part 2 details the legislative framework for the roles of the Auditor-General and the ANAO. Refer to page 8.
Description of the auditor's governance structure	The 'Corporate governance' section of Part 4 details the corporate governance framework of the ANAO. Refer to pages 50–63.
Description of the auditor's internal quality control system	The 'Quality Assurance Framework' section of Part 4 details the ANAO's internal quality framework and internal audit and quality assurance arrangements. Refer to pages 61–63.
Statement on the effectiveness of the auditor's internal quality control system in the reporting year	The 'Quality Assurance Framework' section of Part 4 includes the Auditor-General's statement on the effectiveness of the internal quality control system. Refer to page 61.
The name of each body that is authorised to review the auditor, and the date of the most recent review of the auditor conducted by each body	The 'External scrutiny' section of Part 4 details the bodies that are authorised to review the work of the ANAO and the external review conducted during the year. Refer to pages 63–64.
	The 'Shared components' section of Part 3 describes external reviews of the ANAO's audits by parliamentary committees. Refer to pages 37–39.

Prescribed information ^a	Coverage in the annual report
The names of the bodies for which the auditor conducted an audit in the reporting year	Appendix 2 details all reports tabled in the Parliament by portfolio during 2013–14 and includes all performance audits undertaken, the two assurance review reports on Defence major projects and the ANAO's pilot project to audit entity key performance indicators, and summary information on the two reports to Parliament relating to audits of financial statements. Refer to pages 130–164.
	In addition, the year-end report to Parliament on audits of financial statements lists all entities for which financial statement audits were conducted during 2013–14.
Statement about the auditor's independence practices in the reporting year, including the date on which the auditor most recently conducted an internal review of its independence compliance	The 'Ethical standards and independence' section of Part 4 details the ANAO's independence framework for audit professionals. Refer to pages 60–61.
Statement about the policy that the auditor follows regarding the amount and nature of professional education that members of an audit team must undertake during the reporting year	The 'Learning and development' section of Part 4 details the ANAO's education framework for audit professionals. Refer to pages 78–79.
Financial information for the auditor for the reporting year	The 'Financial summary' section of Part 2 provides an overview of the ANAO's financial results. Refer to pages 13–14.
	Part 5 includes commentary on the ANAO's financial performance, as well as the ANAO's audited financial statements. Refer to pages 92–125.
Information on the basis for remuneration of the auditor's senior managers	The 'Pay and conditions' section of Part 4 details the ANAO's arrangements for performance assessment and performance pay and senior executive remuneration. Refer to pages 75–77.

a Based on the items set out in Schedule 7A of the Corporations Regulations 2001.

Management of human resources

A key priority for the ANAO is ongoing investment in the capability of staff to deliver world-class audit services. As an organisation of professional staff, the ANAO is committed to developing the knowledge, skills and expertise of staff and recognising and rewarding excellent performance. This includes providing a supportive and collaborative work environment through sound people management approaches.



Workforce planning

The ANAO's People and Capability Investment Strategy 2012–15 was informed by broad consultation, including through the People and Capability Strategy Committee, and aims to align human resources initiatives with business priorities.

Workforce planning is integrated into the ANAO's business planning framework through the People and Capability Investment Strategy and the strategic workforce planning priorities that are established when developing the annual Business Plan. Service groups and branches also develop operational workforce plans to meet their particular requirements.

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

At least twice a year, the Executive Board of Management receives reports on workforce planning which include an in-depth analysis of the state of the ANAO's workforce capability. The People and Capability Strategy Committee monitors and evaluates the implementation of a range of strategic priorities articulated in the People and Capability Investment Strategy 2012–15, as well as the progress of service groups and branches in addressing their workforce planning priorities.

Recruitment

The ANAO gives priority to attracting and retaining excellent people, particularly in the competitive market for skilled audit staff. The ANAO's approach to recruitment is multi-faceted and includes tailored opportunities to attract outstanding graduates and Indigenous candidates.

Challenges to attraction and recruitment include:

- the need for the ANAO to compete for financial statement and IT auditors in a competitive market
- the requirement for all staff to have at least baseline security clearances
- skills shortages in the fields of accounting and auditing.

Vacancies

In 2013–14, the ANAO advertised and conducted nine individual recruitment rounds: six single positions, three bulk rounds and the annual graduate program. On average the office received 34 applications per position for single vacancies, and 26 applications per position for bulk rounds (excluding the graduate program, which attracted 901 applications). Measured from the closing date for applications to the date of the delegate's decision, the average recruitment process took 30 working days to complete for single positions and 32 working days for bulk rounds.

Recruitment order of merit lists are maintained for general vacancies and are used to fill both ongoing and non-ongoing vacancies. Positions are also filled using the ANAO's temporary employment register. The office also conducts targeted recruitment programs to attract graduates and undergraduates. Since October 2013, the ANAO has implemented the interim recruitment arrangements which apply across the APS.

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

Staff induction

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

All new employees are automatically assigned to complete the ANAO's e-Induction course within their first week of employment. To supplement the online course, all new starters participate in a face-to-face induction workshop. Human resources staff and senior staff members from other areas deliver the workshops, which are held every three months.

Graduate and undergraduate programs

The ANAO's graduate program is open to university students who are completing their final year of study or have completed a degree within the past five years. During the 12-month program, the graduates undertake:

- an intensive learning and development program, including technical, people management and general training and skill development
- one short-term rotation (of six to eight weeks) within the organisation, to enhance their overall development and give them an appreciation of the ANAO's broader operations.

In 2014, the ANAO recruited 16 graduates: seven were placed in the Assurance Audit Services Group, seven were placed in Performance Audit Services Group, and two joined the IT Audit Branch.

The ANAO also hosted two Papua New Guinean graduates to participate in the graduate development program through the Papua New Guinea–Australia Audit Office Twinning Scheme.

The ANAO's undergraduate employment program provides paid part-time practical work experience to people studying accounting at universities in Canberra. During 2013–14, three students took part. The ANAO continued to foster productive relationships with the Australian National University, the University of Canberra, CPA Australia and the Institute of Chartered Accountants in Australia to recruit students for the program.

The undergraduate employment program is an effective way to transition undergraduates into the graduate program. One undergraduate was advanced into the 2014 graduate intake, and three 2014 undergraduates applied for the 2015 graduate intake.



Participants in the ANAO's 2014 graduate program with the Auditor-General. From left: Ronald Ng, Lauren Parmenter, Judy Chow, Carissa Louend, Jarrad Hamilton, Jin A Cha, Jay Stoker, Peter Perry, Michael Dorman, Shannon Sutcliffe, Liam Burke, Thea Kim, Patrick Westman, Cherie Simpson, Eric Tran, Ishmael Simon, Fred Rocky and Megan Beven.

Indigenous recruitment

The ANAO's Diversity Strategy 2013–16 includes measures focused on recruiting, developing and retaining Indigenous employees. The strategy sets a target of 2.7 per cent Indigenous representation to be achieved by 2015. At 30 June 2014, the ANAO had one employee (less than 1 per cent of staff) who identified themselves as Indigenous.

The ANAO collaborates with other Australian Government agencies so that it can better meet the employment needs of Indigenous Australians. The ANAO participates in the Australian Public Service Commission's Pathways recruitment initiatives for Indigenous graduates, and in the Indigenous Australian Government Development Program.

Retention

The skilled people who work at the ANAO are highly valued, both within the ANAO and in the professional marketplace. To retain and motivate skilled and experienced staff, high priority is placed on showing them that they are valued, including by rewarding exceptional service and acting on feedback about the ANAO's performance as an employer.



Staff turnover

Although historically staff turnover at the ANAO has been higher than in other APS agencies, it has been in line with turnover in the accounting profession. Since the introduction of the interim recruitment arrangements in October 2013, the ANAO's staff turnover has dropped significantly. The lower rate of turnover is expected to continue.

Overall staff turnover in 2013–14 was 9.2 per cent of total ongoing staff. This represents a drop of almost a third in the turnover rate since 2012–13, when the result was 13.2 per cent. Table 8 provides details of staff gains and losses.

Table 8 Details of gains and losses (ongoing staff), 2012–13 and 2013–14

	Moves to other departments	Resignations	Medical retirements	-		Total losses	Gains
2013–14	8	20	-	-	5	33	25
2012–13	13	20	-	1	10	44	55

Table 9 highlights the differences in length of tenure across the various classifications for ANAO staff. It is expected that length of tenure will increase as a consequence of lower turnover.

Table 9 Average length of tenure by classification (ongoing staff) at 30 June,2012 to 2014

Classification	Av	Average length of tenure (years)			
	2014	2013	2012		
Australian Public Service 1–3ª	7.0	8.5	7.8		
Australian Public Service 4–6	3.6	3.7	3.4		
Executive Level 1–2	6.9	6.4	6.4		
Senior Executive Service	12.1	12.6	11.4		
All staff	5.5	5.8	5.3		

a Graduates in their first year of service are excluded from APS 1–3 classifications.

Awards and recognition

The ANAO supports an awards system that recognises and rewards individual staff and teams who make a significant contribution to achieving its business objectives, including in such areas as client service, people management, business management, and audit management and innovation.

Across the ANAO, the National Australia Day Council's Australia Day Achievement Medallions are celebrated in January and the Auditor-General's Annual Awards for Outstanding Achievement are celebrated in May. The third component of the awards system, the Auditor-General's Certificate of Appreciation, is celebrated throughout the year at service group and branch levels.

Table 10 lists the recipients of achievement awards and medallions in 2013–14.

Award	Recipient	Reason
Annual Awards for Outstanding Achievement	Jocelyn Ashford	For her professionalism and achievement in delivering audit services, particularly in the Defence portfolio, and her broader contribution to audit quality and support of staff in the Assurance Audit Services Group.
	Estelle Booth	For her high-quality advice and support to the service groups and branches on all recruitment matters.
	Brian Boyd	For his achievement of outstanding results and consistent high- quality work in the delivery of high-impact performance audit reports.
	Jennifer Carter	For high-quality audit services, particularly in the Treasury portfolio and in respect of National Partnership agreements, as well as her effective client engagement.
	Russell Coleman	For his outstanding contribution and commitment to supporting the work programs of the office, and client service in supporting the Joint Committee of Public Accounts and Audit and the Department of Finance in significant reform areas.
	Steven Favell	For his outstanding contribution, client service and dedication in applying data analytical skills to performance audit.
	Carla Jago	For consistently maintaining quality in audit services, particularly for whole-of-government reporting, resource management for the Assurance Audit Services Group, and contribution to the social activities of the office.
	Ray McNally	For his outstanding contribution to the ANAO's performance audit program relating to the Department of Defence and the Defence Materiel Organisation.
	Alison Roach	For her professionalism, drive, commitment and client relationships in delivering her performance audit responsibilities.

Table 10 Recipients of awards in 2013–14



Award	Recipient	Reason
Australia Day Achievement Medallions	Edwin Apoderado	For his delivery of consistently high-quality IT audit services and his support to both the IT Audit Branch and the Assurance Audit Services Group, and for exemplifying the ANAO values of respect, integrity and excellence.
	Leigh Deamer	For her outstanding work in the Performance Audit Services Group, working closely with the Group Executive Directors, Executive Directors, audit teams and the Business Manager.
	Bronwen Jaggers	For consistently delivering high-quality audit work covering a wide cross-section of technical subjects, and for her contribution to corporate activities such as membership of the Security Committee and delivery of training to ANAO staff.
	Christine King	For high-quality services in her roles as Senior Director External Relations and Senior Director Human Resources.
	Paul Nicoll	For his significant contribution to the professional standing of the ANAO through his leadership, delivery of quality audit reports, and conduct in fulfilling the role of Senior Advisor to the Chairman of the Indonesian Board of Audit (BPK) from 2009 to 2013.
	Michael Watson	For his strong professional leadership and his delivery of high-level services to a wide variety of clients, ranging from departments of state to many of the ANAO's 'corporate' clients.



Recipients of the 2014 Auditor-General's Annual Awards for Outstanding Achievement with the Auditor-General. Front: Jocelyn Ashford, Jennifer Carter, Estelle Booth, Alison Roach and Carla Jago. Back: Ray McNally, Russell Coleman, Steven Favell and Ian McPhee. Absent: Brian Boyd.



Australia Day Award recipients Paul Nicoll, Christine King, Bronwen Jaggers, Leigh Deamer and Michael Watson.



Australia Day Award recipient Edwin Apoderado with Auditor-General Ian McPhee.

Staff satisfaction

The ANAO places great importance on feedback from its staff, and measures staff engagement through annual surveys. The surveys provide an important source of information on staff expectations, views and perceptions about a range of matters, including job satisfaction, engagement, career advancement, and professional development. Survey results and trends are evaluated to develop a broad spectrum of activities and initiatives that are reflected in key documents such as the ANAO's People and Capability Strategy, Business Plan and service group business plans.

In 2013–14, the ANAO used the Australian Public Service Commission's Employee Census to gauge staff satisfaction. Across the survey, the ANAO received positive results, either higher than or similar to the average response for the APS.

Key highlights of the responses from ANAO staff included:

- 77 per cent were proud to work for the ANAO
- > 71 per cent were satisfied with the ANAO as an employer
- > 78 per cent enjoyed their current work
- 75 per cent believed that the learning and development that the ANAO provides assists them in doing a better job
- > 89 per cent were satisfied with access to effective training and development
- 84 per cent believed that staff act in accordance with ANAO values and behaviours
- 80 per cent believed that the ANAO encourages ethical behaviour by all its employees.

Pay and conditions

As at 30 June 2014, 28 SES staff were employed under common law contracts, while 346 non-SES staff were employed under the ANAO's enterprise agreement. Tables A1.1 to A1.3 in Appendix A provide details of the staffing profile.

Workplace Consultative Forum

The Workplace Consultative Forum plays an important role in facilitating consultation on a range of operational and strategic issues affecting staff in the workplace. The forum comprises three staff-elected representatives, three union representatives and three management-appointed representatives.

In 2013–14, the forum met formally on three occasions to discuss and consider a range of employment-related issues, including a review of human resources policies.

Performance assessment and performance pay

The ANAO's Performance Assessment Scheme provided for salary advancement for eligible staff and an outstanding performers award regime. Staff rated as 'outstanding' were eligible for a bonus of up to 7 per cent of salary.

A summary of ratings for the reporting cycle is set out in Table 11. Graduates, casuals, non-ongoing staff with less than 12 months service and ongoing staff with less than six months employment during the performance cycle were not eligible for the financial benefits of the Performance Assessment Scheme.

Outst	anding	More than fully effective	Fully effective	Requires development	Unsatisfactory	Total
ANAO Bands 4 and 5 (EL 1 and 2)	5	62	58	8	-	133
ANAO Bands 1 to 3 (APS 1–6)	5	57	93	5	1	161
Total	10	119	151	13	1	294
Proportion of total eligible staff ^a	3%	40%	51%	4%	<1%	

Table 11 Summary of performance ratings for the period ending 31 October 2013

APS = Australian Public Service, EL = Executive Level

a Percentages total less than 100 because of rounding.



In 2013–14, a total of \$0.286 million in performance bonuses was paid to eligible staff (\$0.298 million was paid in 2012–13). Aggregated information on performance pay is set out in Appendix 1, Table A1.4.

Senior executive remuneration

The salary ranges for SES staff are determined having regard to public sector benchmarks, notably the annual APS remuneration survey. The nature of the work, specific skills and individual contributions to business outcomes are key factors in setting individual SES salaries. SES remuneration payments are set out under Note 11 of the financial statements.

Learning and development

In 2013–14, against a backdrop of APS-wide resourcing pressures, the ANAO maintained its commitment to building and enhancing the capability of its employees to enable them to meet the strategic and business needs of the office and the broader APS.

Recognising the importance of the '70:20:10 principle', which emphasises the benefits of a mix of on-the-job training, mentoring and coaching, and formal classroom-based learning, the ANAO offered staff a suite of in-house and external learning and development opportunities.

Targeted learning continued to be supported and encouraged through technical courses, workshops and forums, and general skills training aligned to the ANAO Capability Framework and the skills development objectives outlined in staff members' individual development plans.

During 2013–14, the ANAO delivered three leadership and management programs:

- staff at APS 5 and APS 6 levels participated in the Introduction to Management Program
- staff at Executive Level 1 and Executive Level 2 participated in the Strategic and People Development program, which included undertaking team-based 'action learning' projects and reporting the results to the ANAO Executive
- senior executives participated in a series of half-day workshops focusing on topics they had identified as important.

Participants' feedback across all three programs was very positive, and participants are now applying their knowledge in their work.

The ANAO's shift from classroom-based learning to e-learning was evident in the development and release of two additional e-learning modules: Risk Management and Fraud Control, and Performance Management. The Assurance Audit Services Group began the transfer of its classroom training material to the e-learning environment—an initiative that will enable financial statement audit staff to access training packages and reference material remotely, including while working off site.

The in-house Mentor Program, which assists mentees to match with suitable mentors and participate in informal knowledge and information sharing forums, continued to receive positive feedback from staff. Since its inception two years ago, when only a small number of staff were involved, the program has grown to include more than 80 participants.

In 2014–15, the ANAO will maintain and support its core learning programs and deliver a cost-effective learning solution that builds internal capacity and meets business requirements. Work has begun on developing a three-year learning strategy, which will define the high-level direction and future focus of learning and development in the ANAO.

Table 12 provides a summary of staff training and related expenditure over the past three financial years.

Table 12 Details of staff training, 2011–12 to 2013–14

	2013–14	2012–13	2011–12
Direct expenditure on training	\$1,526,782	\$1,112,553	\$1,117,314
Total number of person-days spent by staff on eligible training programs	2,477	2,501	2,421

Professional qualifications and studies assistance

During 2013–14, the ANAO supported 68 staff members to undertake programs of professional studies: 51 participated in Institute of Chartered Accountants in Australia or CPA Australia programs, 14 undertook postgraduate university studies, and three participated in the ISACA Certified Information Systems Auditor program. Table 13 lists staff members who successfully completed ANAO-supported studies during 2013–14.



Table 13 Summary of studies completed by staff members in 2013–14

Qualification	Staff member
CPA Australia Program	Mitchell Fleming, Nikhil Iyengar, Adam Martin, Rahul Tejani, Shona Virdi
Graduate Certificate of Chartered Accounting Foundations	Kristen Burdon
Institute of Chartered Accountants in Australia Program	Rohit Dwivedi, Clinton Ku, Danielle Sheehan, Fiona Sheppard, Wen Zhang
Certified Information Systems Auditor	Syed Naim, Michael O'Flaherty, Franco Rosin
Master of International and Community Development	Sarah Pratt

The ANAO learning and development program supports ANAO staff to meet continuous professional development (CPD) requirements relating to their membership of professional accounting associations. For staff of the Assurance Audit Services Group this includes:

- support to complete 120 hours of CPD over a three-year period, with a minimum of 20 hours to be completed per financial year—this includes 10 hours of formal technical training in relevant areas such as financial statements auditing, accounting or legal frameworks
- a written declaration that they have complied with the CPD requirements for each financial year
- evaluation of training undertaken by staff against the learning and development curriculum.

Secondment and exchange program

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

The diverse knowledge and experience of incoming program participants, as well as their potential to supplement the workforce during peak periods, brings many benefits to the ANAO. Details of the organisations and individuals involved in the program in 2013–14 are outlined in Table 14.

