

Australian National Audit Office

Audit Activity Report:  
January to June 1997

Summary of Audit Outcomes

The Auditor-General  
Audit Report No.1  
1997-98

Australian Government Publishing Service

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ISSN 1036-7632  
ISBN 0 644 38872 2

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Canberra ACT  
26 August 1997

Dear Madam President  
Dear Mr Speaker

In accordance with the authority contained in the *Audit Act 1901*, I present this report of the results of our audits and audit related services over the first half of 1997 to the Parliament. The report is titled *Audit Activity Report: January to June 1997*.

Yours sincerely

P. J. Barrett  
Auditor-General

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

## AUDITING FOR AUSTRALIA

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

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**Audit Activity Report:  
January to June 1997**



## 1. INTRODUCTION

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This Report is the first in a series of reports to be tabled at six-monthly intervals. It is in the nature of an information document summarising audit activities of the Australian National Audit Office (ANAO) in the period January to June 1997. In recent discussions with the ANAO Executive, the Joint Parliamentary Committee of Public Accounts (JCPA) indicated that it saw advantage in such a report to the Parliament.

The purpose of this report is threefold. First, to inform Parliament of major issues the ANAO is confronting in working with agencies to encourage a better performing and more accountable public sector administration at this time. Second, to provide Parliament with a consolidated summary of the audit reports that have been tabled, together with information about the Better Practice Guides and Occasional Papers released in the last six months. Third, to focus on, and to highlight, some of the major 'lessons learnt' as a result of those audits and our other products with the purpose of assisting public sector organisations in the process of implementing administrative improvements.

The ANAO has a key role in providing assurance to the Parliament, Executive Government and entity management about appropriate accountability in the Australian Public Service (APS). The proposed Auditor-General Act is a clear expression of Parliament's view that the Auditor-General and his Office will continue to play a significant part in informing Parliament about performance in the administration of Government programs and accountability for the use of public resources. It is also an important part of the ANAO's role to recommend to Government organisations identified ways of improving their particular administration. The latter is often reflected in better practice being implemented in particular entities. The ANAO's across-the-Service perspectives and involvement with all public sector agencies and entities facilitate the identification and dissemination of such practice.

The ANAO is uniquely placed to provide an insight into the emerging issues that face those concerned with public sector administration. Each year the ANAO produces around 35 to 40 performance audit reports and general purpose financial audit reports covering some 320 entities across all public service portfolios. This breadth of audit coverage as well as other audit reporting and audit related services give us an intimate knowledge and understanding of public sector operations. The challenge is to ensure that lessons learnt as a result of our audit work are brought to the attention of the Parliament and public sector entities in a timely and useful manner.

There is no doubt that the Australian Public Service is currently facing considerable pressure to adjust, particularly against the background of a continually changing internal and external environment. The Government's reform agenda, with its increased emphasis on competitive tendering and contracting and focus on quality client service, will require substantial cultural and structural change in public sector operations. The *Workplace Relations Act 1996* and the recently introduced *Public Service Bill 1997* will mean significant changes for the industrial relations framework and the way the public service



manages its staff. Such change brings both risks and opportunities. The challenge is to manage both well.

I trust the Parliament and public sector entities will find these audit activity reports to be constructive and useful. Relevant feedback will be sought as part of our regular client surveys.

## 2. ISSUES BEING CONFRONTED IN OUR AUDIT PROGRAMS

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### Corporate governance

Corporate governance has become a major issue internationally for the private sector in recent years. Given that it relates to the structures and processes for decision-making as well as accountability, controls, and behaviour within organisations, good corporate governance has particular value to the public sector.

Within the public sector, corporate governance is fundamentally about how an organisation manages itself and its various relationships with those who have an interest or stake in the organisation and/or what it does. In particular, it is about providing assurances to stakeholders that the organisation is keeping faith with the vision, role and values set out in the organisation's Corporate Plan, as well as in any Code of Conduct that guides the behaviour of those involved. Corporate governance is also about the control and monitoring mechanisms that are put in place by organisations with the object of enhancing stakeholders' value (broadly defined) and their confidence in the performance and integrity of the organisation.

The realisation of an effective corporate governance framework will provide the means to focus the attention of an organisation on its internal management systems and practices to ensure they are geared towards the achievement of the organisation's vision, role, values and priorities.

The values, standards and practices which underpin corporate governance in public sector agencies flow from peak APS values, obligations and standards, which in turn are derived from legislation, policy and accepted public service conventions.

A central theme common to many of the performance audit reports tabled since the start of 1997 has been that of corporate governance. Financial Control and Administration Audit Report No 39 *Audit Committees* specifically dealt with one of the key management committees available to organisations to ensure internal control mechanisms function effectively. In addition, the ANAO has released an occasional paper entitled, *Applying Principles and Practice of Corporate Governance in Budget Funded Agencies*. This paper has been prepared primarily to assist Chief Executive Officers in the Australian Public Service to review, assess and improve corporate governance frameworks within their agencies.

Some of the elements of good governance have been put in place by many public sector organisations over the last decade, including program management and budgeting, corporate and business planning, enhanced performance information and codes of conduct. However too often, these elements are not linked or interrelated in any way so that people in the organisation understand both their overall purpose and the ways the various elements are linked. The latter is necessary to ensure that a mutually supportive

framework is produced that identifies outcomes for particular stakeholders. There is thus a need to better coordinate and integrate the overall management framework within public sector organisations. The proposed Financial Management and Accountability Act, Commonwealth Authorities and Companies Act and Public Service Act with their increased emphasis on the responsibilities of agency heads will assist in reinforcing this imperative.

## **Risk management**

A key component in achieving effective governance in a public sector organisation is risk management. Risk management is a disciplined approach to the identification, analysis and mitigation of risks which could prevent or inhibit an organisation from achieving its organisational objectives. Effective and efficient risk management also requires the development and implementation of management processes and systems that support the analysis and control of organisational risks.

Risk management is no longer a discretionary activity. It is an essential part of good management, especially when an organisation is faced with limited resources and competing priorities. Consequently Public Service managers are now being asked to come to terms with risk management as an important and integral element of their increased focus on outcomes now required by Government reforms. Against the background of the increasing use of a range of different service delivery arrangements, risk management will be central to successful program implementation. The Management Advisory Board and its Management Improvement Advisory Committee late last year published a paper, *Guidelines for Managing Risk in the Australian Public Service* to assist departments and agencies manage their risks. As with any other aspect of public sector administration, risk management has to be considered in the context of the changing culture and environment of the public service.

Again, with all APS activities risk must be acknowledged and managed appropriately. A number of recent performance audits have highlighted some of the benefits as well as the difficulties in managing risk. For example, Audit Report No 31 1997-98 *Medifraud and Inappropriate Practice* found that the Health Insurance Commission had adopted a sound risk management approach to managing leakage through fraud and inappropriate practice from the Medicare and Pharmaceutical Benefits Scheme.