Exchange type	Organisation	Participant
ANAO staff working in other organisations	Aboriginal Hostels Limited	Lucy Deemal
	Auditor-General's Office of Papua New Guinea	Wayne Jones, Peter Nguyen, Nicola Rowe
	Indonesian Board of Audit (BPK)	Paul Nicoll, Robert Holbert
	Office of the Auditor General of Canada	Josephine Bushell, Isabelle Favre
Staff from other organisations working in the ANAO	Auditor-General's Office of Papua New Guinea	Fred Rocky, Ishmael Simon
	Audit New Zealand	Ann Kilpatrick, Helen Whitford
	Office of the Auditor General of Canada	Marise Bedard, Susan Seally

Table 14 Secondment and exchange program	participants in 2013–14
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Work health and safety

As a 'person conducting a business or undertaking' under the *Work Health and Safety Act 2011*, the ANAO has a primary duty of care to ensure the health and safety of workers. The Auditor-General and all ANAO officers are accountable for work health and safety (WHS) outcomes and the actions taken to implement WHS policies and guidelines.

The ANAO is committed to ensuring that all workers are safe from injury and risk to health while at work and protecting the health and safety of workers and other people at or near the workplace. The ANAO integrates safe working practices into all areas of operations.

Managers consult and cooperate with staff and others to maintain a safe and healthy workplace and strive to attain WHS better practice. Managers and supervisors play an important role in implementing ANAO health and safety policies and practices.

Health and safety management arrangements

The Workplace Health and Safety Committee is responsible for monitoring and reviewing the WHS policies and practices and advising the ANAO on WHS matters. The committee is chaired by the Executive Director, Corporate Management Branch, and its members are the ANAO's health and safety representatives. During 2013–14, the membership of the committee was expanded to include attendance by case managers, and the committee met four times.

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

Initiatives

WHS is promoted throughout the ANAO. A dedicated site on the intranet includes support material for ANAO 'officers' (as defined by the Work Health and Safety Act), managers and staff, including information on general WHS awareness and roles and responsibilities.

During 2013–14, the ANAO offered a range of training to staff to build resilience, manage the effects of stress and develop conflict resolution skills. The ANAO also provided ongoing support by offering ergonomic work station assessments to all staff and new starters, and completing 28 ergonomic work station assessments. All staff were also offered influenza vaccinations and health assessments.

Rehabilitation Management System

In July 2013, the ANAO developed and implemented a rehabilitation management system in accordance with Comcare's *Guidelines for Rehabilitation Authorities 2012*, which set out employer responsibilities under section 41 of the *Safety, Rehabilitation and Compensation Act 1988*. The purpose of the system is to provide a structured approach to the delivery of rehabilitation that allows the ANAO to better measure the success of rehabilitation, and to support initiatives that will contribute to increasing the effectiveness of the return to work process.

Incidents

There were no notifiable incidents reported in 2013–14 under the Work Health and Safety Act. The ANAO was not subject to any WHS investigations that related to business or undertakings, nor did the ANAO receive any notices given under Part 10 of the Work Health and Safety Act.

Employee Assistance Program

The Employee Assistance Program provides access to free confidential professional counselling services to assist staff and their families with any personal or work-related problems, and offers guidance and advice to managers on staff management. The services can be accessed locally and by staff on secondments to other audit offices overseas.

Staff and managers are actively encouraged to use the program. It is promoted as part of the induction for new staff and included in a regular feature in the monthly staff newsletter. Information on the program can be accessed from the ANAO's intranet.

The service was used by 19 staff, including 14 who used the service for the first time, in 2013–14. Members of staff and their families used the service for both work-related and personal circumstances, with counselling support being predominantly for non-work related matters.

Workplace diversity

The ANAO is committed to promoting and supporting social inclusion, equity and diversity in the ANAO and achieves this by actively building a working environment that supports and encourages staff who have a range of skills and life experiences and different cultural and social backgrounds.

Strategies

The ANAO's Executive Board of Management monitors the commitment to workplace diversity through regular reporting against two key strategies: the Agency Multicultural Plan and the Workplace Diversity Strategy.

The ANAO's first Agency Multicultural Plan was developed in accordance with the Government policy framework *Multicultural Access and Equity Policy: Respecting diversity. Improving responsiveness* and launched in July 2013. It assists the ANAO to promote and support cultural diversity in its audit activities with client agencies.

The ANAO's Workplace Diversity Strategy 2013–16 assists the ANAO to:

- promote awareness of workplace diversity within the ANAO
- develop and maintain a highly skilled, diverse and effective workforce where all employees are valued, encouraged and provided with opportunities to develop to their potential



- develop a supportive workplace culture which allows ANAO employees to balance their work and personal life
- > provide a discrimination and harassment free workplace
- embed workplace diversity principles in all employment processes, particularly recruitment and selection.

Workplace diversity profile

Table 15 provides details of the representation of relevant workplace diversity groups in the ANAO.

Table 15 Members of workplace diversity groups, 30 June 2014

	Women	NESB1	NESB2	ATSI	PWD
APS 1 and undergraduates	2	1	2	-	-
APS 2–3 and graduates	28	4	6	-	_
APS 4–5	49	22	10	-	1
APS 6-EL 1	81	23	6	1	_
EL2–SES Band 3	48	8	7	-	1
Total	208	58	31	1	2
Proportion of total staff ^a	56%	16%	8%	<1%	<1%
Proportion of total staff on 30 June 2013 ^b	56%	12%	10%	<1%	0%

APS = Australian Public Service, EL = Executive Level

Note: As self-reported by staff on commencement with the ANAO.

a The total number of staff for 2013–14 was 374, including operative and inoperative staff.

b The total number of staff for 2012–13 was 373, including operative and inoperative staff.

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

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

ATSI: Aboriginal or Torres Strait Islander.

PWD: People with disability.

The ANAO has targets in place to increase the representation of people with a disability in its workforce to 3.0 per cent by 2015. In 2013–14, 0.3 per cent of staff were people with a disability.

The ANAO's workforce is characterised by the strong representation of employees from culturally and linguistically diverse backgrounds. In 2013–14, 23.8 per cent of the workforce identified as coming from such backgrounds, significantly more than the average of 5.4 per cent in the APS generally.

The ANAO workforce is also on average younger than the broader APS workforce, although it includes a cohort of mature staff with significant length of service.

Contact officers

A network of diversity contact officers champions diversity across the ANAO, with a focus on building a positive workplace culture, and provides informal and confidential support to staff members who are seeking assistance and guidance on harassment and bullying issues. The diversity contact officers met six times in 2013–14, to share information, discuss developments and devise a future program of activities.

Other management issues

The management activities and services that support the ANAO's audit functions are undertaken in line with government policies and better practice.

Assets management

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

Purchasing and procurement

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



Consultants

All tenders and contractual arrangements undertaken in 2013–14 were carried out in accordance with the *Commonwealth Procurement Rules*.

The ANAO's standard form tender documents, including contracts, accord with the Auditor-General's Instructions. Where necessary, staff can readily adapt those documents to suit specific circumstances.

The ANAO's tender evaluation processes are designed to be fair and equitable and to enable potential suppliers to compete for ANAO business. Before proceeding to a substantive evaluation, the ANAO undertakes a check against all mandatory requirements that are listed in the tender documentation.

The ANAO uses consultants on a needs basis for a variety of tasks. The most common uses of contracted consultants include the application of expert professional skills to:

- investigate or diagnose a defined issue or problem
- carry out defined research reviews or evaluations
- provide independent advice, information or creative solutions
- provide specialised services, including assistance with the development and/ or implementation of purpose-built IT systems, and legal advice.

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

The major competitive tendering and contracting activities in 2013–14 were to obtain professional skills to assist with certain financial statement audits.

During 2013–14, 12 new consultancy contracts were entered into involving total actual expenditure of \$0.600 million (including GST). In addition, 11 ongoing consultancy contracts were active during 2013–14, involving a total actual expenditure of \$1.144 million (including GST).

No contracts in excess of \$10,000 (including GST) or standing offers were exempted by the Auditor-General from being published on AusTender on the basis that they would disclose exempt matters under the *Freedom of Information Act 1982*.

The ANAO held no contract to the value of \$100,000 or more that did not provide for the Auditor-General to have access to the contractor's premises.

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

Advertising and market research

The ANAO did not undertake media advertising campaigns and therefore did not make any payments to advertising agencies in 2013–14. The ANAO did not make any payments to direct mail organisations or polling organisations.

Payments over \$12,400 (including GST) to market research organisations and media advertising organisations, incurred in the course of audit and assurance reviews, are set out in Table 16.

Table 16 Payments over \$12,400 (including GST) to advertising agencies, marketresearch organisations, polling organisations, direct mail organisationsand media advertising organisations, 2013–14

Organisation	Service provided	Payments (\$)
Market research		
ORIMA Research	Online survey to assist corporate management	13,294
	Online survey to assist performance audit	26,785
	Online survey to assist assurance audit	20,543
	Preparation for parliamentary survey	57,904
	Online survey to assist assurance audit	20,543
	Online survey to assist key performance indicator pilot	23,391
	Online survey to assist performance audit	28,243
Media advertising		
Adcorp	Graduate recruitment	12,500

Grant programs

The ANAO does not administer any grant programs.

Environmental protection and biodiversity conservation

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

Contribution to ecologically sustainable development

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

In 2013–14, the ANAO produced 10 reports on the administration of programs that have a direct influence on environmental outcomes:

- Audit report No.1 2013–14 Design and Implementation of the Liveable Cities Program
- Audit report No.8 2013–14 The Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviews of Flood Reconstruction Projects in Queensland
- Audit report No.11 2013–14 Delivery of the Filling the Research Gap under the Carbon Farming Futures Program
- Audit report No.16 2013–14 Administration of the Smart Grid, Smart City Program
- Audit report No.17 2013–14 Administration of the Strengthening Basin Communities Program
- Audit report No.18 2013–14 Administration of the Improving Water Information Program
- Audit report No.25 2013–14 Management of the Building Better Regional Cities Program
- Audit report No.29 2013–14 Regulation of Commonwealth Radiation and Nuclear Activities
- Audit report No.38 2013–14 Establishment and Administration of the National Offshore Petroleum Safety and Environmental Management Authority
- Audit report No.43 2013–14 Managing Compliance with Environment Protection and Biodiversity Conservation Act 1999 Conditions of Approval.

Environmental strategy

The ANAO has developed an internal environmental strategy based on an Environmental Policy that outlines governance arrangements for the environmental management system and environmental responsibilities, monitoring and reporting. The Environmental Management Committee oversees the implementation of the strategy.

Effect of activities on the environment

The ANAO monitors its energy and water usage and waste management, as core indicators of the effect of its activities on the environment.

Energy

Figure 4 compares the ANAO's tenant light and power use and central services with the Energy Efficiency in Government Operations (EEGO) target figures.

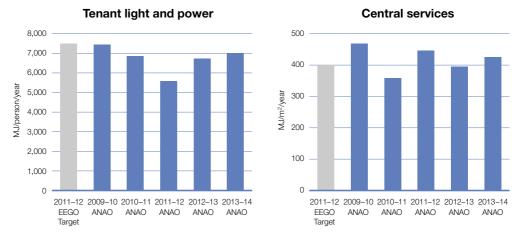


Figure 4 Tenant light and power and central services, 2009–10 to 2013–14

EEGO = Energy Efficiency in Government Operations; MJ = megajoules

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

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



During 2013–14, tenant light and power use averaged 7,044 megajoules per person, which was 456 megajoules per person below the target of 7,500 megajoules. The ANAO's central services energy usage was 422 megajoules per square metre. This was an increase of 27 megajoules per square metre compared to the result for 2012–13.

The overall increase in energy usage can be largely attributed to a change to the ANAO's IT server environment, which increased energy consumption during the 2013–14 changeover period but should lead to a reduction in energy consumption in future.

The ANAO holds regular discussions with the lessor of its Barton office with the aim of improving the overall environmental performance of the premises.

Water

Based on occupied building floor area, the ANAO's building water use intensity was 0.51 kilolitres per square metre in 2013–14. This was an increase of 0.09 kilolitres per square metre compared with the result for 2012–13. This result equates to a 4-star National Australian Built Environment Rating System (NABERS) water rating, which is considered 'Good Performance'.

Waste

During 2013–14, the waste management provider introduced enhancements to collection practices that have resulted in more accurate calculations of the ANAO's waste and recycling. As a result, the totals for 2013–14 are not comparable to the totals of earlier years. Table 17 shows the disposal of ANAO's waste during 2013–14.

Table 17 ANAO waste, quantity and disposal, 2013–14

Type of waste	Disposal method	Quantity (tonnes)
Co-mingled recyclable	Recycling	19.70
General	Landfill	7.36
Organic	Recycling	2.12
Paper	Recycling	9.00

Disability reporting

Since 1994, Commonwealth departments and agencies have reported on their performance as policy adviser, purchaser, employer, regulator and provider under the Commonwealth Disability Strategy. In 2007–08, reporting on the employer role was transferred to the Australian Public Service Commission's *State of the Service Report* and the *APS Statistical Bulletin*. These reports are available at www.apsc.gov.au. Since 2010–11, departments and agencies have not been required to report on these functions.

The Commonwealth Disability Strategy has been replaced by a new National Disability Strategy which sets out a 10-year national policy framework to improve the lives of people with disability, promote participation and create a more inclusive society. A high-level two-yearly report will track progress against each of the six outcome areas of the strategy and present a picture of how people with disability are faring. The first of these reports will be available in late 2014 via www.dss.gov.au.

Freedom of information

The Auditor-General Act 1997 provides the Auditor-General with an exemption from the provisions of the *Freedom of Information Act 1982*. Performance audits, assurance reviews and audit opinions are tabled in the Parliament and/or published on the ANAO's website.

Service charter

As the ANAO does not provide services directly to members of the public it does not have a service charter. However, the ANAO recognises that it provides a service to the community through the delivery of a range of audit services, and welcomes feedback. Comments and suggestions can be made via the ANAO website or by phone on (02) 6203 7300.

Public interest disclosure

The *Public Interest Disclosure Act 2013* came into effect in January 2014. The ANAO has been progressively developing its policy and procedures to support the requirements of this new legislation.

FINANCIAL RESULTS PART 5

Financial results

The operations of the Australian National Audit Office (ANAO) are largely funded through parliamentary appropriations. Revenue is also received from the provision of audit-related services, rental income, grant funding and other miscellaneous sources that are accounted for as agency revenue and retained for use by the ANAO.

In accordance with section 14 of the *Auditor-General Act 1997*, the ANAO charges fees for the audits of financial statements of Commonwealth authorities and companies. The revenue received is accounted as administered funds and paid directly into Consolidated Revenue.

Overview of financial performance

The ANAO's operating surplus decreased to \$0.444 million for the year ending 30 June 2014 (compared to a surplus of \$3.395 million for the year ending 30 June 2013).

The decrease was mainly the result of a 5 per cent increase in total expenses. Supplier expenses increased due to a greater use of contractors and a contingent workforce, partly to meet short-term workloads associated with machinery of government changes. Expenditure on IT increased due to projects focused on enhancing the productivity and mobility of the ANAO workforce. The ANAO also invested in transitioning professional development offerings to an e-learning platform, which resulted in an increase in overall expenditure. The increases were partially offset by savings across other expenditure categories, such as recruitment, printing and other administrative costs.

In 2013–14, the ANAO received an additional \$0.722 million in funding to assist with financial statement audit workloads arising from the creation of new government entities, including the audit of the National Disability Insurance Agency. Despite ongoing pressures arising from those additional audit workloads, the additional funding ended in 2013–14 and will not be available to the ANAO in 2014–15.

The ANAO continued to strengthen its balance sheet and has sufficient assets to meet ongoing liabilities and commitments.

Table 18 summarises the ANAO's financial position.

Table 18 Summary of financial performance

	2013–14	2012–13	Variance	Variance
	\$'000	\$'000	\$'000	%
Statement of comprehensive income				
Total own source revenue	3,831	3,413	418	12
Total revenue from Government	74,986	74,374	612	1
Total expenses	78,373	74,392	3,981	5
Net surplus	444	3,395	(2,951)	(87)
Balance sheet				
Total assets	44,566	41,999	2,567	6
Total liabilities	19,990	18,766	1,224	7
Net assets	24,576	23,233	1,343	6
Equity	24,576	23,233	1,343	6

Agency resource statement

The agency resource statement provides additional information about the various funding sources that the ANAO may draw upon during the year. Table 19 details the resources available to the ANAO during 2013–14.

Table 19 Agency resource statement, 2013–14

	Actual available appropriations for 2013–14 \$'000	Payments made 2013–14 \$'000	Balance remaining 2013–14 \$'000
Ordinary annual services			
Departmental appropriation ¹	111,311	75,375	35,936
Total ordinary annual services	111,311	75,375	35,936
Special appropriations			
Auditor-General remuneration and expense— <i>Auditor-General Act 1997</i> , Schedule 1, sections 3 and 7	619	619	_
Total special appropriations	619	619	_
Total resourcing and payments	111,930	75,994	35,936

1 Appropriation Bill (No. 1) 2013–14, prior year departmental appropriation and section 31 receipts.

Expenses by outcome

Table 20 sets out the ANAO's summary of total expenses for Outcome 1.

Table 20 Expenses for outcome, 2013–14

	Budget ¹ 2013–14 \$'000	Actual expenses 2013–14 \$'000	Variation 2013–14 \$'000
Outcome 1: To improve public sector performa- independent reporting on Australian Governm Executive and the public.			

Program 1.1: Assurance Audit Services			
Departmental expenses			
Departmental appropriation ²	47,118	46,102	1,016
Special appropriation	299	310	(11)
Expenses not requiring appropriation in the Budget year	1,068	1,140	(72)
Total for Program 1.1	48,485	47,552	933

Program 1.2: Performance Audit Services			
Departmental expenses			
Departmental appropriation	30,573	29,616	957
Special appropriation	299	309	(10)
Expenses not requiring appropriation in the Budget year	839	896	(57)
Total for Program 1.2	31,711	30,821	890
Total for Outcome 1	80,196	78,373	1,823

	2013–14	2012–13
Average staffing level (number)	349	339

1 Full year budget, including any subsequent adjustment made to the 2013–14 Budget.

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

2013–14 Financial statements

Independent Auditor's Report Statement by the Auditor-General and Chief Finance Officer Statement of Comprehensive Income Statement of Financial Position Statement of Changes in Equity Cash Flow Statement Schedule of Commitments Administered Schedule of Comprehensive Income Administered Schedule of Assets and Liabilities Administered Reconciliation Schedule Administered Cash Flow Statement Table of Contents – Notes Notes to and Forming Part of the Financial Statements

INDEPENDENT AUDITOR'S REPORT

For the Australian National Audit Office

Report on the Financial Statements

I have audited the accompanying financial statements of the Australian National Audit Office for the year ended 30 June 2014, which comprise: a Statement by the Auditor-General and Chief Financial Officer; Statement of Comprehensive Income; Statement of Financial Position; Statement of Changes in Equity; Cash Flow Statement; Schedule of Commitments; Administered Schedule of Comprehensive Income; Administered Schedule of Assets and Liabilities; Administered Reconciliation Schedule; Administered Cash Flow Statement and Notes comprising a Summary of Significant Accounting Policies and other explanatory information.

Auditor-General's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted my audit in accordance with the Australian Auditing Standards. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Australian National Audit Office's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Australian National Audit Office's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Auditor-General, as well as evaluating the overall presentation of the financial statements.

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

Independence

In conducting my audit, I have followed the independence requirements of the Accounting Professional & Ethical Standards Board (APES 110 – Code of Ethics for Professional Accountants).

Opinion

In my opinion, the financial statements of the Australian National Audit Office:

- (a) have been prepared in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, including the Australian Accounting Standards; and
- (b) give a true and fair view of the matters required by the Finance Minister's Orders, including the Australian National Audit Office's financial position as at 30 June 2014 and its financial performance and cash flows for the year then ended.

Peter van Dongen Independent Auditor

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

Sydney 5 September 2014 Australian National Audit Office

STATEMENT BY THE AUDITOR-GENERAL AND CHIEF FINANCE OFFICER

In our opinion, the attached financial statements for the year ended 30 June 2014 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act* 1997, as amended.

Signed

lan McPhee Auditor-General

2 September 2014

Signed

Mitchell Frost Chief Finance Officer

2 September 2014

Australian National Audit Office Statement of Comprehensive Income for the year ended 30 June 2014

		2014	2013
NET COST OF SERVICES	Notes	\$'000	\$'000
EXPENSES			
Employee benefits	3A	42,583	41,193
Suppliers	3B	33,754	31,108
Depreciation and amortisation	7A-D	2,016	2,087
Disposal of non-financial assets		20	4
Total expenses	_	78,373	74,392
OWN-SOURCE INCOME			
Own-source revenue			
Rendering of services	4A	3,659	3,241
Rental income - external parties	-	172	172
Total own-source income	-	3,831	3,413
Net cost of services		74,542	70,979
REVENUE FROM GOVERNMENT			
Departmental annual appropriations		74,367	73.824
Departmental special appropriations		619	550
Total revenue from Government	-	74,986	74,374
	-	14,300	14,314
Surplus ¹	-	444	3,395

¹ Total comprehensive income is equal to the surplus as there have been no movements in other comprehensive income.

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

Australian National Audit Office Statement of Financial Position as at 30 June 2014

		2014	2013
	Notes	\$'000	\$'000
ASSETS			
Financial assets			
Cash and cash equivalents		660	649
Trade and other receivables	6A	36,560	32,827
Work in progress - audit related services	-	238	219
Total financial assets	-	37,458	33,695
Non-financial assets			
Leasehold improvements	7A,B	3,641	4,531
Plant and equipment	7A,B	1,271	1,281
Intangibles	7C,D	1,226	1,635
Prepayments		970	857
Total non-financial assets	-	7,108	8,304
Total assets	-	44,566	41,999
LIABILITIES			
Payables			
Suppliers	8A	4,130	2,952
Operating lease incentives	8B	836	1,034
Accrued salaries and other payables		1,317	1,173
Total payables	-	6,283	5,159
Provisions			
Employee provisions	9A	13,707	13,607
Total provisions	-	13,707	13,607
Total liabilities	-	19,990	18,766
Net assets	-	24,576	23,233
EQUITY			
Contributed equity		9,572	8,673
Reserves		626	626
Retained surplus		14,378	13,934
Total equity	-	24,576	23,233

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

Australian National Audit Office Statement of Changes in Equity for the year ended 30 June 2014

	surplı	SI	surplu	s	equity/cal	pital	Total ec	quity
	2014		2014	2013	2014 20	2013	2014	2013
	\$'000	\$'000	\$`000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance	13.934	10.539	626	626	8.673	7.775	7.775 23.233	18.940
		00010-	-	2	2.262		22621	0.00.
Comprehensive income								
Surplus for the period	444	3,395					444	3,395
Total comprehensive income	444	3,395	•	•	•	1	444	3,395
Transactions with owners								
Contributions by owners								
Departmental capital budget	•	•		'	899	898	899	898
Total transactions with owners	•			•	668	898	899	898
Closing balance as at 30 June	14,378	13,934	626	626	9,572	8,673	24,576	23,233

Contributed

Asset revaluation

Retained

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

Australian National Audit Office Cash Flow Statement

for the year ended 30 June 2014

	Notes	2014 \$'000	2013 \$'000
OPERATING ACTIVITIES			
Cash received			
Appropriations		75,420	73,885
Rendering of services		4,528	3,413
Net GST received		3,237	2,794
Total cash received	-	83,185	80,092
Cash used			
Employees		42,321	40,474
Suppliers		35,991	35,853
Section 31 receipts transferred to OPA	_	4,738	3,838
Total cash used	_	83,050	80,165
Net cash from / (used by) operating activities	10	135	(73)
INVESTING ACTIVITIES			
Cash used			
Purchase of leasehold improvements		7	110
Purchase of plant and equipment		423	162
Purchase of intangibles	_	551	496
Total cash used	_	981	768
Net cash (used by) investing activities	-	(981)	(768)
FINANCING ACTIVITIES			
Cash received			
Contributed equity	_	857	703
Total cash received	_	857	703
Net cash from financing activities	-	857	703
Net increase / (decrease) in cash held		11	(138)
Cash and cash equivalents at the beginning of the reporting period		649	787
Cash and cash equivalents at the end of the reporting period ¹	-		
cash and cash equivalents at the end of the reporting period	_	660	649

¹ As shown in the Statement of Financial Position.

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

Australian National Audit Office Schedule of Commitments as at 30 June 2014

		004
BY TYPE	2014	2013
Commitments receivable	\$'000	\$'000
Sublease rental income ¹	240	224
Net GST recoverable on commitments	4.672	4,038
Total commitments receivable	4.912	4,262
		4,202
Commitments payable		
Capital commitments	17	89
Property, plant and equipment Intangibles	30	09 101
Total capital commitments	47	101
Total capital communents		190
Other commitments		
Operating leases ²	17,540	21,890
Other ³	34,047	22,561
Total other commitments	51,587	44,451
Total commitments payable	51,634	44,641
Net commitments by type	46,722	40,379
BY MATURITY		
Commitments receivable		
Operating lease income		
Within 1 year	192	192
Between 1 to 5 years	48	32
Total operating lease income	240	224
Other commitments receivable		
Within 1 year	2,186	1,834
Between 1 to 5 years	2,465	2,110
More than 5 years	21	94
Total other commitments receivable	4,672	4,038
Total commitments receivable	4,912	4,262
Commitments payable		
Capital commitments		
Within 1 year	47	190
Total capital commitments	47	190
Operating lease commitments		
Within 1 year	4,012	3,932
Between 1 to 5 years	13,294	16,924
More than 5 years	234	1,034
Total operating lease commitments	17,540	21,890
Other Commitments		
Within 1 year	20,174	16,242
Between 1 to 5 years	13,873	6,319
Total other commitments	34,047	22,561
Total commitments payable	51,634	44,641
Net commitments by maturity	46,722	40,379

Australian National Audit Office Schedule of Commitments (Cont'd) as at 30 June 2014

Note: Commitments are GST inclusive where relevant.

¹ Sublease income is rental income derived from the sublease of office accommodation at the ANAO's premises in the ACT. On 2 June 2014, an option was excercised under the sub-lease agreement, extending the sub-lease term until 30 September 2015.

² Operating leases included for 2013-14 are non-cancellable and comprise:

Nature of lease	General description of leasing arrangements
Lease for office accommodation	The ANAO has one current accommodation lease in the ACT. The lease commenced on 23 September 2008 for a period of 10 years and is for the ANAO's present accommodation in the ACT. There is an option to extend for a further 10 years and any increases in rent will be at a rate commensurate with the CPI. As part of the lease agreement, the ANAO received a contribution of \$1 million from the landlord towards refurbishment of the premises and release from any future make good obligations. These incentives are being recognised progressively over the lease as a reduction in rent expense.
Lease for data centre facilities	The ANAO leases a secure offsite facility for data storage and business continuity purposes. The lease commenced on 1 November 2012 for a period of 10 years with fixed rent increases of 4% until 2016. Any rental increases over the remaining lease will be at a rate commensurate with the CPI.

³ Other commitments comprise: contract audit services \$21,637,714 (2012-13 \$14,249,773), provision of IT services \$7,729,118 (2012-13 \$3,592,807) and other contracts totalling \$4,680,286 (2012-13 \$4,719,024).

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

Administered Schedule of Comprehensive Income			
for the year ended 30 June 2014			
		2014	2013
	Notes	\$'000	\$'000
DWN-SOURCE INCOME			
Non-taxation revenue			
Rendering of audit services - government entities		11,334	10,283
Total own-source income administered on behalf of Governme	ent' _	11,334	10,283
Total comprehensive income is equal to total own-source income novements in other comprehensive income.	as there have been	no administered e	expenses or
The above schedule should be read in conjunction with the accomp	panying notes.		
Administered Schedule of Assets and Liabilities			
as at 30 June 2014			
		2014	2013
	Notes	\$'000	\$'000
ASSETS			
Financial assets			
Cash and cash equivalents	454	339	230
Frade and other receivables Nork in progress - audit related services	15A	3,899 2,010	4,686 1,445
Fotal financial assets	-	6,248	6,361
	-	0,240	0,001
Fotal assets administered on behalf of Government	_	6,248	6,361
IABILITIES			
Payables			
GST payable		355	426
Fotal payables	_	355	426
Fotal liabilities administered on behalf of Government	-	355	426
	-		420
Net assets	-	5,893	5,935
The above schedule should be read in conjunction with the accomp	panying notes.		
Administered Reconciliation Schedule			
		2014	2013
		2014 \$'000	2013 \$'000
Opening assets less liabilities as at 1 July		5,935	6,172
Net contribution by services:			-,
Income		11,334	10,283
Fransfers to the Australian Government:		(44.070)	(10 500)
Transfers to the Official Public Account		(11,376)	(10,520)
Closing assets less liabilities as at 30 June	_	5,893	5,935

Australian National Audit Office Administered Cash Flow Statement

for the year ended 30 June 2014

	Notes	2014 \$'000	2013 \$'000
OPERATING ACTIVITIES			
Cash received			
Rendering of audit services		12,639	11,338
Total cash received		12,639	11,338
Cash used			
Net GST paid		1,154	1,026
Total cash used		1,154	1,026
Net cash flows from operating activities	16	11,485	10,312
Net increase in cash held		11,485	10,312
Cash and cash equivalents at the beginning of the reporting period		230	438
Cash to Official Public Account for:			
- Appropriations		11,376	10,520
Cash and cash equivalents at the end of the reporting period ¹		339	230

¹ As shown in the Administered Schedule of Assets and Liabilities.

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

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Note 1 - Summary of Significant Accounting Policies

1.1 Objectives of the ANAO

The Australian National Audit Office (ANAO) is an Australian Government not-for-profit entity. The objective of the entity is to assist the Auditor-General to carry out his duties and responsibilities under the Auditor-General Act 1997 and other relevant legislation.

For the financial year ended 30 June 2014, the ANAO was structured to meet the following outcome:

Outcome 1: To improve public sector performance and accountability through independent reporting on Australian Government administration to Parliament, the Executive and the public.

Through the conduct of financial statement audits and other services associated with the conduct of financial statement audits, the ANAO contributes to providing assurance to the Parliament, the Executive and the public.

Through the conduct of performance audits, the dissemination of better practice guides and the provision of direct and indirect assistance to the Parliament, the ANAO contributes to improving the efficiency and administrative effectiveness of the Australian Government public sector.

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

The ANAO charges an audit fee for the financial statement audits of Commonwealth authorities, companies and their subsidiaries. These fees are based on a scale determined by the Auditor-General under section 14 of the Auditor-General Act 1997, calculated on the basis of a cost attribution model. Revenues from these audits are paid into the Official Public Account and are not available to the ANAO. The revenue and receipts associated with conducting these audits are treated as administered activities within the financial statements.

1.2 Basis of Preparation of the Financial Statements

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

The financial statements have been prepared in accordance with:

- a) Finance Minister's Orders (FMOs) for reporting periods ending on or after 1 July 2011; and
- b) Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements have been prepared on an accrual basis and in accordance with the historical cost convention, except for certain assets and liabilities at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

The financial statements are presented in Australian dollars and values are rounded to the nearest thousand dollars unless otherwise specified.

1.3 Significant Accounting Judgements and Estimates

In the process of applying the accounting policies listed in this note, the ANAO has made assumptions or estimates in the following areas that have the most significant impact on the amounts recorded in the financial statements:

- The fair value of leasehold improvements and property, plant and equipment is assessed at market value or depreciated replacement cost as determined by an independent valuer and is subject to management assessment between formal valuations; and
- Leave provisions involve assumptions based on the expected tenure of existing staff, patterns of leave claims and payouts, future salary movements and future discount rates.

No accounting assumptions or estimates have been identified that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next reporting period.

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

1.4 New Australian Accounting Standards

Adoption of New Australian Accounting Standard Requirements

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

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

Future Australian Accounting Standard Requirements

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

The issuance of AASB 1055 *Budgetary Reporting* will require the ANAO to disclose budgeted information, presented to Parliament in the Portfolio Budget Statements. The ANAO will also be required to provide explanations of significant variances between the budgeted amounts and actual results. This standard will apply to both departmental and administered balances, and will be applicable to reporting periods commencing on or after 1 July 2014.

1.5 Revenue

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

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

The stage of completion of contracts at the reporting date is determined by reference to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

Revenue from Government

Amounts appropriated for departmental appropriations for the year (adjusted for any formal additions and reductions) are recognised as Revenue from Government when the ANAO gains control of the appropriation. Appropriations receivable are recognised at their nominal amounts.

1.6 Transactions with the Government as Owner

Equity Injections

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

1.7 Employee Benefits

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

Leave

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

The leave liabilities are calculated on the basis of employees' remuneration at the estimated salary rates that will apply at the time the leave is taken; including the ANAO's employer superannuation contribution rates and applicable on-costs, to the extent that the leave is likely to be taken during service rather than paid out on termination.

The liability for long service leave has been determined by reference to FMO 43.2 using the shorthand method. The estimate of the present value of the liability takes into account staff turnover rates and expected pay increases.

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

Superannuation

The ANAO's staff are members of the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS), PSS accumulation plan (PSSap) or other elected defined contribution schemes.

The CSS and PSS are defined benefit schemes for the Australian Government. The PSSap is a defined contribution scheme.

The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability is reported in the Department of Finance administered schedules and notes.

The ANAO makes employer contributions to the employees' superannuation scheme at rates determined by an actuary to be sufficient to meet the current cost to the Government, and accounts for the contributions as if they were contributions to defined contribution plans.

The liability for superannuation recognised as at 30 June represents outstanding contributions for the final fortnight of the year.

1.8 Leases

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

1.9 Financial Assets

Cash and cash equivalents

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

- a) cash on hand;
- b) deposits on demand in bank accounts; and
- cash in special accounts.

Loans and Receivables

Trade receivables are classified as 'loans and receivables' and recorded at face value less any impairment. Trade receives are recognised where the ANAO becomes party to a contract and has a legal right to receive cash. Trade receivables are derecognised on payment.

Impairment of Financial Assets

Loans and receivables are assessed for impairment at the end of each reporting period. Allowances are made when collectability of the debt is no longer probable.

1.10 Financial Liabilities

Supplier and other payables are recognised at amortised cost. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced). Supplier and other payables are derecognised on payment.

1.11 Contingent Liabilities and Contingent Assets

The ANAO had no quantifiable or unquantifiable contingent assets or liabilities as at 30 June 2014 (2013: nil).

1.12 Acquisition of Assets

The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Financial assets are initially measured at their fair value.

Purchases of non-financial assets are initially recognised at cost in the Statement of Financial Position, except for purchases costing less than \$2,000, which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

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

1.13 Property, Plant and Equipment

Revaluations

Fair values for each class of asset are deterr	mined as shown below:		
Asset Class Fair value measures at:			
Leasehold improvements	Depreciated replacement cost		
Plant and equipment	Market selling price		

Following initial recognition at cost, property, plant and equipment are carried at fair value. Valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not differ materially from the asset's fair values as at the reporting date. The regularity of independent valuations depends on the volatility of movements in market values for the relevant assets. The most recent independent valuation was conducted by the Australian Valuation Office as at 30 June 2012.

Depreciation

Depreciable plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to the ANAO, using in all cases, the straight-line method of depreciation. Leasehold improvements are depreciated over the lesser of the estimated useful life of the improvement or the lease term.

Depreciation rates (useful lives), residual values and methods are reviewed at each reporting date.

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

	2014	2013
Leasehold improvements	Lease term	Lease term
Plant and equipment	3 to 100 years	3 to 100 years

Impairment

All assets were assessed for impairment at 30 June 2014. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment loss recognised if the asset's recoverable amount is less than its carrying amount.

Derecognition

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

1.14 Intangibles

The ANAO's intangibles comprise off-the-shelf software and associated enhancement costs. These assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Software is amortised on a straight-line basis over its anticipated useful life. The useful lives of the ANAO's software are 3 to 5 years (2013: 3 to 5 years).

All software assets were assessed for indications of impairment as at 30 June 2014. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment loss recognised if the asset's recoverable amount is less than its carrying amount.

1.15 Taxation

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

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

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

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

1.16 Work in Progress

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

1.17 Reporting of Administered Activities

The ANAO undertakes audits of Australian Government agencies, authorities and companies. Auditing expenses are departmental expenses of the ANAO. Those expenses are met from Parliamentary appropriations. Fees are charged for the provision of audit services to certain Commonwealth authorities and companies. Recovered fees are credited to the Official Public Account and are not available to the ANAO. The ANAO's auditing and related activities are directed towards achieving the outcome described in Note 1.1. Details of activities planned for the year can be found in the Prime Minister and Cabinet Portfolio Budget Statement for 2013-14, which was tabled in the Parliament.

Administered revenues, expenses, assets, liabilities and cash flows are disclosed in the administered schedules and related notes.

Except where otherwise stated below, administered items are accounted for on the same basis and using the same policies as for departmental items, including the application of Australian Accounting Standards.

Administered Cash Transfers to and from the Official Public Account

Revenue collected by the ANAO for use by the Government rather than the agency is administered revenue. Collections are transferred to the Official Public Account (OPA) maintained by the Department of Finance. These transfers to the OPA are adjustments to the administered cash held by the entity on behalf of the Government and reported as such in the schedule of administered cash flows and in the administered reconciliation schedule.

Contingent Liabilities and Contingent Assets

The ANAO had no administered quantifiable or unquantifiable contingent assets or liabilities as at 30 June 2014 (2013: nil).

Note 2 - Events After the Reporting Period

Departmental

No events have occurred after balance date that should be brought to account or noted in the 2013-14 financial statements.

Administered

No events have occurred after balance date that should be brought to account or noted in the 2013-14 financial statements.

Note 3: Expenses		
	2014	2013
	\$'000	\$'000
Note 3A: Employee Benefits		
Wages and salaries	32,293	31,155
Superannuation:		
Defined contribution plans	2,679	2,339
Defined benefit plans	3,286	2,954
Leave and other entitlements	4,109	4,543
Other employee expenses	216	202
Total employee benefits	42,583	41,193
Note 3B: Suppliers		
Goods and services		
Contractors	18,806	16,453
Information and communication technology	3,970	3,666
Consultants	1,585	1,733
Travel	1,248	1,182
Professional development	1,527	1,186
Printing	479	619
Stationery	349	336
Recruitment	344	561
Other	1,846	1,914
Total goods and services	30,154	27,650
Goods and services are made up of:		
Provision of goods – external parties	280	371
Rendering of services – government entities	912	710
Rendering of services – external parties	28,962	26,569
Total goods and services	30,154	27,650
Other suppliers		
Operating lease rentals – external parties:		
Minimum lease payments	3,068	2,950
Contingent rentals	294	335
Workers compensation expenses - government entity	238	173
Total other suppliers	3,600	3,458
Total suppliers	33,754	31,108
Note 4: Income		
	2014	201:
	\$'000	\$'000
Note 4A: Sale of Goods and Rendering of Services		
Rendering of audit services - government entities	2,005	1,498
	,	1,564
International development funding - government entities	1.487	
International development funding - government entities Rendering of services - external parties	1,487 167	1,304

Note 5: Fair Value Measurements

Note 5A: Valuation Technique and inputs for level 3 fair value measurements

The different levels of the fair value hierarchy are defined below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets that the ANAO can access at measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

Level 3: Unobservable inputs for the asset.

The ANAO determines fair value for non-financial assets using level 3 inputs in the fair value hierarchy. The following table discloses the fair value at 30 June 2014 and the valuation techniques used to derive fair value.