In a revision to the Better Practice Guide for the Administration of Grants undertaken in conjunction with an audit of grants administration across a number of Commonwealth portfolios (Audit Report No 32 1996-97 *Administration of Grants in the Australian Public Service*), the ANAO emphasised risk management as an essential element in the management of grant programs and the importance of identifying and managing risk at all stages of the process. The revised Guide now highlights particular risk factors and discusses aspects of controlling them.

This theme was continued in Audit Report No 36 1996-97 *Commonwealth Natural Resource Management and Environment Programs* which examined a number of programs that will form important components of the Government's \$1.25 billion Natural Heritage Trust (NHT). The audit found that with an appropriate risk management strategy in place the Commonwealth could reduce overlap and take greater advantage of the administrative

savings offered through the One Stop Shop process administered by the States and Territories.

Audit Report No.37 1996-97 on *Risk Management in the Australian Taxation Office* examined the Tax Office's formal risk management approach introduced as part of the agency's strategic planning framework. The audit recognised the difficulty in introducing comprehensive risk management within a large, complex organisation. The report found that the adoption of a more structured, formal and systematic approach would assist the ATO to attain the most effective risk management outcomes.

Given the important role of risk management in today's APS, the ANAO will continue to review agencies' implementation of effective risk management strategies as part of its ongoing audit program.

## **Competitive tendering and contracting**

The Government's public service reform agenda requires a significantly increased emphasis on contestability in the provision of public services, including outsourcing those services where the private sector can provide better value for money.

The APS will be required to meet the challenges of market testing and competition to ensure that its standards and performance at least match those of the private sector. However, it is also essential to recognise the innate differences between the two sectors, in particular the accountability of the APS to Parliament and its wide-ranging obligations to the general public as citizens and clients of government services.

Government departments and agencies are more accountable than private sector enterprises, as their decisions are more open to public scrutiny by, for example, the Parliament, the ANAO, the Ombudsman, the courts, the Administrative Appeals Tribunal (AAT), the media and the general public. Private sector enterprises are generally not open to the same level of scrutiny. Furthermore, directors and managers of private sector companies owe fiduciary obligations to the company and shareholders to act in the best interests of their company and not necessarily in the public interest. These interests could conceivably be in conflict from time to time.

It is also important to realise that outsourcing does not mean contracting out the responsibility for the administration of the service or program. It is still the responsibility of the agency to ensure that the service delivery complies with government policy, legislation and is both cost-effective and acceptable to the service recipients and key stakeholder groups. This means that the agency must specify the level of service delivery and quantitative and qualitative service standards in the contract and also ensure that an adequate level of monitoring of the service delivery is undertaken as part of the agency's contract administration responsibilities. The inclusion of access provisions within the contract for performance and financial auditing is also very important in maintaining the thread of accountability.

To achieve an adequate level of control and performance monitoring of a contract, the primary responsibility for ensuring sufficient access to relevant records and information relevant to a contract is the responsibility of agency heads. From an accountability

viewpoint, it is critical that agencies consider the nature and level of information to be supplied under the contract and access to contractors' records they require to monitor adequately the performance of the contract.

Access to relevant records and information could be met by standard contract clauses supplemented as necessary by appropriately drafted clauses that reflect any peculiarities of a particular situation. The use of mainly standard contract clauses would enable all parties contracting to the Commonwealth to be aware of the Commonwealth's expectations and their obligations in this regard for all major contracts.

As part of its statutory responsibility to Parliament, the ANAO may also require access to records, information and assets which are directly related to contract performance. The ANAO considers its own access would generally be equivalent to that which would reasonably be specified by the contracting agency in order to fulfil its own performance management and administration responsibilities. In certain circumstances the ANAO may require access to third party records and information to fulfil its financial statement audit responsibilities. This point has been made to the Government, the JCPA and to the Senate Finance and Public Administration References Committee which is currently inquiring into the contracting out of government services.

In a contracted out environment the separation between core business operations and the out-sourced service delivery elements means the open disclosure of performance and financial information is critical to effective corporate governance. The intended separation between purchasers and providers of services and between policy and program delivery has particular relevance. The Ombudsman has referred to a 'no-man's land' of accountability and unpublicised transfer of risk. These are issues that need to be addressed by the agencies concerned as early as possible.

ANAO has recognised the importance of competitive tendering and contracting by nominating it as one of the themes that influences the selection of performance audits. Audit Report No 36 1996-97 *Commonwealth Natural Resource Management and Environment Programs* continued a series of earlier performance audits that examined the implementation of different purchaser/provider models in different Commonwealth agencies. The audit found there was scope for introducing competitive tendering for the delivery of NHT programs. However, it was recognised that a balance needs to be struck between the costs which may reasonably be incurred in promoting competition and the benefits to be obtained from that approach.

As the JCPA has noted key issues to be addressed by agencies are:

- the transparency of the contractual arrangements;
- the allocation of liabilities and risks between the parties;
- the adequacy of performance measures; and
- how to deal with non-performance.

ANAO performance audit reports have drawn attention to these areas and urged more care by officers when assessing value-for-money and negotiating, preparing, administering and amending major contracts. Departments would do well to get expert

advice at each of these important stages in procurement in order to protect the Commonwealth's interests.

## **Performance information**

Performance information is a critical tool in the overall management of programs, organisations and work units. It is important not as an end in itself, but in the part it plays in managing effectively. Performance information has an expanded role as a means of protecting the Commonwealth and public interests in the new ways of delivering public services. It is therefore a key component of good corporate governance.

Performance information fits within the wider management framework that includes objectives, strategies for achieving objectives and mechanisms for collecting and using performance information. Performance information is documented and reported in corporate publications to the Parliament and other stakeholders and managed within the annual corporate cycle. In these respects it is crucial to public sector accountability. Put simply, it is the main means through which assurance is provided transparently to the Parliament and public that the Government's objectives are being met.

In focussing on outcomes we should not lose sight of the means of achieving the outcome which need to consider among other things, social and equity issues. In this case we must be wary of the ends justifying the means.

Given the crucial importance of performance information to public accountability and management efficiency our performance audits regularly examine and report on the issue of performance information. A common finding is the need to significantly improve the design, accuracy, analysis and reporting of performance information. For example, Audit Report No. 26 1996-97 *Community Development Employment Projects Scheme - Phase Two* indicated that the efficiency and effectiveness of the administration of the scheme could be improved by reviewing the performance reporting framework to ensure that it provided meaningful information on the effectiveness of the scheme and useful feedback to community organisations. Audit Report No. 36 1996-97 *Commonwealth Natural Resource Management and Environment Programs* highlighted particular areas of administration where better performance information would have enabled the Commonwealth to demonstrate what outcomes had been achieved from a suite of key programs such as the National Landcare Program and Save the Bush. Audit Report No 38 1996-97 *External Funds Generation Australian Institute of Marine Science* found that, although the range of internal performance indicators and systems used or under development provide the basis of good internal management control, AIMS' external reports to Parliament focus on research highlights rather than performance against corporate goals, objectives, strategies and planned outcomes.