Fair value measurements - valuation technique and the inputs used for assets 2014

	Category	Fair value	Valuation	Inputs used and range	
		\$'000	Technique		
Non-financial assets Plant and equipment	Level 3	1,271	Market comparables	Market buying / selling prices	
				Remaining useful lives	3-100 years
Leasehold improvements	Level 3	3,641	Depreciated replacement	Construction price index	1.6%
			cost	Remaining useful life	lease term
Total non financial assets		4,912			

The highest and best use of all non-financial assets are the same as their current use. No change in valuation technique occurred during the period.

A reconciliation of movements in leasehold improvements and plant and equipment has been included in Note 7.

Note 6: Financial Assets		
	2014	2013
	\$'000	\$'000
Note 6A: Trade and Other Receivables		
Appropriation receivable - existing programs	35,276	30,928
Trade receivables - government entities	749	1,183
Trade receivables - external parties	24	32
GST receivable from the Australian Taxation Office	511	684
Total trade and other receivables	36,560	32,827
Trade and other receivables aged as follows:		
Not overdue	36,559	32,827
Overdue by:		
0 to 30 days	1	-
Total trade and other receivables	36,560	32,827

All receivables have credit terms of no greater than 30 days (2013: 30 days).

Note 7: Non-Financial Assets

Revaluations of non-financial assets

No revaluation was performed during the 2013-14 financial year.

Note 7A: Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment 2014

	Leasehold	Plant &	
	Improvements	equipment	Total
	\$'000	\$'000	\$'000
As at 1 July 2013			
Gross book value	5,417	1,701	7,118
Accumulated depreciation and impairment	(886)	(420)	(1,306)
Total as at 1 July 2013	4,531	1,281	5,812
Additions - by purchase	-	356	356
Reclassification from intangibles	-	49	49
Depreciation expense	(890)	(409)	(1,299)
Disposals	-	(6)	(6)
Total as at 30 June 2014	3,641	1,271	4,912
Total as at 30 June 2014 represented by:			
Gross book value	5,417	2,088	7,505
Accumulated depreciation and impairment	(1,776)	(817)	(2,593)
Total as at 30 June 2014	3,641	1,271	4,912

No indicators of impairment were identified for property, plant & equipment.

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

Note 7B: Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment 2013

	Leasehold	Plant &	
	Improvements	equipment	Total
	\$'000	\$'000	\$'000
As at 1 July 2012			
Gross book value	5,348	1,531	6,879
Total as at 1 July 2012	5,348	1,531	6,879
Additions - by purchase	69	175	244
Depreciation expense	(886)	(422)	(1,308)
Disposals	-	(3)	(3)
Total as at 30 June 2013	4,531	1,281	5,812
Total as at 30 June 2013 represented by:			
Gross book value	5,417	1,701	7,118
Accumulated depreciation and impairment	(886)	(420)	(1,306)
Total as at 30 June 2013	4,531	1,281	5,812

Note 7: Non-Financial Assets (Cont'd)

Note 7C: Reconciliation of the Opening and Closing Balances of Intangibles 2014

	Computer	
	software	
	purchased	Total
	\$'000	\$'000
As at 1 July 2013		
Gross book value	4,719	4,719
Accumulated amortisation and impairment	(3,084)	(3,084)
Total as at 1 July 2013	1,635	1,635
Additions - by purchase	371	371
Reclassification to plant & equipment	(49)	(49)
Amortisation	(717)	(717)
Impairments recognised in net cost of services	(14)	(14)
Total as at 30 June 2014	1,226	1,226
Total as at 30 June 2014 represented by:		
Gross book value	4,751	4,751
Accumulated amortisation and impairment	(3,525)	(3,525)
Total as at 30 June 2014	1,226	1,226

Except as shown in the table above, no indicators of impairment were identified for intangible assets.

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

Note 7D: Reconciliation of the Opening and Closing Balances of Intangibles 2013

	Computer software purchased \$'000	Total \$'000
As at 1 July 2012		
Gross book value	4,477	4,477
Accumulated amortisation and impairment	(2,845)	(2,845)
Total as at 1 July 2012	1,632	1,632
Additions - by purchase	783	783
Amortisation	(779)	(779)
Disposals	(1)	(1)
Total as at 30 June 2013	1,635	1,635
Total as at 30 June 2013 represented by:		
Gross book value	4,719	4,719
Accumulated amortisation and impairment	(3,084)	(3,084)
Total as at 30 June 2013	1,635	1,635

Note 8: Payables		
	2014	2013
Note OA: Crimeliana	\$'000	\$'000
Note 8A: Suppliers Trade creditors and accruals - government entities	88	46
Trade creditors and accruals - government ended	4,042	2,906
Total suppliers payables	4,130	2,952
Supplier payables are settled within 30 days.		
Note 8B: Operating lease incentives		
Total operating lease incentives are expected to be settled in:		
No more than 12 months	196	196
More than 12 months	640	838
Total operating lease incentives	836	1,034
Note 9: Provisions		
	2014	2013
	\$'000	\$'000
Note 9A: Employee Provisions	φ 000	φ 000
Leave	13,707	13,607
Total employee provisions	13,707	13,607
Employee provisions are expected to be settled in:		
No more than 12 months	5,744	5,034
More than 12 months	7,963	8,573
Total employee provisions	13,707	13,607
Note 10: Cash Flow Reconciliation		
	2014	2013
	\$'000	\$'000
Reconciliation of net cost of services to net cash from operating activities:	¥ 000	\$ 000
Net cost of services	(74,542)	(70,979)
Add revenue from Government	74,986	74,374
	444	3,395
Adjustments for non-cash items Depreciation / amortisation	2,016	2.087
Loss on disposal of assets	2,018	2,007
	20	-
Movements in assets and liabilities Assets		
(Increase) in trade and other receivables	(3,689)	(4,726)
(Increase) in prepayments	(113)	(55)
(Increase) / decrease in work in progress - audit related services	(20)	163
Liabilities	,	<i>,,</i>
Increase / (decrease) in supplier payables	1,429	(1,431)
Increase / (decrease) in accrued salaries and other payables (Decrease) in operating lease incentives	144 (198)	(134)
Increase in employee provisions	(198)	(198) 822
Net cash from / (used by) operating activities	135	(73)
· ·····		(-/

Note 11: Senior Executive Remuneration

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

2014 2013 \$ \$	5,694,487 5,249,024		135,670 192,732 6,068,045 5,675,718	946,127 779,577	946,127 779,577	412,724 375,304	142,171 125,910	554,895 501,214	7,569,067 6,956,509
	Short-term employee benefits: Salary	Performance bonuses	Motor vehicle and other allowances' Total short-term employee benefits	Post-employment benefits: Superannetion	Total post-employment benefits	Other long-term benefits: Annual leave accued	Long-service leave	Total other long-term benefits	Total senior executive remuneration expenses

Notes:

1. Note 11A is prepared on an accrual basis (therefore the performance bonus expenses disclosed above may differ from the cash 'Bonus paid' in Note 11B). 2. Note 11A excludes acting arrangements and part-year service where total remuneration expensed for a senior executive was less than \$195,000.

3. Includes motor vehicle, parking and overseas living allowances.

4. Using the parameters outlined in note 2 above, 32 senior executives were included in the 2013-14 note disclosure (2013: 29). No new senior executive positions were created, however a small number of staff acted in senior executive roles during 2013-14 while substantive senior executives were on periods of extended leave.

Note 11: Senior Executive Remuneration (Cont'd)

			2014			
	Substantive					
	Senior	Reportable	Contributed	Reportable		
Average annual reportable remuneration ¹	Executives	salary²	superannuation ³	allowances ⁴ Bonus paid ⁵	Bonus paid ⁵	Total
	No.	\$	\$	\$	\$	\$
Total remuneration (including part-time arrangements):						
less than \$195,000	9	114,780	17,795	•	3,131	135,706
\$195,000 to \$224,999	9	179,198	24,806	24	7,183	211,211
\$225,000 to \$254,999	5	197,589	30,065	195	9,318	237,167
\$255,000 to \$284,999	4	230,702	33,612		12,750	277,064
\$285,000 to \$314,999	2	249,063	43,935	•	12,000	304,997
\$375,000 to \$404,999	7	347,323	40,908		4,000	392,231
\$645,000 to \$674,999	-	585,215	80,782	•	•	665,997
Total	32					
			2013			
	Substantive					
	Senior	Reportable	Contributed	Reportable		ŀ
Average annual reportable remuneration	Executives No.	salary≏ \$	superannuation* \$	allowances [*]	Bonus paid \$	
Total remuneration (including part-time arrangements):						
less than \$195,000	4	116,421	16,153	'	6,500	139,074
\$195,000 to \$224,999	10	175,548	25,875		8,346	209,769
\$225,000 to \$254,999	80	197,951	27,907	106	10,000	235,964
\$255,000 to \$284,999	e	223,293	32,522	7	12,500	268,322
\$285,000 to \$314,999	2	242,366	38,411		12,000	292,777
\$345,000 to \$374,999	~	307,383	46,015	'	•	353,398
\$585,000 to \$614,999	~	534,942	62,257	'		597,199
Total	00					

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS for the year ended 30 June 2014 Australian National Audit Office

Note 11: Senior Executive Remuneration (Cont'd)

Notes:

1. This table reports substantive executives who received remuneration during the reporting period. Each row is an averaged figure based on headcount for individuals in the band.

2. 'Reportable salary' includes the following:

a) gross payments (less any bonuses paid, which are separated out and disclosed in the 'bonus paid' column);
 b) reportable fringe benefits (at the net amount prior to 'grossing up' to account for tax benefits);

c) exempt foreign employment income; and

d) leave paid out upon ceasing employment.

3. The 'contributed superannuation' amount is the average cost to the ANAO for the provision of superannuation benefits to substantive senior executives in that reportable remuneration band during the reporting period.

4. 'Reportable allowances' are the average actual allowances paid as per the 'total allowances' line on individuals' payment summaries.

5. Bonus paid' represents average actual bonuses paid during the reporting period in that reportable remuneration band. The 'bonus paid' within a particular band may vary between financial years due to various factors such as individuals commencing with or leaving the entity during the financial year.

6. Various salary sacrifice arrangements were available to senior executives including superannuation and motor vehicle fringe benefits. Salary sacrifice benefits are reported in the 'reportable salary' column.

Note 11C: Average Annual Reportable Remuneration Paid to Other Highly Paid Staff during the Reporting Period

The ANAO had no other highly paid staff with reportable remuneration equal to or greater than \$195,000 in the current or prior financial year.

Note 12: Remuneration of Auditors		
	2014	2013
	\$	\$
Fees for services provided		
Financial statement audit services	87,600	98,318
Performance audit services	-	106,903
Total	87,600	205,221

Under clause 1 of Schedule 2 to the Auditor-General Act 1997, Mr Peter van Dongen, a partner from the firm of PricewaterhouseCoopers, was appointed as Independent Auditor for the term 12 June 2014 to 1 January 2019. Mr van Dongen is appointed in a personal capacity and he performed no other services for the ANAO.

Mr Geoff Wilson, a partner from the firm of KPMG, was appointed as Independent Auditor for the 2012-13 financial statements. Mr Wilson's term ended on 31 October 2013. Fees were also paid to the previous Independent Auditor during the 2012-13 year for a performance audit of the ANAO's quality assurance framework.

Note 13: Financial Instruments			
		2014	2013
		\$'000	\$'000
Note 13A: Categories of Financial Instruments			
Financial Assets			
Loans and receivables:			
Cash and cash equivalents		660	649
Receivables for services	6A	773	1,215
Total carrying amount of financial assets	-	1,433	1,864
Financial Liabilities			
At amortised cost:			
Trade creditors and accruals	8A	4,130	2,952
Total carrying amount of financial liabilities	_	4,130	2,952

The net fair values of the financial assets and liabilities are at their carrying amounts. The ANAO derived no interest income from financial assets in either the current and prior year.

Note 13B: Credit Risk

The ANAO is exposed to minimal credit risk with the maximum exposure arising from potential default of a debtor. This amount is equal to the total amount of receivables for services of \$773,175 (2013: \$1,199,119).

Note 13C: Liquidity Risk

The ANAO has sufficient available financial assets to meet all financial liabilities at 30 June 2014.

Note 14: Financial Assets Reconciliation			
		2014	2013
		\$'000	\$'000
Financial assets	Notes		
Total financial assets as per statement of financial position		37,458	33,695
Less: non-financial instrument components:			
Appropriation receivable	6A	(35,276)	(30,928)
GST receivable from the Australian Taxation Office	6A	(511)	(684)
Work in progress - audit related services	_	(238)	(219)
Total non-financial instrument components	-	(36,025)	(31,831)
Total financial assets as per financial instruments note	-	1,433	1,864

2014 2014 Stood Stood Financial statement audit fees - government entities 3,899 Financial statement audit fees - government entities 3,899 Total trade and other receivables 3,899 Not overdue 3,404 Overdue by: 3,404 O to 30 days 495 Attable - Attable - Attable - Attable - Overdue by: - O to 30 days 495 Attable -	Note 15: Administered - Financial Assets			
S*000 S*000 Note 15A: Trade and Other Receivables 3,899 4,686 Trade and other receivables 3,899 4,686 Trade and other receivables were aged as follows: 3,404 4,467 Not overdue 3,404 4,467 Overdue by: 0 0 30 0 to 30 days 495 110 31 to 60 days - 26 61 to 90 days - 25 More than 90 days - 25 Credit terms for goods and services are net 30 days (2013: 30 days). 3,899 4,686 Not on flip to 5 services to net cash from operating activities: 11,334 10,283 Not contribution by services 11,334 10,283 Movement in assets and liabilities 787 (785 Assets (Increase) in trade and other receivables 787 (785 Decrease / (increase in work in progress - audit related services (565) 773 Liabilities (1,1485 10,312 Note 17: Administered - Financial Instruments 2014 2014 Note 17: Administered - Financial Instruments 339 2300 Note 17: Categories of Financial Instruments 339 2300 Note 17: Categories of Financial Instruments 339 <td< th=""><th></th><th></th><th></th><th></th></td<>				
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Note 17A: Categories of Financial Instruments Financial Assets Loans and receivables: Cash and cash equivalents 339 230 Receivables for services 15A 3,899 4,686			\$'000	\$'000
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Cash and cash equivalents 339 230 Receivables for services 15A 3,899 4,686	Financial Assets			
Receivables for services 15A 3,899 4,686	Loans and receivables:			
	Cash and cash equivalents		339	230
Total carrying amount of financial assets 4.238 4.916	Receivables for services	15A	3,899	4,686
	Total carrying amount of financial assets		4,238	4,916

The net fair value of the financial assets are at their carrying amounts. The ANAO derived no interest income from financial assets in either the current and prior year.

Note 17B: Credit Risk The administered activities of the ANAO are exposed to minimal credit risk with the maximum exposure arising from potential default of a debtor. This amount is equal to the total amount of trade and other receivables of \$3,899,312 (2013: \$4,686,034).

Note 18: Appropriations

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

	2014	2013
Ordinary Annual Services	\$'000	\$'000
Annual Appropriation	75,266	74,722
FMA Act - Section 30	-	27
FMA Act - Section 31	4,468	3,838
Total appropriation	79,734	78,587
Appropriation applied (current and prior years)	75,375	74,202
Variance ¹	4,359	4,385

Section 83 of the Constitution provides that no amount may be paid out of the Consolidated Revenue Fund except under an appropriation made by law. In respect of ANAO's operations, the ANAO is not aware of any specific breaches of Section 83.

¹ Variance in the 2013-14 financial year was mainly due to the operating result excluding depreciation (refer note 22) and an increase in trade payables. The variance in 2012-13 was mainly due to the operating result excluding depreciation offset by a decrease in trade payables.

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

	2014	2013
Departmental Capital Budget	\$'000	\$'000
Annual Departmental Capital Budget ¹	899	898
Payments for non-financial assets ²	(981)	(768)
Variance ³	(82)	130

¹ Departmental Capital Budgets are appropriated through Appropriation Acts (No.1,3,5). They form part of ordinary annual services, and are not separately identified in the Appropriation Acts. For more information on ordinary annual services appropriations, please see Table A: Annual appropriations.

² Payments made on non-financial assets include purchases of assets and expenditure on assets which has been capitalised.

³ In 2013-14 the ANAO utilised unspent Departmental Capital Budget from prior years. The remaining unspent Departmental Capital Budget at 30 June 2014 was \$324,000.

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

	2014	2013
Authority	\$'000	\$'000
DEPARTMENTAL		
Appropriation Act (No. 1) 2012-13	-	31,577
Appropriation Act (No. 1) 2013-14	35,936	-
Total	35,936	31,577

The unspent appropriation at 30 June 2014 consists of unspent appropriation from the current financial year (\$4.359m) and prior financial years (\$31.577m).

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

			Appropriation a	applied
			2014	2013
Authority	Туре	Purpose	\$'000	\$'000
Auditor-General Act 1997, Schedule 1 sections 3 and 7	Unlimited Amount	Remuneration, expenses and allowances of the office of the Auditor-General	619	550
Total		-	619	550

Note 19: Special Accounts

Note 19A: Special Accounts (Recoverable GST exclusive)

The 'Services for Other Entities and Trust Moneys' Special Account was established on 26 June 2012 under Financial Management and Accountability (Establishment of SOETM Special Account – ANAO) Determination 2012/06.

The purpose of the Services for Other Entities and Trust Moneys Special Account is to: (a) disburse amounts held on trust or otherwise for the benefit of a person other than the Commonwealth; (b) disburse amounts in connection with services performed on behalf of other governments and bodies that are not FMA Act agencies; and

(c) to repay amounts where an act or law requires or permits the repayment of an amount received.

The Special Account had a nil balance as at 30 June 2014 (2013: nil) and has not been used during the current or previous financial year.

	2014	2013
	\$	
No payment was provided in special circumstances relating to APS employment pursuant to section 73 of the <i>Public Service Act</i> 1999 during the reporting period (2013: one		
payment).	-	30.000

During the current and comparative year, the ANAO made no:

- 'Act of Grace' payments;
- waivers of amounts owing to the Australian Government pursuant to subsection 34(1) of the Financial Management and Accountability Act 1997;
- payments under the Compensation for Detriment caused by Defective Administration Scheme; or
- ex-gratia payments.

Compensation and Debt Relief - Administered

During the current and comparative year, the ANAO made no:

- 'Act of Grace' payments;
- waivers of amounts owing to the Australian Government pursuant to subsection 34(1) of the Financial Management and Accountability Act 1997;
- payments under the Compensation for Detriment caused by Defective Administration Scheme; or ex-gratia payments.
- ex-gratia payments

Note 21: Reporting of Outcomes

Note 21A: Net Cost of Outcome Delivery

	Outcom	Outcome 1		1
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Departmental				
Expenses	78,373	74,392	78,373	74,392
Own-source income	3,831	3,413	3,831	3,413
Administered				
Expenses	-	-	-	-
Own-source income	11,334	10,283	11,334	10,283
Net cost of outcome delivery	63,208	60,696	63,208	60,696

Net costs shown include intra-government costs that are eliminated in calculating the actual budget outcome.

Note 22: Net Cash Appropriation Arrangements		
	2014	2013
	\$'000	\$'000
Total comprehensive income less depreciation/amortisation expenses previously		
funded through revenue appropriations ¹	2,460	5,482
Plus: depreciation/amortisation expenses previously funded through revenue		
appropriation	(2,016)	(2,087)
Total comprehensive income - as per the Statement of Comprehensive Income	444	3,395

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



APPENDICES PART 6

Appendix 1—Staffing statistics

Table A1.1 Staffing profile at 30 June, 2013 and 2014

Classification	2014	2013
SES Band 3	1	1
SES Band 2	6	6
SES Band 1	21	21
EL 2	76	81
EL 1	61	64
APS 6	62	60
APS 5	46	50
APS 4	61	39
APS 3	17	17
APS 2	4	4
APS 1 (Undergraduate)	3	4
Graduate	16	26
Total	374	373

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

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

Table A1.2 Paid operative staff (employed under the Public Service Act 1999) at30 June, 2013 and 2014

Location		2014		2013				
	Audit	Non-audit	Subtotal	Audit	Non-audit	Subtotal		
ACT	290	58	348	285	61	346		
Total	290	58	348	285	61	346		

Note: Excludes 26 inoperative staff as at 30 June 2014. Inoperative staff are defined as staff who are absent from work for more than 13 weeks.

Classification	Full-	time	Part	-time	Non-o	ngoing	То	tal
	м	F	м	F	М	F	М	F
SES Band 3	1	-	-	-	-	-	1	-
SES Band 2	5	1	-	-	-	-	5	1
SES Band 1	12	9	-	_	-	-	12	9
EL 2	35	28	1	8	2	-	38	36
EL 1	23	25	2	7	1	_	26	32
APS 6	18	21	2	10	1	6	21	37
APS 5	23		_	2	1	_	24	22
APS 4	22	33	1	_	3	-	26	33
APS 3	_	11	_	2	_	2	_	15
APS 2	1	-	_	3	_	_	1	3
APS 1 (Undergraduate)	-	-	-	-	1	2	1	2
Graduate	8	8	_	_	_	-	8	8
Subtotal	148	156	6	32	9	10	163	198
Total	30)4	3	8	1	9	36	61

Table A1.3 Paid full-time, part-time and non-ongoing staff at 30 June 2014

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

Note: Includes paid operative and inoperative staff, but excludes 13 unpaid staff who were on leave without pay. Inoperative staff are defined as staff who are absent from work for more than 13 weeks.

Table A1.4 Performance payments in 2013–14

Classification	Number	Total (\$)	Average (\$)	Minimum (\$)	Maximum (\$)
SES	26	247,388	8,118	2,100	16,000
EL 2	4	19,973	4,064	1,500	6,510
EL 1	1	3,000	3,000	3,000	3,000
APS 6	3	9,520	3,221	2,345	4,297
APS 5	2	5,738	2,792	2,152	3,586
APS 4	_	_	-	-	-
APS 1–3	_	_	-	-	_
Total	36	285,619			

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

Appendix 2—Summary of reports tabled

Table A2.1 Single-portfolio audit reports, by portfolio, 2013-14

No.	Descrip	tion						
Agric	ulture							
			 	_	 	 _	_	

11 Delivery of the Filling the Research Gap under the Carbon Farming Futures Program

The objective of the audit was to assess the effectiveness of the delivery of the first and second funding rounds of the Filling the Research Gap program by the Department of Agriculture (Agriculture). This competitive grants program was established in 2011 to support research into emerging abatement technologies; management practices that reduce greenhouse gas emissions from the land sector; increasing soil carbon; and enhancing sustainable agricultural practices. Two funding rounds were conducted (May 2012 and April 2013), each attracting over 230 applications. A total of 88 successful applications resulted in grant funding of \$74.1 million.

The audit concluded that the delivery of the program by Agriculture was effective in a number of important respects. Clear roles and responsibilities were established, including an expert advisory panel to assess and make recommendations on the most meritorious applications against the published selection criteria. The program guidelines were comprehensive and the design and conduct of the funding rounds contributed to accessible and competitive application processes. There were, however, some important shortcomings in the implementation of the program. From a governance perspective, the arrangements adopted to identify and manage conflicts of interest were not tailored to the circumstances of the program. Shortcomings were also evident in the application assessment approach for each funding round, including a departure from the assessment approach outlined in the published program guidelines. In addition, unsuccessful applicants in round two were not provided with feedback that clearly identified the reasons they had not been awarded funding.

The Australian National Audit Office (ANAO) made four recommendations. Two recommendations related to Agriculture improving aspects of its assessment of grant applications, with a particular focus on clearly following the approach outlined in the published program guidelines. The other recommendations related to tailoring the conflict of interest management arrangements to the circumstances of the particular granting activity, and providing clearer feedback to unsuccessful applicants.

42 Screening of International Mail

The objective of the audit was to assess the effectiveness of the arrangements of Agriculture and the Australian Customs and Border Protection Service (Customs) for targeting and screening incoming international mail to identify prohibited and restricted goods. The volume of international mail is large and increasing, and screening and examining all consignments would be costly and impede the flow of mail. Consequently, Agriculture and Customs have sought to encourage voluntary compliance by educating the public about quarantine and customs requirements, and have developed risk-based strategies for targeting and screening higher risk cohorts of mail.

The audit concluded that neither agency was able to demonstrate the effectiveness of those risk-based strategies, and that Agriculture's leakage survey and Customs' sampling program, which relate to the number of potential detections missed, provided limited assurance. Agency data indicates that Agriculture seizes around 19 per cent of higher risk quarantine material and that Customs seizes around 13 per cent of prohibited imports approaching the border in international mail. As neither agency has developed appropriate key performance indicators or targets, the agencies are not able to adequately assess their performance against the planned outcomes for the risk-based strategies.

The ANAO made three recommendations directed towards improving Customs' targeting and screening practices, and Agriculture's and Customs' reporting frameworks.

Attorney-General's

23 Policing at Australian International Airports

The objective of the audit was to assess the Australian Federal Police's (AFP's) management of policing services at Australian international airports.

The audit concluded that the AFP was effectively managing the delivery of policing services at Australian international airports. The organisational arrangements in place at airports were sound, with a clear command structure headed by an Airport Police Commander. However, determination of resourcing levels at individual airports had been largely historical, with increases or decreases in staffing based on the funds available for the Aviation function. An explicit assessment of the inherent security risks presented by each airport and the nature and level of criminality had not formed part of the AFP's determination. During the audit, the AFP advised that it was developing a resourcing model that would take all relevant factors into account. The legislative framework applying at the airports is complex, with AFP officers using and applying both Commonwealth and state or territory legislation. The registation of state or territory legislation. The AFP has developed and maintains good relationships with a wide range of stakeholders, although some stakeholders told the ANAO that they did not have a clear understanding of the AFP's overall strategy for policing at airports.

The ANAO made one recommendation aimed at improving the content and increasing the consistency of the legislative training courses provided by each state or territory police force.

Defence

3 AIR 8000 Phase 2–C-27J Spartan Battlefield Airlift Aircraft

The objective of the audit was to assess the adequacy of Defence's processes, including compliance with the *Financial Management and Accountability Act 1997* (FMA Act), the Financial Management and Accountability Regulations 1997 (FMA Regulations), and relevant Commonwealth and Defence procurement requirements, to select the capability solution recommended to the Government to satisfy the requirements of AIR 8000 Phase 2.

The audit concluded that, overall, Defence's processes to select the United States variant C-27J as the capability solution for AIR 8000 Phase 2 met relevant Commonwealth legislative and procurement requirements applicable at the time. Defence conducted a direct source procurement process in compliance with the *Commonwealth Procurement Guidelines* (CPGs). Based on Defence's assessments, there was a reasonable basis for government to select the United States variant C-27J as a better value for money option than the commercial version of the C-27J or the Airbus C-295. Nevertheless, the department's advice to government during the earlier phases of the procurement did not cogently establish the case for undertaking a direct source Foreign Military Sales procurement. There were also shortcomings in Defence's handling of relations with industry during the procurement, with Defence not having sufficient regard to the expectation that, in government procurement, suppliers will be treated in a fair and transparent manner.

The ANAO did not make any formal recommendations for administrative improvements, noting the fact that the approval and procurement processes had mostly concluded, and Defence's advice regarding the introduction of revised processes for future approaches to industry during the capability requirements phase. Nevertheless, the audit underlined the importance of cogent advice to government on procurement options, and fair and transparent dealings with potential suppliers by government agencies undertaking procurements.

6 Capability Development Reform

The objective of the audit was to examine the effectiveness of Defence's implementation of reforms to capability development since the introduction of the two-pass process for government approval of capability projects and government acceptance of the reforms recommended by the Mortimer Review of Defence Procurement and Sustainment (the Mortimer Review).

Defence capability development and acquisition have been the subject of reviews for over a decade, with the Kinnaird Review of Defence Procurement and the Mortimer Review providing the backbone for reform. The audit assessed Defence's progress in four critical areas that encompass recurring reform themes: reforming capability development organisation and process; improving advice to government to achieve better outcomes; improving accountability for outcomes; and, as an essential concomitant, reporting on progress with reform.

The audit concluded that, overall, the work required to progress the reform of capability development has often taken longer than expected and delivered mixed results. Defence's internal mechanisms tend to focus on processes rather than substantive results and its current approach to reporting can create an impression of momentum and achievement which may not always be warranted.

The audit also found that Defence failed to report on difficulties affecting individual major projects long after they had been apparent to Defence management. Any reluctance to keep ministers informed in a timely manner constitutes a deficiency in accountability that warrants decisive management action. Further, Defence's senior leadership needs to maintain the direction and momentum of reform; in particular, by ensuring that, through effective accountability arrangements, all levels in Defence accord the reform the priority that is required. Substantial work still needs to be done to move many important reforms from the stage of directing that a new process be undertaken to the achievement of the substantive outcomes sought.

The audit made recommendations for reconsidering the staffing model for Capability Development Group project manager positions to improve the skills and experience available; for improving the rigour of Defence's assessment of capability development proposals before recommending to the Government that they be included in the Defence Capability Plan; and for Defence's evaluation of its technical risk assessment advice. The audit also made recommendations aimed at improving transparency and accountability in Defence's management of its major projects, and recommended that progress in implementing reforms stemming from major reviews be monitored centrally.



12 2012–13 Major Projects Report

The objective of this report was to provide the Auditor-General's independent assurance over the status of 29 selected major projects, as reflected in the Project Data Summary Sheets (PDSSs) prepared by the Defence Materiel Organisation (DMO) and the Statement by the Chief Executive Officer DMO. Assurance from the ANAO's review of the preparation of the PDSSs by the DMO is conveyed in the Auditor-General's Independent Review Report, prepared pursuant to the endorsed guidelines, which is contained in Part 3.

Part 1 contains ANAO analysis on the three key elements of the PDSSs—cost, schedule and the progress towards delivery of required capability—and, in particular, longitudinal analysis across these key elements of projects over time. Additional analysis on other elements of the PDSSs—for example, project maturity—is also included in this part.

Further insights and context by the DMO on issues highlighted during the year are contained in Part 2 (although not included within the scope of the review by the ANAO).

The ANAO's review of the individual PDSSs, which are contained in Part 3, was conducted in accordance with the Australian Standard on Assurance Engagements (ASAE) 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, issued by the Australian Auditing and Assurance Standards Board.

Excluded from the scope of the ANAO's review was PDSS data on expected future events or the forecast achievement by future dates (including forecasts on delivery of key capabilities), the project financial assurance statements, and major risks and issues. This information relates to future events and depends on circumstances that have not yet occurred or may not occur, or may be impacted by events that have occurred but have not yet been identified. Accordingly, the conclusion of this review does not provide any assurance in relation to this information.

While the ANAO's work is appropriate for the purpose of providing an independent review report in accordance with ASAE 3000, our review of individual PDSSs is not as extensive as individual audits conducted by the ANAO, in terms of the nature and scope of issues covered and the extent to which evidence is required by the ANAO. Consequently, the level of assurance provided by this review in relation to the 29 major projects is less than that provided by the ANAO's program of audits.

In 2012–13, the result of the ANAO's assurance review of the 29 PDSSs was that nothing had come to the attention of the ANAO that caused the ANAO to believe that the information in the PDSSs, within the scope of the review, had not been prepared, in all material respects, in accordance with the guidelines.

14 Explosive Ordnance and Weapons Security Incident Reporting

The objective of the audit was to assess the effectiveness of Defence's arrangements for monitoring and reporting explosive ordnance (EO) and weapons security incidents. The management of EO and weapons primarily relies on the design and application of appropriate controls throughout their life cycles: from procurement, storage and handling, through to final use or disposal. A necessary complement to these arrangements is a reliable system for recording and reporting security incidents involving EO and weapons in the event of control failures.

The audit concluded that Defence's arrangements for monitoring and reporting EO and weapons security incidents were only partially effective in enabling Defence to centrally identify such incidents, maintain a complete and accurate record of those incidents, and identify and address the underlying causes of incidents. Defence has established central reporting processes and systems at considerable cost in an attempt to understand the occurrence, underlying causes and outcomes of EO and weapons security incidents and investigations and any associated trends. The efficient and effective operation of its central arrangements will help Defence realise its full potential in support of the Australian Defence Force, particularly through establishing a robust feedback loop to inform Defence policy and the implementation of the EO and weapons control and security framework. In a resource constrained environment, streamlining reporting and coordination arrangements would enable Defence to leverage its investment in centralised processes and systems to more effectively mitigate control risks and achieve efficiencies in local and Defence-wide security incident reporting arrangements.

The ANAO made two recommendations directed towards Defence streamlining EO and weapons security incident reporting requirements and strengthening central visibility of EO amnesties.

22 Air Warfare Destroyer Program

The objective of the audit was to report on the progress of the current phase of the Air Warfare Destroyer (AWD) Program, which is known as SEA 4000 Phase 3–Build. At a budgeted cost of \$8.455 billion for all phases, the AWD Program is to design, build and deliver three Hobart-class guided missile destroyers (DDGs) and their support system to the Royal Australian Navy. The AWD Program has developed and maintained a skilled workforce and production facilities, and made significant progress in the construction of the destroyers. As at January 2014, consolidation of blocks forming the hull of Ship 1 was nearly complete, and the majority of blocks for Ship 2 were structurally complete.

Defence developed ship design options and alliance arrangements for the AWD Program through a substantial investment in a competitive design phase, and the close involvement of industry during that phase. In developing the AWD Alliance contractual arrangement, Defence combined elements of a typical alliance contract with the more 'standard' risk allocation provisions of a fixed-price contract, with a view to protecting the Commonwealth's interests. Despite the contractual arrangements put in place to manage the project, the AWD Program has experienced a range of delivery issues, including significant immaturity in detailed design documentation, major block construction problems, and substantially lower than anticipated construction productivity. The design and construction issues have led to extensive, time-consuming and costly rework.

The AWD Alliance reported in November 2013 that the contract for the construction of the destroyers would be completed at an estimated cost of \$302 million or 6.8 per cent in excess of the Target Cost Estimate. The cost overrun was attributable to the shipbuilding elements of the project. In the light of Defence Materiel Organisation concerns about cost overruns, the current estimated cost of \$302 million in excess of the Target Cost Estimate should be treated with caution—the cost increase is likely to be significantly greater.

In the context of ongoing challenges during the build phase of the AWD Program and a government review of the program, the ANAO recommended that the Defence Materiel Organisation reinvigorate the AWD Alliance's Principals Council to provide additional leadership and assist in addressing the serious issues facing the program. Two further recommendations focused on reducing the risk of detailed design errors, and developing and monitoring productivity metrics from the outset of future Australian naval construction programs.

24 Emergency Defence Assistance to the Civil Community

The objective of the audit was to assess the administrative effectiveness of Defence's procedures to provide emergency assistance to the civil community.

The audit concluded that emergency Defence assistance to the civil community (DACC) procedures are generally effective in guiding and enabling the provision of Defence assistance in response to emergencies. The DACC Manual outlines principles for Defence commanders to consider when judging the merits of requests for Defence assistance. Defence has also developed sound coordination arrangements with state emergency management authorities. Emergency management authorities interviewed as part of this audit acknowledged the responsiveness of Defence and the value of the support provided. However, emergency DACC has been largely focused on response efforts and less attention has been given to meeting the administrative requirements set out in the DACC Manual, particularly in the areas of task record keeping and cost recovery. There is also scope for Defence to develop a stronger feedback loop to inform decision-making on future emergency DACC delivery approaches.

The ANAO made one recommendation: that Defence review the minimum information required to be reported for each emergency DACC task, for accountability and learning purposes, and strengthen the priority given by Defence units to meeting those reporting requirements.

52 Multi-Role Helicopter Program

The objective of the audit was to assess Defence's progress in delivering multi-role helicopters (MRH90 aircraft) to the Australian Defence Force (ADF) through AIR 9000 phases 2, 4 and 6, within approved cost, schedule and performance parameters. At a budgeted cost of some \$4.0 billion, the MRH90 Program will acquire 47 helicopters and their support system for the ADF. Under the program, a single helicopter type has been selected to meet multiple ADF capability requirements.

At the time of the audit, the MRH90 Program was dealing with a range of challenges related to immaturity in the MRH90 system design and support system, including resolving MRH90 cabin and role equipment design issues; increasing the reliability, maintainability and flying rate of effort of the MRH90 aircraft; and embedding revised sustainment arrangements to improve the value for money of those arrangements. By March 2014, over \$2.4 billion had been spent acquiring and sustaining the MRH90 aircraft, with 27 delivered. The MRH90 Program was running four years behind schedule, with the first Operational Capability milestones for both the Army and the Navy not yet achieved. Considerable work remained to implement and verify some design changes, and to adjust operational tactics, techniques and procedures, in order to develop an adequate multi-role helicopter capability for Army and Navy operations.

The difficulties experienced by the MRH90 Program are primarily a consequence of program development deficiencies and the acquisition decisions made in the period 2002 to 2006. During that time, requirements were defined, the source selection process took place and acquisition and sustainment contracts were established. The history of the MRH90 Program shows that when these crucial stages of program development are not appropriately undertaken, serious and potentially long-term consequences for capability delivery and Commonwealth expenditure are likely.

The ANAO did not make recommendations in the audit report, as Defence already has relevant management processes for defining capability requirements, formulating cost-effective major capital equipment acquisition strategies, and delivering program outputs. The key issue for Defence is to consistently apply those processes to the standards required. The ANAO noted that the MRH90 Program had proceeded into its acquisition and sustainment phases with inadequately defined capability requirements and inadequate program cost investigations and analysis; and that while it had been a government decision to acquire the MRH90 aircraft, and not the option initially proposed by Defence, the department had concluded that the MRH90 aircraft was a valid option.

Employment

37 Management of Services Delivered by Job Services Australia

The objective of the audit was to assess the Department of Employment's (Employment) management of the effectiveness and quality of employment services delivered by Job Services Australia (JSA) providers. JSA provides support to more than one million unemployed people each year, to help them gain sustainable employment. JSA is delivered by contracted service providers, at an annual cost of approximately \$1.4 billion.

The audit concluded that Employment had appropriately managed the delivery of JSA employment services. Requirements of service delivery had been clearly specified and promulgated. Service delivery had been effectively monitored, and performance feedback had been given to service providers. Appropriate action had been taken when there had been poor performance by service providers. The department had also reviewed its own performance and identified areas for improvement. The department had published evaluations of aspects of JSA's performance, and provided comprehensive information about JSA for many years through its annual report to Parliament and additional labour market reporting. While these performance reporting mechanisms had provided relevant information about specific aspects of the operation of the program and the program's immediate results, the department had given less attention to reporting on how expenditure on JSA had contributed to program objectives.

The ANAO made one recommendation aimed at improving information on program performance for employment services programs from 2015–16.

Environment

17 Administration of the Strengthening Basin Communities Program

The objective of the audit was to assess the effectiveness of the Department of the Environment's (Environment's) administration of the Strengthening Basin Communities Program (SBCP). The SBCP had an initial funding allocation of \$200 million and was developed to assist communities in the Murray–Darling Basin to make plans for a future with less water and develop water savings initiatives to support those plans. It was implemented through two separate components: the Planning component; and the Water Saving Initiatives component.