Actual assessment of performance, whether for ongoing program monitoring or evaluation, is based on comparisons. Standards, targets, benchmarks and milestones all provide a basis for comparisons. A detailed discussion of these mechanisms and the characteristics of good performance information can be found in the recently released, joint ANAO and Department of Finance better practice guide *Performance Information Principles*.

## Human Resource Management

Recent and ongoing reforms to the public sector will set new directions in workplace relations and a more flexible employment and human relations framework. Changes to the industrial relations framework through the *Work Place Relations Act 1996* and the recently introduced *Public Service Bill 1997*, in particular, will have a profound affect on HRM practices throughout the APS. It is expected that the gap between APS and private sector practices will be narrowed and a greater emphasis placed on more strategic human resource activities and less on administrative and processing tasks. During a period of transition, efficient and effective human resource management assumes even greater importance.

Given the strategic importance of human resource management it is another of the themes that guided the selection of performance audit topics in 1996-97. Consequently, a number of performance audits addressed the issue. For example, Audit Report No 27 1996-97 *Army Presence in the North*, found that Army would benefit from a strategic personnel management and support plan that provides effective support to the force in Northern Australia. Audit Report No.34 *Australian Defence Force Health Services*, commented on the high cost of ADF workplace injuries and illnesses. Audit Report No 40 1996-97 *Human Resource Management* Department of Foreign Affairs and Trade, also found that DFAT did not have an human resources strategic plan, or a plan for human resource development that directly linked strategies and action to corporate objectives. Nevertheless there was some recognition of the importance of such issues and a number of initiatives have been introduced with the potential to position DFAT well in terms of its HRM practices.

## Client service quality

The quality of the delivery of services to clients by public sector agencies has become an area of increasing interest to the Parliament, the media and the community as a whole in recent years. The community has heightened expectations that public agencies will provide good quality services that are more responsive, relevant and accessible. The rights of the public as citizens also have to be recognised particularly when adopting more private sector oriented service approaches in program delivery.

Reflecting the interest of its own key clients and stakeholders ( that is the community and the Parliament), client service quality is one of the themes driving the selection of performance audit topics.

A number of performance audit reports have addressed client service issues in the last six months. Included in these is Audit Report No.33 1996-97 *Administration of the Family Court*, which made a number of recommendations relating to administrative practices in the Court designed to improve service to the Court's clients. In addition, Audit Report No 35 1996-97 *Census of Population and Housing* found that the Australian Bureau of Statistics had taken steps to improve the standard of service delivery compared to that adopted for the 1991 Census.

Common themes from the audits involving service delivery, that have relevance across the APS, are the value of a strategic direction for customer service and the importance of

research into customer needs, expectations and perceptions of agency performance. Agencies should assess their performance in meeting customer needs and expectations, analyse and change their operations to make their interaction with customers as smooth as possible, and use customer feedback as a driver to their continuous improvement process. The ANAO strongly supports the need for the public sector to recognise the rights and obligations of the general public as citizens. However, it also recognises the importance of staff focusing on the concept of customer service as accepted in the private sector. This would then encourage the public sector to adopt or adapt the better practice displayed in the private sector in service delivery.

Effective service delivery is dependant on a culture of continuous improvement and effective two way communication and interaction between the deliverer and the client. The frameworks for service delivery continuously change with technology and customer expectations.

To provide for the wider dissemination of the experience from two earlier audits of customer focus in APS agencies (Audit Report No 22, 1996-97 Client Service: Australian Taxation Office and Audit report No 25, 1996-97 Customer Service: Department of Social Service), the ANAO recently joined with the Management Advisory Board (MAB) to distribute a joint draft Better Practice Guide entitled *Customer-Focus in a Public Sector Environment* for agency comment.

## **Summary comments**

Policy changes by the Government are accelerating the rate of change experienced by the APS over the last decade. This presents a number of challenges for public sector managers in continuing to deliver government programs economically, efficiently and effectively while at the same time maintaining the high standards of probity, ethics and accountability expected by Parliament and the public. Through its wide program of performance and financial audits the ANAO will continue to seek to achieve a balance in coverage between significant government programs and contemporary management issues in the interests of improving public sector administration.



### 3. PERFORMANCE AUDITS

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This chapter summarises the performance audit reports that have been tabled in Parliament in the period January to June 1997. Where applicable, the summaries have been taken from the brochure accompanying the audit report. These summaries have been arranged by entity or, where they cover more than one entity, included under the category of *Across-portfolio*.

The JCPA has a statutory responsibility to examine all ANAO financial statement and performance audit reports. Following a decision by Parliament or by agreement with the JCPA, other parliamentary committees also examine ANAO audit reports. Where a committee has examined a report the findings of the committee are outlined.

**Audit Report No. 26 1996-97 (tabled 11 February 1997)**  
***Community Development Employment Projects Scheme - Phase Two***  
**Aboriginal and Torres Strait Islander Commission**  
**Department of the Prime Minister and Cabinet**

#### **Background**

The CDEP Scheme is the largest single program administered by ATSIC. Expenditure in 1995-96 was \$329 million which represents 33 per cent of ATSIC's total program budget for the period. Of the total expenditure for the Scheme in 1995-96, approximately 63 per cent (\$211 million) can be offset against potential expenditure by the Department of Social Security (DSS) as an alternative to receipt of social security payments.

Under the Scheme, community organisations apply each year for CDEP grants to undertake a range of community project and enterprises which serve a wide combination of social, economic and cultural objectives. Such projects include: housing, road maintenance, artefact manufacture or horticultural enterprises.

The ANAO tabled the report on Phase One of the audit in October 1995 (Audit Report No. 6, 1995-96). As a result of Phase One, the ANAO made sixteen recommendations which would lead to significant improvements in the administration of the CDEP Scheme.

#### **The Audit**

The objective of Phase Two of the audit was to review progress made with the implementation of the Phase One recommendations and further examine the efficiency and effectiveness of operations of ATSIC Central, State and Regional Offices in relation to the administration of the CDEP Scheme. The main areas examined were:

- planning, including reports of progress against plans and the development and use of performance information;

- monitoring including client feedback and the review process at the Regional Office level;
- the implementation and effectiveness of management information systems in relation to CDEP; and
- the development and implementation of quality assurance processes at State/Regional level.

The ANAO has made seventeen recommendations aimed at facilitating improvements in the areas listed above.

### **Audit Findings and Conclusion**

The ANAO found that ATSIC had made significant progress in addressing the recommendations of Phase One, particularly in the following areas:

- clarification roles and responsibilities at each level of CDEP administration;
- implementation of the computer-based participant schedule management system at the Regional Office and community level;
- Regional Office staff complying with CDEP grant administration procedures, analysing performance information and providing support and assistance to the community organisations in the majority of cases examined;
- community plans being prepared and monitored appropriately;
- use of the CDEP quality assurance package at a number of State and Regional Offices; and
- provision of training to Regional Office staff in a number of key operational areas.