SBCP funding was allocated to a broad range of projects across the basin. Despite the delivery of SBCP projects being adversely affected by extreme weather events, including drought conditions and severe flooding, all completed projects have reported positive results. Projects have resulted in the creation of planning documents, including socioeconomic modelling of how communities will be affected by a future with less water, and the construction of water saving infrastructure, such as grey water and stormwater re-use systems.

The audit concluded that Environment worked in a collaborative and flexible manner to assist grant recipients to achieve the intended outcomes of their projects. However, there were significant shortcomings in some key aspects of program implementation that detracted from the effectiveness of the department's administration. These included the design of the program guidelines, assessment of grant applications, management of funding agreements and reporting of program performance.

The ANAO made three recommendations designed to improve the transparency and accountability of grant assessment and selection processes, strengthen the management of funding agreements, and more accurately report program performance.

18 Administration of the Improving Water Information Program

The objective of the audit was to assess the effectiveness of the Bureau of Meteorology's implementation of the Improving Water Information Program. The \$450 million program was introduced in 2007 as a key element of national reforms designed to improve water management in Australia. In the six years that the program has been in place, the bureau has expended \$186 million and collected more than 21 million water data files containing more than four billion time-series observations from thousands of water-monitoring sites.

The audit concluded that, by obtaining this data and meteorological information, the bureau was able to introduce a range of new products and services that have improved the comparability and quality of available water information. The bureau has also developed effective arrangements for collaborating with providers that supply water data, and those providers are generally complying with the regulatory requirements of the *Water Act 2007*. In addition, the bureau has improved the collection of water information nationally through its collaboration with, and financial assistance to, water data providers.

However, a key constraint on both the effectiveness of the program's implementation and the capacity of the bureau to meet expectations has been the limited functionality available through the information technology system designed to manage national water data. The program's early key performance indicators were also broad and difficult to measure and did not readily enable the program's outcomes to be assessed. In addition, the performance indicators for the program have changed over time, making it difficult to gain an understanding of program performance over the six years of the program.

The ANAO made two recommendations designed to strengthen the development and management of information technology systems and to improve the measurement and reporting of program performance.

43 Managing Compliance with *Environment Protection and Biodiversity Conservation* Act 1999 Conditions of Approval

The objective of the audit was to assess the effectiveness of Environment's regulation of proponents' compliance with Part 9 of the *Environment Protection and Biodiversity Conservation Act 1999* (EPBC Act). The EPBC Act prohibits the undertaking of an action that is likely to have a significant impact on matters of national environment or delegate (unless exempt). Part 9 of the EPBC Act sets out how the minister or delegate may attach binding conditions to the approval of an action. As at September 2013, nearly 14 years after the enactment of the EPBC Act, 635 controlled actions with around 8,000 conditions to protect 1,282 matters of national environmental significance had been approved under the Act. The timeframes for controlled actions range from a few years to decades.

The audit concluded that Environment is yet to establish mature administrative arrangements to effectively discharge its regulatory responsibilities in relation to approved controlled actions. As a consequence, the assurance that the department has regarding proponents' compliance with action approval conditions, which are designed to address the risks posed to matters of national environmental significance, is limited. The extent of shortcomings in, and challenges facing, Environment's regulation of approved controlled actions — particularly in relation to compliance monitoring—does not instil confidence that the environment protection measures have received sufficient oversight. Environment has acknowledged the shortcomings in its regulation of approved controlled actions and has initiated a broad program of work to address the shortcomings identified in recent years, including those identified in earlier reviews and this audit.

The ANAO made five recommendations designed to improve Environment's detection of non-compliance, risk management practices, compliance monitoring and reporting, investigation and documentation procedures, and performance reporting related to the compliance monitoring function.

Finance

31 The Australian Electoral Commission's Storage and Transport of Completed Ballot Papers at the September 2013 Federal General Election

The objective of the audit was to assess the adequacy and effectiveness of the Australian Electoral Commission's (AEC's) implementation of the recommendation made in ANAO Report No.28 2009–10 relating to the physical security of the transport and storage of completed ballot papers.

The integrity of the processes for conducting federal elections is central to the effectiveness of Australian democracy. The AEC has publicly acknowledged that the loss of 1,370 Western Australian Senate ballot papers between the fresh scrutiny and the recount for the September 2013 election disenfranchised the affected voters and damaged the AEC's reputation. Ultimately, the loss of those ballot papers led to the September 2013 election of Western Australian senators being declared void and a new election being held on 5 April 2014, changing the political outcome and costing the Australian Government \$23.2 million.

The audit concluded that it had taken the AEC some time to progress the implementation of the ANAO's April 2010 audit recommendation. In addition, the AEC adopted a narrow interpretation of the recommendation, which resulted in inadequate action being taken. The AEC focused on making its expectation that polling place officials keep ballot papers secure at all times more overt in procedural and training documentation—an approach that on its own did not provide sufficient support to the AEC's large temporary workforce. The AEC also did not address how contractors would transport completed ballot papers on polling night or subsequently, and ANAO analysis identified shortcomings in this area. Further, the AEC did not address security arrangements at premises used to store ballot papers, and the arrangements practised were variable. The insufficient attention paid by the AEC to implementing the ANAO's recommendation reflects adversely on the AEC's governance processes and suggests the need for a stronger emphasis on continuous improvement.

The ANAO made three recommendations, recommending that the AEC become more aware, at the national level, of the extent to which important procedures are being adhered to and training is being applied; promote a consistent and high-standard approach to contracting for the transport of ballot papers and other materials; and improve the security of stored completed ballot papers, particularly at offsite scrutiny centres and private residences.

Health

2 Administration of the Agreements for the Management, Operation and Funding of the Mersey Community Hospital

The objective of the audit was to assess the effectiveness of the administration, by the Commonwealth Department of Health and Ageing (DoHA) and the Commonwealth partners, the Tasmanian Department of Health and Human Services (DHHS) and the Tasmanian Health Organisation—North West, of the 2008 and 2011 heads of agreement for the management, operation and funding of the Mersey Community Hospital (MCH). The MCH is the only public hospital owned and directly funded by the Commonwealth, and the audit was the first performance audit conducted by the ANAO under section 18B of the *Auditor-General Act 1997*, which allows the ANAO to audit a Commonwealth purpose.

The audit concluded that, in general, the administration of the 2008 and 2011 heads of agreement was effective in facilitating the delivery of a range of agreed clinical services at the MCH. Clinical services were generally delivered within an effective clinical governance framework, and most of those met or exceeded established national targets and benchmarks. Notwithstanding these achievements, the cost of service delivery at the MCH, while better than that at other Tasmanian acute hospitals, was significantly higher than the cost at comparable mainland hospitals. The ANAO's testing of expenditure transaction samples covering a four-year period found no evidence that the MCH was using Commonwealth funds outside the heads of agreement requirements in the categories of employee, supplies and pharmaceuticals expenditure. However, system limitations made it difficult for DHHS to readily provide assurance about the use of some Commonwealth funds, while weaknesses in the MCH performance framework meant that DoHA was not well positioned to assess whether its ownership and funding of the MCH was effective and whether the Commonwealth was receiving value for money from the arrangements.

The ANAO made five recommendations—two directed to DoHA, one directed to DHHS and two directed to both agencies—designed to enhance the utility of the heads of agreement, provide greater assurance regarding the use of Commonwealth funds and strengthen the measurement of achievements against program objectives.

29 Regulation of Commonwealth Radiation and Nuclear Activities

The objective of the audit was to assess the effectiveness of the Australian Radiation Protection and Nuclear Safety Agency's (ARPANSA's) management of the regulation of Commonwealth nuclear and radiation facilities and sources, including ARPANSA's compliance with its legislative requirements. ARPANSA's role is to protect the health and safety of people and the environment from the harmful effects of radiation. This role includes regulating the use of radiation and nuclear technologies by and for Australian Government entities. ARPANSA regulates over 40 entities, covering approximately 65,000 sources and 36 facilities. The agency's budget for 2013–14 was \$30 million, of which \$10 million was funded from fee-for-service revenue and recovery of regulatory costs and the remainder was funded by the Commonwealth Budget.

The audit concluded that ARPANSA has been generally effective in managing key aspects of the regulatory framework applying to the possession and use of radiation and nuclear sources and facilities by Australian Government entities. ARPANSA has developed and implemented procedures, supported by guidance materials for staff and regulated entities, for licensing and monitoring regulated entities. ARPANSA also continues to develop and apply a risk-based approach to regulation which, if further expanded to its assessment of licence applications and its inspection program, could improve the focus and cost-effectiveness of its administration. However, shortcomings identified in a 2005 ANAO performance audit, relating to the management of potential conflicts of interest and the application of cost-recovery arrangements, have not been fully addressed and have detracted from ARPANSA's overall performance in administering the regulatory framework.

The ANAO made four recommendations aimed at strengthening ARPANSA's management of potential conflicts of interest and expanding the risk-based approach to regulation.

30 Administering the Code of Good Manufacturing Practice for Prescription Medicines

The objective of the audit was to assess the effectiveness of the Therapeutic Goods Administration's (TGA's) application of the Code of Good Manufacturing Practice for prescription medicines. The TGA regulates manufacturers and sponsors of prescription medicines and assesses whether products have been manufactured in a way that provides the public with confidence about their safety, quality and efficacy.

The audit concluded that the TGA has been generally effective in applying the code for prescription medicines manufactured or supplied in Australia. The TGA applies a well-developed and structured process for licensing and monitoring manufacturing sites in Australia, and has adopted a viable approach to the certification of overseas manufacturing sites. These processes are risk based and supported by a detailed set of standard operating procedures. However, the audit highlighted the need for greater internal discipline and management attention in order to strengthen the documentation of key decisions relating to licensing and certification processes, and to enhance arrangements for information security and management. There also remained scope to realise the full benefits of TGA initiatives to reduce duplicated effort in granting clearances for the supply of imported prescription medicine and implement more equitable cost recovery arrangements.

The ANAO made two recommendations aimed at strengthening the TGA's processes for recording key decisions and maintaining inspection files, and its information management arrangements.

53 Management of the National Medical Stockpile

The objective of the audit was to assess the effectiveness of the Department of Health's management of the National Medical Stockpile. The National Medical Stockpile was established in 2002 as part of the Australian Government's response to the threat of international terrorist attacks. The maintenance of the stockpile represents a significant government investment in preparedness for public health emergencies—more than \$750 million was allocated for the stockpile's medical items and equipment in the past decade. In 2012–13, the stockpile comprised 42 products and over 110 million items, with a reported value of almost \$196 million.

The audit concluded that, overall, the department's management of the stockpile has been generally effective and has benefited from improvements introduced since 2010. There remains scope, however, to improve the department's strategic framework, operational management and deployment arrangements for the stockpile.

The ANAO made four recommendations aimed at improving the effectiveness of the Department of Health's management of the stockpile: improving strategic planning and risk management; enhancing performance reporting by contractors; reviewing information management arrangements; and testing deployment arrangements.

Immigration and Border Protection

20 Management of the Central Movement Alert List: Follow-on Audit

The objective of the audit was to assess the effectiveness of the Department of Immigration and Border Protection's management of the Central Movement Alert List (CMAL) system, having particular regard to the findings and recommendations contained in Audit Report No.35 of 2008–09.

The audit concluded that the department's management of the CMAL was generally effective. Since the previous audit, there had been improvements in the areas of data quality and the accuracy of data matching, tighter controls on the listing of Australians in CMAL, and listing policy guidance for staff. While systems performance reports were effective, the department still did not have effective reporting on the effectiveness of CMAL in the context of visa and citizenship decision-making. There also remains a need for improved strategic management of CMAL, particularly in the context of whole-of-government initiatives for border security.

The ANAO made four recommendations directed at improving the strategic management of CMAL and performance reporting, as well as greater engagement in the management of CMAL data by the relevant policy and operational areas within the department.

Industry

16 Administration of the Smart Grid, Smart City Program

The objective of the audit was to assess the effectiveness of the administration of the Smart Grid, Smart City Program, including its establishment, implementation and ongoing management. The Australian Government committed up to \$100 million for the program, with the objective of creating—in one Australian city, town or region—an energy network that integrated a smart grid with smart meters in homes, thereby enabling greater energy efficiency, reduced emissions and use of alternative energy sources such as solar power. The Smart Grid, Smart City Program was established as a competitive, merit-based grant program, with the aim of selecting one consortium, led by an Australian electricity distribution network service provider, to deliver the program. Responsibility for the administration of the program has been transferred across four departments since the program was established in May 2009.

The audit concluded that, overall, the administering departments had established appropriate arrangements to support the implementation of the Smart Grid, Smart City Program. There was, however, scope for improving the administration of the program, such as aspects of the grant assessment and selection process, including probity arrangements; and the measurement and reporting of program performance.

The ANAO made two recommendations to enhance the administration of grant programs in the agencies that have had responsibility for implementing aspects of the Smart Grid, Smart City Program. The first recommendation (directed to the Department of Industry) related to measuring and reporting program achievement against established objectives. The second recommendation (directed to the Department of the Environment) related to implementing appropriate probity arrangements and appropriately documenting grant assessment and selection processes.

38 Establishment and Administration of the National Offshore Petroleum Safety and Environmental Management Authority

The objective of the audit was to assess the establishment of the National Offshore Petroleum Safety and Environmental Management Authority (NOPSEMA) and the effectiveness of its regulatory function. NOPSEMA was established in January 2012 as part of the Australian Government's response to Australia's most significant offshore petroleum incident: the Montara wellhead blowout in the Timor Sea in 2009. The new regulator continued the existing offshore safety role of its predecessor, the National Offshore Petroleum Safety Authority; consolidated the oversight of well integrity; and incorporated the new function of environmental management, previously regulated by the states and the Northern Territory.

The audit concluded that, overall, NOPSEMA appropriately integrated administrative arrangements for the new function of environmental management and established a sound framework for the regulation of the offshore petroleum industry. NOPSEMA developed an appropriate system of executive management oversight to support the administration of corporate and regulatory activities. Its core regulatory activities of assessment, inspection, investigation and enforcement were generally well documented and implemented in line with established procedures.

The ANAO made three recommendations directed at further strengthening NOPSEMA's performance of its regulatory activities, focusing on: enhancing aspects of existing governance arrangements; developing risk profiles to inform safety inspection planning; and focusing inspection recommendations on matters related to compliance while addressing better practice aspects in inspection reports.

41 Commercialisation Australia Program

The objective of the audit was to assess the effectiveness of the Department of Industry's administration of the Commercialisation Australia (CA) Program. The aim of the CA Program, which began in January 2010, was to strengthen Australia's competitive advantage by promoting innovation and the commercialisation of Australian products and ideas. Grant recipients would be given funding and other support to assist them to attract private capital and commercialise their ventures. The CA Program had four original grant components; a fifth component—the Pilot Program— was introduced in 2011 and subsequently suspended during the audit. In the 2014–15 Budget, the Government announced that the CA Program would cease from 1 January 2015.

The audit concluded that the department's administration of the four original grant components was generally effective. However, during the delivery of the Pilot Program the department submitted its own application for grant funding under that component of the CA Program. This resulted in non-compliance with the Commonwealth financial framework and a conflict of interest and role for departmental staff involved in the program's administration.

The department's delivery of the original four grant components was generally in accordance with the program guidelines and the *Commonwealth Grant Guidelines*. However, the Pilot Program's design demonstrated a lack of understanding of the Australian Government's financial management framework, and the department's decision to award itself a grant of \$500,000 and to retain the funding resulted in breaches of framework requirements. Further, the department applied for and received the grant notwithstanding a requirement in the program guidelines that applicants be incorporated under the *Corporations Act 2001*.

The ANAO did not make recommendations during this audit, as key issues relating to the CA Pilot Program were addressed by the department over the course of the audit, and because the CA Program will cease from 1 January 2015.

Infrastructure and Regional Development

1 Design and Implementation of the Liveable Cities Program

The objective of the audit was to assess the effectiveness of the design and implementation of the Liveable Cities Program, including the assessment and approval of applications under the program. The Liveable Cities Program was a \$20 million competitive, merit-based grant program administered by the Department of Infrastructure and Transport.

The audit concluded that the Department of Infrastructure and Transport's management of the design and implementation of the Liveable Cities Program was effective in most respects. The department's merit assessment process was better than the merit assessment processes in earlier grant programs audited by ANAO. The department had also improved the way in which it briefed the minister on the outcome of the assessment process. However, there were shortcomings in the way in which the department checked applicants' eligibility and in the way in which it conducted the merit-assessment process. Further, the department needed to recognise that applications assessed as not satisfactorily meeting the published merit assessment criteria would be most unlikely to represent value for money when assessed against the program objectives.

The ANAO made three recommendations, which related to improving future value for money assessments and application assessment processes and developing an evaluation strategy at an early stage of program design.

8 The Australian Government Reconstruction Inspectorate's Conduct of Value for Money Reviews of Flood Reconstruction Projects in Queensland

The objective of the audit was to examine the effectiveness of the Australian Government Reconstruction Inspectorate, supported by the National Disaster Recovery Taskforce, in providing assurance that Queensland reconstruction projects were achieving value for money. The flooding that occurred in Queensland during the spring and summer of 2010–11 was widespread, with reconstruction expected to cost more than \$7 billion. The Natural Disaster Relief and Recovery Arrangements (NDRRA) provided for the Australian Government to meet up to 75 per cent of the cost of reconstruction.

The audit concluded that the conduct of value for money reviews by the inspectorate, with the support of the taskforce, has been effective in providing the Australian Government with greater assurance concerning reconstruction expenditure than would have occurred under the NDRRA.

A reasonable start had been made on the inspectorate's planned program of 129 project reviews, with 81 projects selected for review and 70 Tier One reviews (including 25 selected in addition to the sample of 129 projects) completed by the taskforce under its three-tiered review process as at the end of March 2013. Eleven of these projects had proceeded to a Tier Two review as a result of the Tier One review findings, and two projects had been designated to undergo Tier Three reviews. However, many of the completed reviews were provisional assessments based on early project estimates and would require further assessment once tender results and project progress reports became available and/or projects were completed. In addition, progress with the reviews by 31 December 2012). The audit found that an amended deadline to complete all reviews by early October 2013 would remain challenging for the taskforce to meet. Although it was too early to reliably extrapolate the findings to the reconstruction program, the reviews have identified potential reductions in NDRRA claims from Queensland totalling more than \$100 million.

The ANAO made four recommendations. Two recommendations were aimed at the taskforce obtaining information that allows the project reviews to examine the scope and cost of works actually being delivered (rather than early estimates), and improving the application of the sampling approach to make it more representative of the reconstruction program. A further two recommendations related to improvements in the taskforce's scrutiny of the cost of delivering reconstruction projects, and its stronger oversight of the timeliness of the delivery of reconstruction work.

Parliamentary departments

36 The Administration of the Parliamentary Budget Office

The objective of the audit was to assess the effectiveness of the Parliamentary Budget Office (PBO) since its establishment in July 2012. Before the PBO was established, no independent body specialised in the research and analysis of fiscal policy for the federal Parliament. The establishment of the PBO was expected to help level the playing field for all parliamentarians by providing non-partisan access to policy costings (outside of and during the caretaker period) and budgetary and fiscal policy analysis, and to improving the transparency of Australia's budgetary frameworks.

The audit concluded that the PBO had effectively undertaken its statutory role and was already well regarded as an authoritative, trusted and independent source of budgetary and fiscal policy analysis. The PBO has made a significant contribution to levelling the playing field for parliamentarians, who, for the first time, have access to independent policy costings and information during all periods of the parliamentary cycle. Stakeholders interviewed by the ANAO agreed that the PBO's work had improved the transparency of election commitments and facilitated a more informed public debate about budgetary matters, and that that public debate has the potential to increase as the PBO releases further information and the public becomes better educated.