The ANAO also identified a number of good practices in areas such as monitoring of CDEP projects and quality assurance processes.

However, the results of Phase Two indicated that the efficiency and effectiveness of ATSIC's administration of the Scheme could be further improved in a number of areas, including:

- implementing of operational planning and reporting processes within the three levels (Central, State and Regional) of ATSIC administration;
- developing of appropriate performance measures to adequately assess the overall effectiveness of the Scheme and the efficiency and effectiveness of ATSIC administration; and
- reviewing the performance reporting framework to ensure that it provides meaningful information on the effectiveness of the Scheme and useful feedback to community organisations.

While the ANAO's comments in this report relate specifically to CDEP, there would be benefit in ATSIC applying the principles discussed in this report in relation to planning, reporting, performance information and project monitoring across all programs. In

particular, the ANAO considers that a comprehensive approach should be adopted to planning and reporting by ATSIC.

### **ATSIC's Response**

ATSIC welcomes this positive report from the ANAO. ATSIC believes that the ANAO has found that the administration of the CDEP Scheme is efficient and effective although there is room for improvement. It is noted that the audit found several instances of good practice throughout the ATSIC network.

ATSIC welcomes the ANAO's comments that it recognises the considerable effort ATSIC has devoted to the development of planning, performance information, monitoring systems and to improving CDEP and Generic Procedures.

ATSIC has agreed to all seventeen recommendations made in the report.

### **Parliamentary Review**

The House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs Committee undertook an inquiry to follow-up the implementation of the recommendations made by Audit Report No 6, 1995-96 *Community Development Employment Projects Scheme* (Phase One) and to review the ANAO's Phase Two report and recommendations, together with the Aboriginal and Torres Strait Islander Commission (ATSIC) response to these.

The Committee found that the ANAO recommendations were fair and appropriate and acknowledged the progress made by ATSIC towards their implementation. The Committee made twelve recommendations relevant to the management of the scheme. Also, the Committee recommended that the Commission put in place procedures to monitor and review the implementation of the ANAO's Phase Two report recommendations.

**Audit Report No. 35 1996-97 (tabled 3 June 1997)**  
**1996 Census of Population and Housing**  
**Australian Bureau of Statistics**  
**Department of the Treasury**

**Background**

Since 1961 a Census of Population and Housing has been conducted at five-yearly intervals, a frequency specified in the 1977 Amendment to the *Census and Statistics Act 1905*. On 6 August 1996, the thirteenth Census of Population and Housing was conducted throughout Australia by the Australian Bureau of Statistics (ABS), which included approximately 7.2 million households being visited.

The primary objective of the Census is to obtain a snapshot of Australia, on one day, of the number and key characteristics of the people and their housing. The 1996 Census was a full content-full enumeration Census (that is the occupants of every household or dwelling were asked the same questions and, with only a few exceptions, all people in Australia on Census night were counted).

To collect the 1996 Census data, a temporary work force of some 40 000 people had to be recruited, trained, supervised and paid to deliver and collect Census forms. In addition, there were the logistics associated with designing and preparing maps and the printing, packing, distribution and return of over 1700 tonnes of material. During the Census collection period additional contractors were engaged to operate a national 'Census Hotline' telephone inquiry service with linked telephone interpreter services. Some 1300 temporary staff were also recruited and trained to undertake the processing of the Census forms at the ABS Data Processing Centre in Sydney.

Census data are essential for a number of purposes including: determining Federal electoral representation of the States and Territories and for Commonwealth and State electoral boundary redistribution; for the disbursement of grants to the States, Territories and local governments; and for planning the provision of community infrastructures and services. Given the significance of the activities for which Census data is a fundamental requirement, the Census is seen as an important activity for audit coverage and accountability to Parliament. The Census is also the largest individual statistical collection that the Australian Bureau of Statistics undertakes.

**Audit objectives and approach**

The objectives of the audit were to examine ABS management of the procedures and processes associated with the planning and operational aspects of the 1996 Census to ascertain:

- whether the results of the 1991 Census evaluations were used to improve the 1996 Census;
- whether the Census could be undertaken more efficiently while still yielding data of the required quality; and

- how privacy concerns were being satisfied by the processes employed.

The scope of the audit was limited to reporting on the efficiency and effectiveness of the management by the ABS of the development, collection and initiation of the processing phases of the 1996 Census. The ANAO conducted an assessment of the procedures and processes used in the 1996 Census against the ABS performance indicators and by an examination of ABS documentation. The audit did not seek to review the ABS statistical methodology.

### **Census cost**

The 1996 Census was planned to cost around \$135 million, in 1993-94 dollars. The Census involves expenditure over a seven-year period from initial planning activity which commenced in 1992-93 through to projected completion in 1998-99. The bulk of expenditure occurs in the year in which the data are collected.

The latest total nominal cost estimate of the 1996 Census is \$148.084 million. The 1996 Census is forecast to cost some 22 per cent more in nominal dollars than the 1991 Census. The ABS advised the ANAO that the difference in forecast nominal cost between the 1991 and 1996 Censuses was due to the effects of inflation (51 per cent), changes in Government policy (15 per cent) and growth in size of the population (34 per cent).

The ABS uses the per capita cost of Censuses as a means of comparing Censuses relative cost efficiency. The per capita cost for the 1996 Census in nominal dollars is forecast to be \$8.27 per person. The per capita cost for the 1991 Census in nominal dollars was \$7.17.

Major difficulties in comparing the relative costs of Censuses over time are movements in prices, developments in statistical methods and processes (including improvements in technology) and changes in Government policy on issues such as superannuation policy. To facilitate comparison of the real per capita costs of the 1991 and 1996 Censuses, the ABS undertook a costing exercise in which it made two different estimates of real per capita cost of the 1996 Census.

Both estimates used constant 1993-94 dollars and took into account the requirements of Government policies as they stood in 1996. The difference between the two estimates was that one was based on the application of 1991 statistical methods and processes and the other on 1996 statistical methods and processes. The ABS has calculated that if 1991 statistical methods and processes had been applied in the 1996 Census, the real per capita cost would have been \$6.99 in constant 1993-94 dollars. The ABS estimates that the application of the improved statistical methods and processes developed for the 1996 Census will result in a per capita cost of \$6.83 in constant 1993-94 dollars. Accordingly, the ABS estimates that the 1996 Census will cost in real terms, some 2.3 percentage points less per capita than the 1991 Census.

### **Key findings**

#### *Evaluation*

The continuous planning processes employed by the ABS have been effective tools for planning of the various phases of 1996 Census. The ABS conducted a thorough evaluation of the 1991 Census which was complemented by an additional review undertaken by an Interdepartmental Committee in 1993. The results of this evaluation and the Interdepartmental Committee review were directly employed in seeking to improve administrative processes for the 1996 Census.

#### *Performance measurement*

The ABS has undertaken appropriate benchmarking practices, by comparing its performance against that of other relevant national statistical collection agencies involved in undertaking periodic Censuses of Population.

#### *Cost-savings options*

Options for reducing the content and/or coverage of the 1996 Census have been identified and investigated both by the ABS and an Interdepartmental Committee composed of major Commonwealth users.

#### *Census processing*

The lessons learnt from the evaluation of the 1991 Census were used by the ABS in planning the 1996 Census. Accordingly, improvements have been made in processing and output processes and strategies for the 1996 Census which have the potential to increase efficiency and customer satisfaction.

#### *Privacy*

The ABS is aware of the need to ensure that the public is satisfied that their privacy will be adequately protected in the taking of the Census and the processing of the resultant data. High response rates suggest that the ABS has been successful to date in maintaining public confidence in the Census process.

#### *Mail back*

The ABS is reviewing the broader application of mail back of completed Census forms to realise possible savings in the collection of Census data and to enhance privacy by reducing the likelihood of a person known to respondents reviewing their completed forms.

#### *Stakeholder consultation*

The ABS has undertaken extensive consultations with users of Census statistics and the public and has taken steps to improve the standard of data quality, comprehensiveness and service delivery, compared to the 1991 Census.

#### *Administrative arrangements*

The ABS administrative arrangements for the conduct of the 1996 Census were sound and included a comprehensive and effective communications strategy; suitable contracting arrangements; an appropriate performance information framework; and utilisation of the user pays principle for Census statistics where appropriate.

**Overall conclusion**

The ANAO considers that the part of the 1996 Census cycle completed to March 1997 (including incorporation of the results of the evaluation of the 1991 Census into the development of the 1996 Census, the development and collection phases and a significant part of the processing phase) has been generally carried out efficiently and effectively by the ABS.

**Agency response**

The ABS has advised the ANAO that it intends to use this audit report as a benchmark for performance of future censuses, and reference for planning and conducting the 2001 Census.

**Audit Report No. 38 1996-97 (tabled 24 June 1997)**

***External Funds Generation***

**Australian Institute of Marine Science**

**Department of Industry, Science and Tourism**

**Background**

The Australian Institute of Marine Science (AIMS) is Australia's only research agency committed solely to marine research with an emphasis on tropical marine science. It was established in 1972 and has its headquarters on a 207 hectare site at Cape Ferguson, 50km from Townsville in north Queensland.

AIMS is a Commonwealth funded statutory authority reporting to the Minister for Industry, Science and Tourism. The program of the Institute is defined by *the Australian Institute of Marine Science Act 1972* (amended 1992), by the strategic priorities as determined by its Council and by the decisions of government. Its activities are primarily focused on tropical coastal and continental shelf research and the development and application of technology to problems in this zone.

AIMS staff are employed under the *Australian Institute of Marine Science Act 1972* (amended 1992). As at 30 June 1996 the Institute employed 116 scientific staff and 56 support staff.

AIMS net cost of services for 1994-95 and 1995-96 was \$14.435 million and \$16.501 million respectively.

AIMS external earnings for the same period was:

	(\$m)	per cent (see below)
1994-95	4.534	21.53
1995-96	4.659	21.91

AIMS defines external earnings for research as total income less direct appropriation, unrelated revenues and bad debts. The percentage is calculated against the total annual income of AIMS.

**The Purpose of the Audit**

The objective of this audit was to assess the effectiveness of the action taken by AIMS in response to the recommendations contained in External Funds Generation Audit Report No.48, 1991-92 (referred to as the 1992 Audit Report).

The subject of the 1992 Audit Report was directly related to the Government's requirement of AIMS to seek to achieve a certain percentage of their funding from sources other than budget appropriations. At the time of the 1992 Audit Report the set target was 30 per cent of the AIMS Budget appropriation. Currently (i.e. for 1996-97) the set target is 20 per cent of AIMS' total annual income. The Government also clearly stated



the underlying purpose of setting such targets, i.e. *the encouragement of agencies' efforts to improve their links with industry.*

The 1992 Audit Report made fifteen recommendations; AIMS agreed with twelve and agreed in principle or in part with two others. Recommendation 3 of the 1992 Audit Report, which dealt with assistance to be provided by the then Department of Industry, Technology and Commerce, was not agreed to by that Department. The Australian National Audit Office (ANAO) undertook an examination of AIMS' systems and procedures based upon four distinct groups into which the fifteen recommendations of the 1992 Audit Report could be considered, namely:

- planning systems and procedures (Chapter 2);
- operational systems, procedures and guidelines (Chapter 3);
- monitoring, evaluation and adjustment (Chapter 4); and
- reporting and performance indicators (Chapter 5).

## **Conclusions**

It is the ANAO's opinion that AIMS has either implemented the recommendations of the 1992 Audit Report fully or has established systems and procedures for achieving the thrust of those recommendations. Further improvements to efficiency and effectiveness of these systems and procedures have been identified by both AIMS and the ANAO. These are addressed by the recommendations in this audit report. The ANAO notes that, for many of the recommendations, AIMS has already made significant progress towards their implementation.

### *Planning*

The ANAO has made seven recommendations dealing with planning issues all of which are agreed to by AIMS.

The ANAO found that AIMS has taken its external funding target into account in its strategic planning structure. The ANAO did, however, identify areas for further improvement related to AIMS strategic and other planning documents including:

- the overall planning document structure;
- the use of AIMS' Strategic Directions document and Research Plan;
- the coverage and completeness of particular documents, including AIMS' Research Plan and Operational Plan; and
- the consistency across all AIMS' planning documents.

### *Operational systems, procedures and guidelines*

The ANAO has made one recommendation concerned with operational systems, procedures and guidelines which is agreed to by AIMS.

The ANAO found that AIMS had developed systems, procedures and guidelines related to the identification, approval, establishment and management of externally funded

projects/tasks. The establishment of these systems and procedures represents substantial progress (since the 1992 Audit Report) in integrating external funding activities into AIMS' research program. The ANAO also noted that these systems and procedures were being further developed and has made a recommendation suggesting features that should be included in the next systems and procedures manual for additional improvement.

#### *Monitoring, evaluation and adjustment*

The ANAO has made one recommendation concerned with management monitoring, evaluation and adjustment which is agreed to by AIMS.

The ANAO found that AIMS has, and is continuing to, develop and formalise a comprehensive management monitoring and evaluation system based upon internal and external reviews and monthly, quarterly, semi-annual, annual and triennial cycles.

The ANAO identified a number of areas for further improvement including the development of a listing of non-financial delegations against significant milestones/events, the formalisation of a quality control procedure and the maintenance of a formal management trail identifying significant decisions and the reasons for those decisions. A recommendation has been made dealing with these issues.

#### *Reporting and performance indicators*

The ANAO has made three recommendations to improve AIMS' performance reporting all of which are agreed by AIMS.

The ANAO found that, while AIMS' internal accountability systems and procedures currently facilitate a reasonable level of management control, AIMS' external performance reporting (a key component of its accountability) has substantial scope for improvement. The range of performance indicators, based mainly on planned outcomes and milestones, is considerable and the management monitoring, review and follow-up action systems and procedures being developed by AIMS provide the basis of good internal management control. In contrast, AIMS external reports to Parliament focus on research highlights rather than performance against corporate goals, objectives, strategies and planned outcomes.