The ANAO made one recommendation to improve the transparency of agency administrative expenses in policy costings, where applicable, as part of the full costs of implementing policy proposals.

Prime Minister and Cabinet

10 Torres Strait Regional Authority – Service Delivery

The objective of the audit was to assess the effectiveness of the Torres Strait Regional Authority's (TSRA's) administration of its program and service delivery functions. The TSRA, a Commonwealth statutory authority, was established on 1 July 1994 to provide greater autonomy and a better quality of life for the Torres Strait Islander and Aboriginal people living in the region.

Overall, the TSRA has effective management arrangements in place for delivering and monitoring its own programs. As required by the *Aboriginal and Torres Strait Islander Act 2005*, the TSRA has consistently prepared a multi-year development plan to guide its activities. However, a structured coordination and monitoring role in relation to programs delivered by other government agencies is not yet in place, despite ongoing efforts. While the TSRA's current development plan reflects a range of community needs identified through a broader regional planning process and has been aligned with the Government's targets for Closing the Gap in Indigenous Disadvantage, the TSRA does not have a strong basis on which to measure the impact of its activities on reducing disadvantage in the region.

The ANAO made two recommendations: one aimed at strengthening the TSRA's coordination and monitoring role in the region; and the other recommending that the TSRA undertake client satisfaction surveys and implement a formal feedback and complaints process.

15 The Indigenous Land Corporation's Administration of the Land Acquisition Program

The objective of the audit was to assess the effectiveness of the Indigenous Land Corporation's administration of the Land Acquisition Program. The Indigenous Land Corporation (ILC), established on 1 June 1995, is an independent Australian Government statutory authority under the *Aboriginal and Torres Strait Islander Act 2005* (ATSI Act). The ILC's statutory purpose is to assist Indigenous Australians to acquire and manage Indigenous-held land 'so as to provide economic, environmental, social or cultural benefits for Aboriginal persons and Torres Strait Islanders'. The ILC administers the Land Acquisition Program (LAP), through which Indigenous organisations can apply for funding assistance. If an Indigenous organisation's application is successful, the ILC purchases the proposed property, with the intent of divesting it to the Indigenous organisation.

The audit concluded that the ILC has been effective in acquiring land for, and subsequently divesting it to, Indigenous organisations. Since 1995, the ILC has built up a detailed set of processes and practices to support the assessment of applications and implementation of the LAP. Those processes provide clear guidance on decision-making responsibilities and the steps for acquiring and divesting land. While the required administrative steps are generally followed, in some cases deeper and broader analysis of risks could be undertaken and project appraisal could be strengthened by making greater use of comparative assessments. This would better position the ILC to make more informed decisions about the future cost effectiveness of the LAP.

The ANAO has made two recommendations to improve the ILC's administration of the LAP. The first is aimed at strengthening the effectiveness of the ILC's current risk management approaches. The second recommends that the ILC introduce activities into its project appraisal steps to assist in comparative assessments of potential projects and corresponding Indigenous benefits.

51 The Improving School Enrolment and Attendance through Welfare Reform Measure

The objective of the audit was to assess the effectiveness of the administration of the Improving School Enrolment and Attendance through Welfare Reform Measure (SEAM). The audit focused on the administration of SEAM by the Department of the Prime Minister and Cabinet (and before September 2013, the then Department of Education, Employment and Workplace Relations) and the Department of Human Services from its commencement in March 2013. SEAM requires parents or carers, as a condition of their welfare payments, to ensure their children are enrolled in and attending school. SEAM operates in specific sites and schools in the Northern Territory, including a number of predominantly Indigenous communities.

Overall, the administration of SEAM has been mixed. The first two phases of SEAM have been implemented as scheduled in 15 communities and 37 schools—extending to more than 4,500 children, with work underway to implement SEAM in other communities; and reasonable arrangements have been established to support collaboration between Australian Government and Northern Territory Government agencies. However, there remained scope to improve SEAM's effectiveness through strengthening key aspects of service delivery and performance reporting arrangements.

The ANAO made one recommendation directed towards the Department of the Prime Minister and Cabinet strengthening SEAM's program implementation.

Social Services

25 Management of the Building Better Regional Cities Program

The objective of the audit was to assess the effectiveness of the design and conduct of the funding round for the Building Better Regional Cities (BBRC) program.

The audit concluded that key elements of the design of the BBRC program were effective. In particular, the program guidelines outlined that funding would be awarded through a competitive selection process, consistent with the *Commonwealth Grant Guidelines*; clearly identified the 47 eligible regional councils; and outlined the five assessment criteria to be used to select the projects that best met the program objective and would deliver strong outcomes and represent value for money. The program guidelines were also supported by the Department of Social Services' documented assessment methodology, which provides a clear and consistent basis for assessing the comparative merits of individual projects.

However, the BBRC program was implemented in a way that paid insufficient attention to the program's objective, the related key performance target (of delivering up to 8,000 additional more affordable homes), criteria outlined in the program guidelines, and the importance of achieving value from the expenditure of public funds. Rather, emphasis was given to spending the program's \$100 million budget, notwithstanding that the recommended applications were expected to deliver fewer than 3,200 additional more affordable homes; and that most of the applications had been assessed by the department as lacking sufficient merit and/or not providing value for money. In addition, the application of unpublished eligibility criteria denied funding to some of the better credentialed applications submitted in response to the program guidelines. The award of program funding in the above manner has been reflected in the poor performance of the BBRC program in delivering the benefits envisaged when the program was announced, both in relation to the amount of new affordable housing and the extent of benefits passed onto purchasers.

The ANAO made two recommendations designed to increase the department's focus on pursuing value for money outcomes when administering grant programs.

Human Services

26 Medicare Compliance Audits

The objective of the audit was to assess the effectiveness of the Department of Human Services' (Human Services') management of Medicare compliance audits. Human Services is responsible for administering Medicare in accordance with policies developed by the Department of Health, and Medicare compliance audits are one of the activities used by Human Services to verify the details of services provided by health professionals. The 2008–09 federal Budget's Increased Medicare Compliance Audits initiative (IMCA initiative) enhanced Human Services' capacity to deliver Medicare compliance audits, and was anticipated to provide a total of \$147.2 million in savings over four years.

The audit concluded that, overall, the effectiveness of Human Services' management of Medicare compliance audits was mixed. Human Services delivered a program of compliance audits and related compliance activities which helped reinforce health professionals' awareness of their compliance obligations. However, Human Services' administration of Medicare compliance audits and implementation of the IMCA initiative demonstrated shortcomings that detracted from the department's performance in delivering those elements of its broader Compliance Program. In particular, Human Services raised a total of only \$49.2 million in debts and recovered only \$18.9 million from Medicare compliance audits, representing a \$128.3 million shortfall in the savings expected from the IMCA initiative, the compliance audits were delivered at a net cost to government. Further, Human Services did not develop or implement its proposal to monitor and report on savings, and there was no follow-up by the department to a Cabinet Expenditure Review Committee request that ministers report back to government on outcomes achieved by the ICMA initiative.

The ANAO made two recommendations, which focused on strengthening Human Services' assessment of Medicare compliance risks and its capacity to effectively target resources by better capturing and reporting on the benefits realised from Medicare compliance audits.

27 Integrity of Medicare Customer Data

The objective of the audit was to assess the effectiveness of Human Services' management of Medicare customer data and to examine the integrity of that data. The audit also considered the extent to which Human Services implemented the six recommendations from the ANAO's Report No.24 2004–05, *Integrity of Medicare Enrolment Data*.

The audit concluded that Human Services' framework for the management of Medicare customer data, including procedures and input controls for the entry of new enrolment information and changes to customer information, has not been fully effective in maintaining the integrity of data in the Consumer Directory. The audit identified that Human Services should give additional attention to the tightening of data input controls; the adequacy and consistency of staff training and written guidance; the management of duplicate and 'intertwined records' (records shared by two people); and the testing of records for unusual claims activity on a targeted risk basis. Further, Human Services should implement whole-of-government requirements in relation to system security. Positive elements of Human Services' approach to managing Medicare customer data include the high degree of integrity of unique customer reference numbers within the Consumer Directory (Medicare's customer record database); and a quality framework of daily random checks on completed transactions by customer service officers. In relation to the six recommendations from the ANAO's 2004–05 performance audit, Human Services could demonstrate implementation of two recommendations but could not demonstrate implementation of the remainder.

The ANAO has made five recommendations aimed at enhancing the management and integrity of Medicare customer data. The recommendations related to Human Services' improving training and guidance for customer service officers, addressing data integrity issues and their causes, and complying with the mandatory requirements of the Australian Government's Information Security Manual.

28 Review of Child Support Objections

The objective of the audit was to assess the effectiveness of Human Services' administration of the child support objection review process. A parent or eligible non-parent carer who believes that a Human Services' child support decision affecting them is incorrect may lodge an objection requesting the department to review that decision. In 2012–13, the department received a total of 15,307 objection applications and completed 14,032 objection reviews.

The audit concluded that Human Services' administration of the child support objection review process was reasonably effective, with the department operating a generally accessible and methodical review process. The objection review process also featured a number of positive elements intended to support customers, such as direct customer contact at key milestones, and capacity to provide more intensive customer support for those with complex issues. However, there remained scope to strengthen aspects of quality assurance and to realise the full benefits of existing mechanisms, with the potential to improve outcomes to the advantage of customers and the department.

The ANAO made four recommendations aimed at improving Human Services' administration of the child support objection review process. The recommendations related to reviewing the use of the Child Support Registrar's information-gathering powers; strengthening processes for recording delegate approvals of decisions and completing pre-decision quality assurance checks; improving feedback provided to the original decision makers; and improving public reporting on the effectiveness of the department's decision-making.

40 Trials of Intensive Service Delivery

The objective of the audit was to assess the effectiveness of Human Services' management of the trials of intensive service delivery. The 2011–12 Budget provided \$92.4 million over four years for two separate trials: Case Coordination—focused on assisting disadvantaged customers on all benefit types; and Local Connections to Work—focused on assisting disadvantaged job seekers. The Minister for Human Services approved the early closure of the trials, after three years instead of four, to contribute to savings to fund the department's Efficiency Dividend.

The audit concluded that Human Services' administration of the actual Case Coordination and Local Connections to Work trials of intensive service delivery was generally effective. A sound governance framework was established to oversee the planning process, and the trials were developed having regard to the available evidence base. A suite of performance measures, feedback mechanisms and evaluation strategies were also established, to track progress, inform the conduct of the trials and capture lessons learned. However, there was scope for improvement in key aspects of the Case Coordination trial's planning and monitoring—for example, to strengthen the cost-benefit of the initiative, as the case for a trial on this scale was not assessed. In relation to the early closure of the trials, in the absence of agreement by Cabinet or senior ministers, it is unusual that an agency would truncate a program funded as a new policy measure to deliver savings to contribute to meeting the Efficiency Dividend.

The ANAO made one general recommendation aimed at the benefits of evaluating and documenting the outcomes achieved from such lengthy and costly trials, to realise an appropriate return from their conduct and to inform any future initiatives relating to intensive service delivery.

45 Initiatives to Support the Delivery of Services to Indigenous Australians

The objective of the audit was to assess the effectiveness of Human Services' implementation of initiatives to support the delivery of services to Indigenous Australians. Human Services provides services to a large proportion of the Indigenous population.

The audit concluded that, overall, Human Services had developed a reasonable approach to improving its focus on supporting the delivery of services to Indigenous Australians, although there is scope to apply key elements of the approach more consistently. In particular, the approach taken by different business areas and service zones to reflect Indigenous service issues was variable, with some areas demonstrating considered approaches and others adopting more minimalist approaches with little explicit consideration of Indigenous usage of services would contribute to the department's understanding of whether equitable and accessible services are being provided for Indigenous customers. Improved access to, and use of, data would also facilitate improvements in the Indigenous Servicing Strategy's performance framework, and support existing quality assurance functions to better monitor outcomes for Indigenous customers.

The ANAO made one recommendation, aimed at improving the use of existing data within Human Services in order to inform service delivery and service design and enhance the department's ability to contribute to policy development.

Treasury

5 Administration of the Taxation of Personal Services Income

The objective of the audit was to assess the effectiveness of the Australian Taxation Office's (ATO's) administration of the personal services income (PSI) regime. PSI is defined by Part 2–42 of the *Income Tax Assessment Act 1997* as income gained mainly as a reward for the personal efforts or skills of an individual. The PSI regime was introduced on 1 July 2000 to address the erosion of the tax base arising from taxpayers alienating PSI—that is, gaining taxation advantages such as claiming business deductions and splitting income earned from personal services when they were not genuinely conducting a business.

The audit concluded that the ATO had effectively administered many of the key elements of the regime, including developing sound governance arrangements and appropriate business planning, risk management and reporting processes, and an evolving program of compliance activities to promote voluntary compliance and to address non-compliance with PSI obligations. The ATO last attempted to quantify the net revenue impact of the PSI rules and the population of taxpayers that do not declare PSI in 2004–05, but was unable to do so with any reliability or accuracy. The ATO also has yet to determine whether its compliance activities are effectively mitigating the ongoing alienation of PSI risk. Nevertheless, the ATO advised that it was endeavouring to better understand and estimate the population of non-compliant taxpayers as part of the PSI compliance effectiveness assessment underway and anticipated that the assessment would be completed in late 2013. A methodology to estimate the magnitude of the potential revenue at risk from this non-compliance would contribute to establishing a baseline for comparison in future compliance effectiveness assessments.

The ANAO made one recommendation: that the ATO strengthen its assessment of the PSI compliance risk and the effectiveness of PSI compliance activities by estimating the population of non-compliant taxpayers and the magnitude of revenue at risk.

9 Determination and Collection of Financial Industry Levies

The objective of the audit was to assess the administration of the Australian Prudential Regulation Authority's (APRA's) financial industry levies. APRA regulates banks, credit unions, building societies, insurance companies, friendly societies and regulated superannuation funds (not including self-managed superannuation funds). APRA is primarily funded by levies paid by the institutions it regulates. In 2011–12, APRA regulated approximately \$4.2 trillion worth of assets. Overall, the cost of APRA regulation was about three cents per \$1,000 of assets regulated. The audit included the Department of the Treasury, given its integral role in determining the levies, especially in consultation with industry.

The audit concluded that APRA's administration of financial industry levies has been generally effective. The methodology developed to apply the levies has met the Government's intent of recovering the full costs of APRA's administration, and been administratively simple and uniform. APRA and the Treasury have applied the principles of equity and competitive neutrality when imposing levies on financial entities. This has been an ongoing process, involving the review of the levy methodology and its application, and stakeholder consultation and feedback. The ANAO identified three aspects of the levy methodology that would benefit from further analysis, and scope for the two agencies to improve their consultation with stakeholders.

The ANAO made two recommendations aimed at improving the administration of the APRA financial industry levies. The first recommendation was aimed at the Treasury and APRA improving their consultation with stakeholders about the levy methodology and its application. The second recommendation involved the two agencies further considering aspects of the levy methodology as part of their current review.

19 Management of Complaints and Other Feedback

The objective of the audit was to assess the effectiveness of the ATO's complaints and other feedback management systems in supporting service delivery. The ATO receives a considerable amount of feedback, including an average of 36,000 complaints per year (measured over the past five years).

The audit concluded that the ATO's complaints-handling framework was well designed and its management arrangements were generally sound. The ATO has strengthened complaints handling in recent years, and there was a rebound in client satisfaction and community perceptions of complaints handling in the 2013 ATO corporate surveys. Nevertheless, opportunities remain to more fully address the principles of fairness, accessibility, responsiveness, integration and efficiency outlined in the Commonwealth Ombudsman's *Better Practice Guide to Complaint Handling*. In addition, while there were instances where the ATO had used complaints, there was scope for the ATO to better use intelligence from client feedback to more actively inform service delivery and improve efficiency. This included developing strategies to minimise the number of complaints and better managing taxpayers' expectations by keeping them informed throughout their dealings with the ATO.

The ANAO made three recommendations aimed at improving the ATO's handling of complaints and its monitoring and reporting of performance in managing complaints.

35 Managing Compliance of High Wealth Individuals

The objective of the audit was to assess the effectiveness of the ATO's activities to promote tax compliance by high wealth individuals (HWIs). The ATO defines HWIs as Australian resident individuals who, together with their associates, effectively control an estimated net wealth of \$30 million or more.

The audit concluded that the ATO has effectively carried out a range of activities and engaged with HWI taxpayers and their representatives to reinforce their understanding of, and promote compliance with, tax obligations. The ATO has also had a particularly extensive HWI active compliance focus, conducting audits and risk reviews of over 90 per cent of the population between 2009–10 and 2012–13 and collecting almost \$852 million as a result of these compliance activities (\$671 million from audits and \$181 million from risk reviews). However, the results of these activities have not always been commensurate with the level of effort deployed by the ATO. Over the four-year period, 90 per cent of the cash collected was from 12 per cent of the audits and five per cent of the comprehensive risk reviews (84 per cent) did not have a financial outcome. It is also important that the business line better assesses the cost of HWI compliance activities and more accurately calculates the return on investment from these activities.

The ANAO made two recommendations aimed at improving the reliability of the risk assessment tools through analysis of active compliance outcomes; and improving resource allocation by having greater regard to compliance risk and financial return.

39 Compliance Effectiveness Methodology

The objective of the audit was to examine the application of the ATO's Compliance Effectiveness Methodology (CEM) in evaluating the effectiveness of key compliance activities and shaping the development of strategies to promote voluntary compliance. Since 2006, the CEM has been used to better measure the effectiveness of the ATO's compliance activities undertaken to improve voluntary compliance by Australian taxpayers. The CEM is based on two key elements: identification of measurable compliance objectives; and articulation and treatment of the risks to achieving them. The CEM has been recognised by the Organisation for Economic Co-operation and Development as an innovative approach that provides practical methods for evaluating compliance impacts.

The audit concluded that the ATO had applied generally sound project management practices and administrative frameworks in developing the CEM and preparing for its implementation within the eight business and service lines of the ATO's Compliance Group. However, in implementing the CEM as an ongoing business process, there has been a lack of strategic focus and direction. Also, despite an intention to apply the CEM to predominantly high-priority risks, the CEM has been applied to a large number of risks of varying nature, and the conduct of compliance evaluations has been inconsistent across the Compliance Group. A significant portion of CEM evaluations examined by the ANAO were incomplete, had insufficient data or made little reference to ATO compliance activities. Overall, the ATO had not achieved important elements of the overall intent of the program—improved compliance strategies and treatments, and better reporting to the Government and the community about the effectiveness of the ATO's compliance strategies. The ATO's work to extend effectiveness across the agency is still in its early stages.

The ANAO made two recommendations. The first recommendation was aimed at the ATO taking a more strategic approach to selecting the compliance risks to be evaluated. The second recommendation was aimed at the ATO improving its compliance effectiveness evaluations and reporting their results.

48 Administration of the Australian Business Register

The objective of the audit was to assess the effectiveness of the administration of the Australian Business Register (ABR). The ABR is a consolidated database of the information provided by businesses when they register for an Australian Business Number. The Commissioner of Taxation is the Registrar of the ABR, and the ATO created and maintains the ABR. While the operation of the ABR is dependent on the ATO's administrative and information technology systems, meeting whole-of-government objectives requires coordination with other key agencies, particularly the Australian Securities and Investments Commission and the Department of Industry.