**Audit Report No. 30 1996-97 (tabled 30 April 1997)**  
***Australian National University Administration***  
**Department of Employment, Education, Training and Youth Affairs**

**Background**

The Australian National University (ANU) is unique among Australian universities as it was founded (in 1946) as Australia's only research oriented university with no undergraduate program. Undergraduate teaching was commenced in 1960. The Council has the overall responsibility for the University and under the Council, the Boards for the Institute of Advanced Studies and Faculties guide the operations of Faculties, Research Schools and Research Centres.

Overall administrative support is provided by Central Administration. As well, the Faculties, Research Schools and Centres have administrative support areas that are responsible for activities such as the provision of secretarial services, purchasing and the maintenance of financial records.

**Audit objective**

The objective of the audit was to examine the effectiveness of key elements of the management and control frameworks established by ANU to support administration and the achievement of the ANU's objectives.

The ANAO established key criteria to assess the ANU's administrative procedures during the preliminary phase of the audit. The audit focused on an analysis of the administrative framework and, in particular, aspects of corporate governance that were identified as being central to good management such as transparent planning, control, reporting and performance assessment.

The University is currently reviewing its organisational structure and, therefore, it was not examined during the audit.

**Audit Findings and Conclusion**

The ANU has financial and control frameworks to assist the day-to-day administration of the University's activities, including:

- administrative guidelines that provide directions on a range of significant areas;
- an appropriate three year budget process and comprehensive financial reports to facilitate monitoring of performance against the budget;
- policies and procedures to maintain and manage infrastructure; and
- a sound internal review process.

The ANAO, nevertheless considers that the effectiveness of particular aspects of the administration identified as being central to good management can be improved by:

- revising the guidelines for strategic planning to provide further advice on the individual elements which need to be included in the Plan to ensure each Research School, Faculty and Support Area strategic plan is compatible with the overall University Strategic Plan;
- reviewing strategic plans to ensure consistency with revised guidelines;
- developing guidelines to facilitate operational planning and establish operational plans and processes;
- developing appropriate administrative performance information for the University as a whole, Research Schools, Faculties and Support areas;
- clarifying guidance related to obtaining value-for-money, for example, in relation to the purchase of travel services;
- implementing effective asset management practices, such as whole-of-life asset management plans, that are fully integrated with the strategic plans; and
- seeking open tenders to market test for the provision of consultancy services to the Internal Audit Office.

The ANAO has made nine recommendations aimed at assisting further improvement in the efficiency and effectiveness of the ANU's administration.

### **ANU Response**

The ANU welcomed the Report and considered it timely, arriving as the University re-examines the manner in which it generally manages itself, its existing internal administrative structures and appropriateness to the demands of the day and the processes and practices which surround its functioning.

The University accepted the thrust of the recommendations of the report. However, it framed its response in a cautious manner because administrative structures and responsibilities were being changed to reflect the emerging needs of planning and governance. The ANU indicated that the outcomes of the Government initiated Review of Higher Education (the West Review), could affect dramatically the funding and structure of the University sector of post-secondary education and therefore its administration.

The ANU agreed without reservation to three of the recommendations and agreed in principle with the remaining six.

**Audit Report No. 37 1996-97 (tabled 18 June 1997)**

***Risk Management***

**Australian Taxation Office**

**Department of the Treasury**

**Background**

The Australian Taxation Office (ATO) is the Commonwealth's primary revenue collection agency and is responsible for collecting over 80 percent of total government revenue. It collected close to \$99 billion in 1995-96 and has budgeted to collect about \$106 billion in 1996-97.

In 1986, the ATO introduced a system of taxpayer self assessment. This initiative was designed to help achieve a better balance in compliance strategies. Self assessment is a large scale exercise in risk management which allows the ATO to assign resources freed from assessing taxpayer returns to areas of high compliance risk.

The ATO was among the first agencies in the Australian Public Service to introduce a formal risk management process as part of its strategic planning framework. This process is called the Health of the System Assessment (HOTSAs) and has been undertaken on an annual basis across all ATO Business and Service Lines (BSLs) since 1994-95.

**Audit objective and criteria**

The objective of the audit was to provide assurance about the ATO's risk management approach and to add value to its administration by analysing the economy, efficiency, administrative effectiveness, equity and accountability of the related processes employed within the organisation.

The ANAO reviewed the formal risk management process that the ATO uses to deal with all sources of risk for the organisation, not just the compliance risks associated with self assessment. The audit criteria were based on the Management Advisory Board and Management Improvement Advisory Committee risk management model published in October 1996.

The ANAO adopted a two pronged approach to the audit. This first report examines ATO-wide risk management operations across all BSLs at the corporate level. We did not examine in any detail whether the ATO's risk strategies and treatments were appropriate. A second report, expected to be tabled in the Spring 1997 session of the Parliament, will focus in-depth on the actual implementation of risk management in the Small Business Income Line. The ANAO considers that this approach will maximise the value of the audit activity.

**Overall conclusion**

The ANAO acknowledges the ATO's considerable efforts in introducing formal risk management principles to a large and geographically dispersed organisation. In particular, the ANAO commends the ATO for seeking to address its risks at a strategic

level through the HOTSA and as part of its corporate governance processes. This increasing commitment to risk management principles has the potential to improve significantly the economy, efficiency, and administrative effectiveness of the tax processes together with the ATO's equity and accountability in its handling of the processes.

As a result of the ATO's 1994-95 and 1995-96 HOTSA processes, the level of risk awareness within the organisation has been enhanced and more detailed analysis of identified risks has commenced. However, the ANAO concluded that the potential benefits of introducing a formal risk management system were not fully achieved in the first two HOTSA rounds because adequate processes had not been fully implemented. We recognise that the ideal is unlikely to be achieved in the first attempt at formal risk management in such a large and complex organisation. However, we consider that the adoption of a more structured, formal and systematic approach would assist the ATO to attain the most effective risk management outcomes.

In particular, actions the ATO could undertake to ensure its management of risk is more comprehensive and cost-effective include:

- enhancing the identification and use of appropriate management information;
- improving the consistency and transparency of the risk management process and resulting decisions;
- conducting a more comprehensive and better documented risk identification and assessment of risk;
- adopting a better coordinated and holistic approach to treating high priority risks;
- improving performance information to monitor progress; and
- implementing an effective review function for the entire risk management process.

The ATO is a complex organisation with a wide diversity of taxpayers ranging from individual salary and wage earners to large multi-national corporations. Even small improvements in ATO's efficiency potentially can lead to significant increases in revenue collected and improvement in service delivery. Such diversity, coupled with the complex legislation that the ATO has to administer, means that effective risk management is essential for the organisation's operations to be cost effective.

The ATO needs to build on its recent risk management achievements and to continue its efforts to develop an organisational culture where risk identification and its analysis, prioritisation and treatment are integral elements of management at all levels. This includes setting strategic directions for tax processing. This report specifically recognises that the ATO has made a number of significant improvements in its 1997 HOTSA but recommends further actions which, if implemented effectively, should improve the effectiveness of overall ATO administration.

## **Key Findings**

### ***Risk management information***

The ATO has implemented a range of management information systems. Nevertheless, we consider that the organisation would benefit from enhancing these mechanisms to ensure the cost-effective collection of data that assists in measuring performance against key indicators. The effective use of this information would improve the ATO's ability to:

- identify, prioritise and assess risks;
- identify appropriate risk treatments; and
- monitor and review progress against achievement of risk management objectives and strategies.

#### *Risk management process*

An examination of the ATO's risk management processes for 1994-95 and 1995-96 showed that:

- although these processes included consideration of other risks, they concentrated on compliance risks and as such could not be considered to be comprehensive risk assessment exercises;
- in 1994 the ATO Management Board issued directions for the implementation of the HOTSA process; however, these guidelines were not closely followed. There was also limited documentation of the ATO's processes leading to decisions about its risk management approach. Consistency and transparency suffered as a result;
- the ANAO found that the ATO's flexible approaches to risk management were appropriate;
- the ANAO did not find evidence that the expectations and requirements of the ATO's major stakeholders, such as taxpayers, the Parliament, tax agents, ATO management, staff members and their unions had been specifically taken into consideration at the BSL level;
- proposed treatments of risks identified through the first and second HOTSA rounds were seldom clearly stated; and
- a formal ATO wide end-of-HOTSA evaluation was not undertaken at the completion of either the first or second rounds to review outcomes as possible inputs to future directions.

The ANAO noted that ATO planning for the 1997 HOTSA exercise has reflected action taken at the corporate level which addresses a number of the issues raised during the audit. In particular:

- the guidelines governing the risk management process have been significantly improved;
- a more consistent approach to risk assessment has been adopted at the corporate level;
- the transparency of the process has been enhanced;

- risk identification and assessment at the corporate level has been more comprehensive; and
- considerable emphasis was placed on establishing the ATO context at the corporate level, including the expectations and requirements of major stakeholders.

Other agencies may benefit from the lessons learnt, particularly those reflected in the ATO's latest initiatives.

### **Recommendations and ATO response**

The ANAO made eight recommendations aimed at improving risk management in the ATO. The ATO agreed with all the recommendations.



**Audit Report No. 27 1996-97 (tabled 5 March 1997)**  
***Army Presence in the North***  
**Department of Defence**

**Background**

The Army Presence in the North (APIN) Project resulted from a decision by the former Government in 1987 to increase the Army presence in northern Australia. The Government's aim was to relocate to the north a mobile formation able to conduct protracted and dispersed operations in response to credible low-level contingencies in northern Australia as identified in the 1987 Defence White Paper *Defence of Australia*.

APIN involves the relocation to Darwin of Army's 1st Brigade over the period 1992-2001, including approximately 2285 personnel, 200 armoured fighting vehicles (Leopard tanks, ASLAV light armoured vehicles and M113 Armoured Personnel Carriers) and 500 support vehicles, along with supporting elements. These were formerly based in Holsworthy, New South Wales, and Puckapunyal, Victoria. So far 1st Brigade's Headquarters, its signal squadron, two of its three major combat units, and some supporting elements, representing almost 60% of 1st Brigade personnel, have been relocated to Darwin.

The relocation requires phased construction of purpose-built barracks at Palmerston, 25km east of Darwin, and acquisition and development of training areas sufficient to meet the brigade's manoeuvre training requirements. Total cost of these facilities, which are yet to be completed, is estimated to be \$585 million (excluding cost of land acquisition).

In addition a total of 1025 married quarters, costing \$248 million, will have been bought, built or leased by the Defence Housing Authority (DHA) by the time the project is complete in 2001, when the brigade is to be fully operational in Darwin.

**Audit purpose and scope**

The objective of the audit was to assess the effectiveness and efficiency of Army's management of the move of 1st Brigade to Darwin.

Audit fieldwork was undertaken at HQADE, Northern Command, Army HQ, commands and units, and in consultation with the Northern Territory Government.

The scope of the audit included:

- project planning and management;
- facilities construction;
- movement of units;
- training;
- personnel management and support;

- logistic and administrative support; and
- financial management.

The audit limited the scope of its examination of logistic support aspects of APIN because:

- HQADF is currently reviewing administrative and logistic support in Darwin with a view to rationalisation; and
- base repair of armoured vehicles is currently being considered for contracting out under Defence's Commercial Support Program.

### **Overall conclusion**

The APIN Project is about half way to planned completion in 2001. Units are being relocated in accordance with Army's movement plan. Facilities have been constructed to schedule and within the construction budget. However, there have been overruns in operating costs and shortcomings in planning and coordination of APIN implementation.

There are several key challenges still to be overcome before the 1st Brigade's capability can be fully and cost-effectively achieved. Suitable training facilities have still to be provided and the technical and human limitations of operating the armoured regiment's Leopard tanks in the high temperatures of northern Australia have yet to be overcome. Some important logistic support arrangements are still to be defined and financial aspects of APIN, particularly attribution of funds, should be more tightly managed for greater effectiveness.

The current Government's Restructuring of the Australian Army initiative will affect major areas of APIN and inevitably compete with APIN issues for priority of line management attention. There is a need for Army's future management arrangements for APIN and the Restructuring of the Army initiative to be well-defined and provide more effective coordination of the various activities involved.

### **Key Findings**

#### *Planning*

The ANAO considers that there have been shortcomings in planning for the necessary level of operational capability cost-effectively in Darwin. A project of the size and significance of APIN requires coordination through a more comprehensive and detailed plan than has been the case so far. Limitations in these respects have led to additional costs (eg in training, logistic support arrangements and in operating tanks). The ANAO also found that logistic planning for APIN has been slow to develop.

#### *Financial management*

Army has had difficulty estimating operating costs and attributing expenditure throughout the project. APIN operating costs are higher than Army had expected. In some cases costs have actually increased while, in others, the funding requirement for such costs was previously overlooked.

#### *Training*

The tropical climate and terrain create difficulties for effective armoured training in northern Australia. Existing training areas are insufficient in size or infrastructure to meet 1st Brigade's needs. A squadron of tanks has already had to return to the armoured regiment's previous training area in Victoria to conduct effective training.

Where cost effective, simulation training, using laser devices to simulate tank gunnery, could be developed to enable more efficient programming of training throughout the year, including training during the northern wet season. Such training methods could offer financial and environmental advantages. However, only limited simulation equipment is presently available in Darwin.

#### *Leopard tank performance*

Army has been operating its only regiment of Leopard main battle tanks in Australia for nearly 20 years and has now relocated it to Darwin as part of APIN. But, without any form of cooling in the tanks, the high temperatures in northern Australia can cause inaccuracies in the gun-sighting system and pose a high risk to crew safety from heat-related injury. Modifications to the tanks to attempt to address these risks will not begin until 1997-98, two years after the tanks were relocated to Darwin.