Since its inception in July 2000, a number of reviews have identified scope for the ABR to better meet its whole-of-government objectives. This largely required: an increased focus on the broader objectives of the ABR, beyond the ATO's use of ABR data for tax administration purposes; improved visibility of the ABR within the ATO's administrative systems and structures; and better delineation of the roles and responsibilities of the Commissioner and of the Registrar. In response, initiatives implemented by the ATO from 2008–09 included the establishment of the ABR Advisory Board in 2009, and the creation of the row Business Reporting and Registration business line in 2010, to administre the ABR with other whole-of-government programs under the responsibility of the Registrar. However, the audit concluded that there has been limited progress in achieving whole-of-government objectives for the ABR. More also needs to be done to strengthen the operation of the ABR, including to improve the integrity of ABR data, particularly regarding incomplete and inaccurate entity information, as well as the number of entities on the register.

The ANAO made one recommendation aimed at better integrating the ABR and similar or related initiatives to make it easier for business to deal with government.

Veterans' Affairs

46 Administration of Residential Care Payments

The objective of the audit was to assess the effectiveness of the Department of Veterans' Affairs' (DVA's) administration of residential care payments.

The audit concluded that DVA's administration of residential care payments has not been fully effective, due to shortcomings for over six years in the department's ability to accurately identify eligible DVA clients in residential care, resulting in incorrect and unauthorised payments to approved providers; and the absence over the past two years of legal delegations necessary for DVA officials to validly exercise powers and perform decision-making functions under the *Aged Care Act 1997*. Further, the department has missed opportunities to mitigate these program risks through its internal risk management processes and procedural controls. While payment errors can be resolved through adjustment or recovery processes, these can be complex and introduce additional transaction costs for agencies and stakeholders. Known weaknesses in the integrity of DVA's data and exchange processing have affected the department's ability to correctly identify its eligible clients, resulting in its exchanging incorrect client data with Human Services for more than six years. As a consequence, responsibility for the payment of residential care costs has often been assigned to the wrong agency by DVA, resulting in payments being made from the wrong appropriation.

The ANAO made four recommendations aimed at improving DVA's administration of residential care payments, focusing on improving the management and integrity of information used as part of the data exchange process; establishing a central delegations register to improve the management of internal delegations; enhancing risk-management processes; and improving compliance with the Aged Care Act, and the quality of decision-making, by using up-to-date client information and consistently documenting decisions.

Table A2.2 Cross-portfolio audit reports, 2013–14

No. Description

4 Confidentiality in Government Contracts: Senate Order for Departmental and Agency Contracts (Calendar Year 2012 Compliance)

The objective of the audit was to assess the appropriateness of the use and reporting of confidentiality provisions in Australian Government contracts for the 2012 calendar year reporting period.

Overall, while the results indicate that the intent of the Senate Order is being addressed, some portfolio departments and agencies need to implement improved arrangements to support the timely publication of contract lists on their websites and the tabling of ministers' letters of advice. There is also scope for agencies to improve the way in which they identify and report on the use of confidentiality provisions and the processes they use to support data capture and the quality assurance of contract information.

The Australian National Audit Office (ANAO) did not make any new recommendations. However, it suggested that providing clearer guidance to agencies about the application of the reporting requirements of the Senate Order is likely to assist in addressing the identified issues.

7 Agency Management of Arrangements to Meet Australia's Treaty Obligations

The objective of the audit was to assess the effectiveness of Australia's arrangements to meet its treaty obligations under three selected treaties: the International Convention on Civil Liability for Bunker Oil Pollution Damage 2001; the Agreement between Australia and the International Atomic Energy Agency for the Application of Safeguards in connection with the Treaty on the Non-Proliferation of Nuclear Weapons of 1 July 1968 and the Additional Protocol; and the Convention on the Rights of the Child 1990. The audit also outlined the treaty-making framework and assessed whether Australia has arrangements to provide assurance that treaty obligations are being met once a treaty enters into force. Australia is a party to some 1,991 bilateral and multilateral treaties, with relevant agencies responsible for implementing each treaty.

The audit concluded that each of the three treaties was administered by the three agencies in a broadly effective manner, but noted that administrative arrangements could be improved. The audit also found that, although the treaty-making framework focuses on treaty implementation issues prior to a treaty entering into force, there is little focus on the effectiveness of implementation once a treaty has come into force.

The ANAO made three recommendations directed at three of the four audited agencies. Two recommendations were aimed at improving the administration of the treaties reviewed. The third recommendation was directed at improving the assurance framework that determines how Australia is meeting its treaty obligations.

32 Delivery of the Hearing Community Service Obligation

The objective of the audit was to assess the effectiveness of the Department of Health's (Health's) and Australian Hearing's administration of the Community Service Obligations (CSO) program for hearing services. The Hearing CSO program, a component of the Australian Government's wider Hearing Services Program, aims to provide eligible clients with access to hearing services and devices that help them manage their hearing needs and maximise their communication in everyday life. In 2012–13, the \$56 million CSO program provided subsidised hearing services and devices to 56,379 clients. The CSO program is delivered by Australian Hearing under a memorandum of agreement (MOA) developed jointly with, and administered by, Health.

The audit concluded that the CSO program is being effectively administered by Australian Hearing in accordance with the MOA. The MOA reflects relevant legislative and key program requirements, and incorporates a generally effective monitoring and reporting framework that enables the parties to assess progress in achieving program objectives.

The ANAO made one recommendation to support Health's monitoring and reporting activities under the MOA, in particular to support its reporting on targets achieved through the 2011–12 Budget measure and other outcomes for the CSO program.

33 Indigenous Employment in Australian Government Entities

The objective of the audit was to determine whether Australian Government entities were implementing effective strategies to support the Council of Australian Governments' (COAG's) commitment to increase Indigenous representation in Australian Government entities to 2.7 per cent by 2015.

The audit concluded that, although Australian Government entities have demonstrated a commitment to increase Indigenous representation through a range of Indigenous-specific recruitment and retention initiatives, monitoring and reporting of progress towards the target is incomplete as aggregated Indigenous employment data is available only for those entities that engage employees under the *Public Service Act 1999*. This represents approximately two-thirds of all Australian Government public sector employees. Available aggregated data is also subject to limitations as Indigenous status is not available for over 20 per cent of employees listed. Over time, increases in Indigenous employment have been achieved through collaborative recruitment arrangements between Australian Government entities. For example, Australian Public Service (APS) agencies have successfully recruited 1,521 ongoing Indigenous employees (1,592) have separated from the APS over the same period. As a result, despite the resources put into APS recruitment and retention initiatives, for the four years 2009–10 to 2012–13 there was a net loss of 71 Indigenous APS employees.

The ANAO has made two recommendations aimed at increasing Indigenous employment in Australian Government public sector entities and improving reporting against the target. These are to review the current broadbased approach to achieving the 2.7 per cent Indigenous representation target, in particular to consider opportunities to achieving the target with a tailored approach and more comprehensive reporting; and to review the annual, entry-level, generic, bulk recruitment programs to provide a service that is more tailored to Indigenous applicants and agency demand.

34 Implementation of ANAO Performance Audit Recommendations

The objective of the audit was to assess the effectiveness of arrangements for implementing and monitoring ANAO performance audit recommendations in the Department of Agriculture and in Human Services.

Overall, of the 28 ANAO recommendations examined as part of this audit, 18 recommendations (five in the Department of Agriculture and 13 in Human Services) were assessed by the ANAO as being adequately implemented. Seven were partially implemented (four in the Department of Agriculture and three in Human Services) and two (one in each department) were assessed as being not adequately implemented.

The ANAO made one recommendation directed to the Department of Agriculture, which aimed to improve both the quality of the information provided to the audit committee and the monitoring and review process for implementing audit recommendations.

47 Managing Conflicts of Interest in FMA Agencies

The objective of the audit was to determine whether Australian Government agencies were implementing appropriate policies and processes to identify and manage conflicts of interest. The audit also focused on the implementation of conflict of interest policies and practices in two common elements of APS business: major advisory committees; and peerreviewed grant selection.

The audit concluded that many public sector agencies were active in promoting conflict of interest obligations, using well-established overarching policies or ethical conduct manuals that incorporated comprehensive conflict management provisions. However, considerable variability in the quality, scope and usefulness of high-level policy documents was evident across the audited agencies, particularly in relation to approaches for promoting, implementing and monitoring key aspects of conflict of interest provisions. There were also several instances of inconsistency in the application of agency policies and a lack of transparency in procedures undertaken and records maintained. The results of the audit suggest that there is scope for agencies to better integrate the management of conflicts of interest provisions to committee processes and grant rounds.

The ANAO made one recommendation for all APS agencies to assist in reducing the risks posed by conflicts of interest.

49 The Management of Physical Security

The objective of the audit was to assess the effectiveness of physical security arrangements in selected Australian Government agencies, including whether applicable Australian Government requirements were being met by those agencies. The Australian Government's Protective Security Policy Framework (PSPF) considers physical security to be a combination of physical and procedural measures designed to provide a safe and secure environment for an agency's employees, contracted service providers, information and other resources, as well as members of the public that interact with the agency.

The audit concluded that the physical security arrangements adopted by each of the selected agencies (the Australian Crime Commission, Geoscience Australia, and the Royal Australian Mint) were generally effective and, for the most part, the agencies had met, or partially met, the applicable PSPF requirements. Key physical security controls and procedures, tested by the ANAO in each agency, were largely aligned with the agencies' identified risks and specific business needs and were generally operating as intended. Nonetheless, there were areas where improvements were warranted. Most notable was the scope to better align security risk management activities with the PSPF's requirements, including for identifying and managing risks to the public and integrating security risk management with other organisational risk management activities.

The ANAO made two recommendations directed at strengthening the design and application of security risk management practices and physical security assurance and monitoring activities. The two recommendations are broadly applicable to other Australian Government agencies.

50 Cyber Attacks: Securing Agencies' ICT Systems

The objective of the audit was to assess selected agencies' compliance with the four mandatory information and communications technology (ICT) security strategies and related controls in the Australian Government Information Security Manual (ISM). The audit also considered the overall ICT security posture of the selected agencies, based on their implementation of the four mandated mitigation strategies (application whitelisting, security patching for applications, security patching for operating systems, and management of privileged accounts) and IT general controls. The ANAO examined agency-level implementation of the 'top four' mitigation strategies and related controls mandated in the ISM. In addition, the audit assessed whether the selected agencies had accurately stated their compliance against the ISM controls in their self-assessment reports to the Attorney-General's Department, against the protective security governance guidelines on compliance reporting. The audit also considered the selected agencies' overall ICT security posture, having regard to agencies' implementation of IT general controls and the top four mitigation strategies and related controls: application whitelisting; patching applications; patching operating systems; restricting administrative privileges; and logical access and change management processes.

The audit concluded that, while the selected agencies had implemented arrangements which contributed to the protection of agency information, the selected agencies had not yet achieved full compliance with the top four mitigation strategies mandated by the Australian Government in 2013, a requirement reflecting heightened government expectations in response to the risk of cyber attack. Further, none of the selected agencies are expected to achieve full compliance by the Government's target date of mid-2014, notwithstanding their advice regarding further initiatives which, when implemented, would strengthen ICT security controls and protection against cyber attacks.

Based on their stage of implementation of the top four mitigation strategies and IT general controls, the selected agencies' overall ICT security posture was assessed as providing a reasonable level of protection from breaches and disclosures of information from internal sources, with vulnerabilities remaining against attacks from external sources to agency ICT systems. In essence, agency processes and practices have not been sufficiently responsive to the ever-present and ever-changing risks that government systems are exposed to.

The ANAO made three recommendations encouraging all Australian Government agencies to: define pathways to implement and strengthen the top four ISM controls across their ICT environments; strengthen logical access controls for privileged users accounts to the database; and strengthen their ICT security posture by conducting annual threat assessments and periodic reviews.

54 Establishment and Use of Multi-Use Lists

The objective of the audit was to assess the extent to which agencies have arrangements to establish and use multiuse lists (MULs) to support value for money, efficiency and effectiveness in procurement.

The audit concluded that the arrangements applying to MULs are generally not well understood and, in most cases, greater consideration needs to be given to whether a MUL is most suited to an agency's particular procurement objectives. Where procurement processes are not well understood and objectives are not well defined, there is a clear risk of agencies undertaking procurements which are not consistent with the requirements of the Commonwealth Procurement Rules (CPRs). The arrangements to establish and use MULs in the Bureau of Meteorology (BoM), the Department of Industry (Industry) and the Attorney-General's Department (AGD) highlighted those risks to varying degrees. Common areas where agencies did not adhere to the CPRs included approaching too few suppliers, providing insufficient time for suppliers to respond to requests for work, and not treating suppliers consistently. Based on a sample of procurements examined, all of the procurements at BoM and Industry, and the majority of procurements at AGD, fell short of certain CPR requirements relating to a prequalified tender. In particular, for higher value procurements the CPRs impose strict timeframes designed to allow suppliers a reasonable time to respond to requests for work. Generally, MULs do not lend themselves to services required at short notice and the ANAO found these timeframes were not often met. As a result, it was more difficult for audited agencies to demonstrate that competition was genuine and value for money was achieved.

The ANAO also examined the approaches adopted by three additional agencies to procuring legal services using the Legal Services Multi-Use List. These three additional agencies were the Australian Crime Commission, the Department of Human Services and the Department of Defence.

The ANAO made two recommendations aimed at improving agency procurement practices in relation to MULs.

13 Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2013

The *Auditor-General Act 1997* establishes the mandate for the Auditor-General to undertake financial statement audits of all Commonwealth entities and wholly owned and controlled Commonwealth companies.

This report provided a summary of the final audit results of the audits of the financial statements of the large majority of Australian Government entities, including the Consolidated Financial Statements for the Australian Government. For the 2012–13 financial year, the Auditor-General and senior staff delegated to issue audit opinions issued 252 unmodified auditors' reports. Twenty-two of those reports contained a report on other legal and regulatory requirements relating to a risk of breaches of section 83 of the Constitution (payments are not made in accordance with conditions required by law), or the need to undertake risk assessments, in relation to payments form special appropriations and special accounts. In addition, five of the reports contained an emphasis of matter that drew the user's attention to a matter disclosed in the notes to the financial statements of the entity concerned.

The total number of significant and moderate audit findings in entities decreased from 38 in 2011–12 to 30 in 2012–13. This result was consistent with the trend in relation to the results of ANAO audits in recent years. Issues common to a number of entities identified in ANAO final audits were in respect of: controls in entities' IT environments, such as the management of user access and the segregation of duties; asset management processes, including the valuation of assets and the reporting of inventory; business system processing controls; and the documentation of policies and procedures.

The report noted a high level of compliance in relation to requirements for accounting for annual appropriations, special appropriations, annotated appropriations, special accounts and the investment of public moneys, except in relation to the risk of breaches of section 83 of the Constitution mentioned above.

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

44 Interim Phase of the Audits of the Financial Statements of Major General Government Sector Agencies for the year ending 30 June 2014

This report outlined the results of the interim audit phase of the 2013–14 financial statement audits of all portfolio departments and other major General Government Sector agencies that collectively represent some 95 per cent of total General Government Sector revenues and expenses.

In reporting on the results of the interim phase of the ANAO's 2013–14 financial statement audits, the ANAO continued its practice of providing assurance to Parliament that the systems, controls and processes that were in place in major Australian Government agencies were operating in a way that would allow agencies to prepare 2013–14 financial statements that give a true and fair view of their financial positions and their operations and cash flows.

The results of the 2013–14 interim audits reflected small increases in the numbers of significant (Category A) and moderate (Category B) audit findings. Nevertheless, agency control regimes overall continued to be stable and well maintained and agencies had generally addressed prior-year audit findings in a timely manner. The machinery of government changes that took place in September 2013 required some agencies to review their governance and operating arrangements, resulting in some delays in the completion of planned audit coverage as part of the 2013–14 interim audit phase.

The 2013–14 audits continued to identify a relatively small number of control weaknesses in a number of areas particularly relating to: IT general and application controls, particularly the management of privileged and other user access to key financial business systems; the timely capitalisation of assets to enable the accurate calculation of depreciation; the maintenance of complete and accurate asset registers; and consistency of impairment assessments.

In completing the audits of agencies' 2013–14 financial statements, the ANAO will complete its assessment of the effectiveness of internal controls and areas of audit focus in each agency. The summary results of this work will be included in a report to Parliament in December 2014.

21 Pilot Project to Audit Key Performance Indicators

The objective of continuing the pilot project to audit key performance indicators (KPIs) in 2012–13 was to review framework developments, both in terms of the clarity of the policy and guidance issued by the Department of Finance and the performance of agencies in applying this policy and guidance, as a basis for implementing a future program of audits; and to further develop and test an audit methodology to address the practical challenges of assessing the appropriateness of KPIs, and their complete and accurate reporting.

The continuation of the pilot project to audit KPIs concluded that the administrative framework supporting the development and auditing of KPIs remains problematic and that agencies' implementation of performance measurement and reporting requires further development. The pilot project supported the findings of previous ANAO reports that agencies have difficulty developing KPIs that measure the impact or effectiveness of a program's contribution to achieving government outcomes, and that there remains a need for clearer guidance and greater support for agencies in implementing the performance measurement and reporting framework.

Although supporting guidance and agency preparedness issues remain, the completion of the pilot project resulted in the development of a preliminary methodology to support ongoing audits of KPIs. However, the extent of future work undertaken by the ANAO will need to be agreed and resourced appropriately in order to implement a broader regime of KPI audits.

Appendix 3—Addresses by the Auditor-General and Deputy Auditor-General

Table A3.1 Addresses by the Auditor-General and Deputy Auditor-General,2013–14

Name	Title of address	Forum	Place/date
McPhee, lan (Auditor-General)	About the ANAO	National Library of Australia Senior Staff Forum	Canberra 26 July 2013
	The ANAO's Perspective on Defence	Centre for Defence and Strategic Studies	Canberra 10 October 2013
	Public Sector Management— a scorecard on the journey	Risk Management Institution of Australasia and Australasian Compliance Institute Second Annual Governance, Risk and Compliance Conference	Melbourne 1 November 2013
	About the ANAO	Senators Elect Orientation Program	Canberra 13 November 2013
	Public Sector Management Reform in Australia	Organisation for Economic Co–operation and Development	Paris 19 March 2014
	Institute of Public Administration Australia (IPAA) Annual Report Awards	IPAA Australian Capital Territory Division Annual Report Awards	Canberra 22 May 2014
	Delivering audit services in the public sector today	Australian Taxation Office Internal Audit Conference	Canberra 11 June 2014
Chapman, Steve (Deputy Auditor-General)	Fraud and Corruption— an ANAO perspective	Third Annual National Public Sector Fraud and Corruption Congress	Melbourne 1 August 2013
	Providing Assurance in Government	ISACA Canberra Chapter Meeting	Canberra 4 March 2014
	Measuring Program Performance Perspectives on Key Performance Indicator Audits	IPAA Canberra Evaluation Forum	Canberra 20 March and 1 April 2014

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REFERENCES PART 7

Abbreviations list

AGO	Papua New Guinea Auditor-General's Office
ANAO	Australian National Audit Office
APS	Australian Public Service
ASOSAI	Asian Organization of Supreme Audit Institutions
BPK	Indonesian Board of Audit
CPD	continuous professional development
Defence	Department of Defence
EEGO	Energy Efficiency in Government Operations
ESD	ecologically sustainable development
FMA Act	Financial Management and Accountability Act 1997
GPF	Australia Indonesia Government Partnerships Fund
GST	goods and services tax
ICT	information and communications technology
INCOSAI	International Congress of Supreme Audit Institutions
INTOSAI	International Organization of Supreme Audit Institutions
IT	information technology
JCPAA	Joint Committee of Public Accounts and Audit
KPIs	key performance indicators
NABERS	National Australian Built Environment Rating System
PASAI	Pacific Association of Supreme Audit Institutions
PGPA Act	Public Governance, Performance and Accountability Act 2013
QA	quality assurance
SAIs	supreme audit institutions
SES	Senior Executive Service
WHS	work health and safety



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