#### *Personnel issues*

The relocation of 1st Brigade to Darwin means that, along with 3rd Brigade in Townsville, both full-time Army brigades will be based in the tropical north. This limits posting opportunities for soldiers in combat units. Personnel issues arising from long-term postings in the tropics have been recognised by Army as a potential risk to APIN in the longer term.

Although some personnel issues have been addressed, Army does not have a strategic personnel management and support plan that provides effective support to the force in northern Australia. Such a plan could provide for the coordinated collection of information on personnel factors. It would also allow coordinated development and implementation of appropriate solutions to possible adverse impacts on morale and retention rates and help identify the subsequent implications for Army recruiting and initial employment training.

### **Recommendations and Defence response**

The ANAO made six recommendations aimed at improving the management of APIN and related forces structure issues. In response to the audit report Army agreed with the ANAO's recommendations. They indicated that the recommendations would assist the process of avoiding a recurrence of the planning and execution difficulties evident in the APIN project during the implementation of the Restructuring of the Army (RTA) initiative

**Audit Report No. 34 1996-97 (tabled 27 May 1997)**  
***Australian Defence Force Health Services***  
**Department of Defence**

**Background**

The primary objectives of ADF health services are to maintain military personnel at required standards of health and fitness and to provide deployable medical services in support of military operations. At the time of audit the ADF had 2576 health services personnel in the Regular forces and 2167 in the active Reserves. The ANAO conservatively estimated the total cost of operating ADF health services to be about \$400m a year. The cost per member is almost three times the Australian average.

In October 1996 a Defence Efficiency Review (DER) was initiated by the Minister for Defence focusing on Defence management and financial practices. The ANAO provided advice to the Review teams and also made the preliminary findings and conclusions from the audit of ADF health services available to Defence in January 1997. The DER report was published in April 1997. Some of the DER recommendations mirror those developed by the ANAO. However, broadly speaking, the thrust of both reviews is similar.

**Audit objective and criteria**

The objective of the audit was to assess the efficiency and administrative effectiveness of the provision of health services to the ADF Regular forces. Audit criteria were developed which examined health services policy and strategic planning, resource management, the tri-Service provision of health care, the planning for major medical facilities, health care management information systems, occupational health and safety and the supply of health materiel.

**Overall conclusion**

The ANAO found that the ADF provides high-quality health services to its members with a strong emphasis on preventive health care. ADF health services have demonstrated the ability to provide effective health support to military operations, in particular through the deployments to Rwanda on behalf of the United Nations.

However, current health service administrative structures are complex and fragmented and lead to inefficiencies and inequities in the provision of health services. The division of responsibility among various Service commands has led to different priorities being adopted for the allocation of resources and to the duplication of services. A more effective management of health services could be achieved if these structures were rationalised and placed under centralised command and control.

The costs associated with ADF health care are high and there is considerable scope for Defence to improve the efficiency and effectiveness of service delivery. Important insights could be obtained through an examination of the significant difference between the costs of ADF and civilian health care.

The audit identified the need for further development of common ADF policy, scope for improvement in corporate planning, underutilisation of health facilities, inadequacies in financial and health information systems and the high cost of ADF workplace injuries and illnesses.

### **Key Findings**

#### *Policy, resourcing and corporate planning*

Defence should establish the essential level of health services required to support deployed operational forces and whether any existing services could be regarded as discretionary in nature and, if so, the extent to which members might be required to contribute towards their cost.

Higher priority should be given to the development and implementation of common ADF policy, standards and processes. There is potential for achieving economies through rationalisation or civilianisation of non-operational services.

The Office of the Surgeon General corporate plan requires updating so that it provides clear guidance for future action and development of meaningful performance indicators.

#### *Organisation and staffing*

There is considerable fragmentation in the ADF health services lines of control. The Surgeon General is responsible for technical control over health services but direct command is spread over six commands in the three Services. Tri-service cooperation has been identified by Defence as a significant problem in the delivery of health services. Current arrangements could be rationalised to achieve better outcomes.

The ADF would benefit by developing coordinated strategies and appropriate service conditions packages to encourage medical officers to join the permanent forces.

#### *Facilities planning and utilisation*

ADF health facilities are generally operating at well below full capacity and hence are not being operated in a cost-effective manner. The situation could be markedly improved by the rationalisation of ADF hospitals and medical centres.

There are clear indications that, if the health services are to be effective in providing operational support, ADF staff need more experience in dealing with trauma cases by working in public hospital casualty areas.

The ANAO considers that an opportunity exists to achieve economies through either the contracting out of a substantial proportion of pathology services or the development of a central ADF reference laboratory. These options should be assessed without further delay.

#### *Financial administration*

Defence does not monitor and control all expenditure on health services. There is very little health services costing information available. As a consequence the ADF cannot

identify the full cost of operating its health services and facilities. Therefore it is unable to make fully informed decisions about the most efficient method of delivering health care.

Current levels of cost recovery of ADF health services provided to the civilian community could be extended. The range of services being provided should be examined to determine the extent to which costs should be recovered.

#### *Health Information Systems*

Current ADF health care information systems are generally inefficient, unresponsive and fail to capture and report the required level of management information. A high priority should be accorded to the development and implementation of effective ADF-wide health information systems.

The Health Systems Redevelopment Project, a system with the potential to solve many of these difficulties, has been under way for some seven years but is still at an early stage of development. Options for accelerating the implementation of an electronic patient record with outpatient, inpatient, dental and financial management sub-systems should be examined as early as possible.

#### *Occupational Health and Safety*

The total cost of injuries to ADF members is not known but was estimated by the ANAO, based on various assumptions, to range from \$210m to \$840m in 1995-96. The ANAO considers that Defence should establish the full costs of ADF workplace injuries and illnesses in order to determine the cost effectiveness of any actions taken.

A large proportion of members discharged on medical grounds are entitled to invalid pensions, and at a very young age. Defence needs to give greater attention to epidemiological research into injuries and illnesses in the ADF and to develop strategies aimed at reducing the level of injuries and illnesses.

#### *Dental Services*

Although the ADF has a higher ratio of dental personnel to dependent population than the Australian community, the ADF is not meeting its own performance requirements for dental fitness levels.

The ANAO estimated the cost of ADF dental services to be over eight times the Australian average. Defence should review ADF dental services, particularly in regard to work practices, the number of dental personnel and the standard of treatment given, with a view to increasing their cost-effectiveness.

#### *Health Materiel*

There is scope for rationalising the wide range of therapeutic substances used by the ADF to ensure that only the most cost-effective items are used.

A review of arrangements for dispensing and issuing pharmaceuticals, including the number of uniformed and civilian pharmacists, would help to ensure that safety and legal requirements are being observed.

### **Recommendations and Defence response**

The ANAO made nineteen recommendations aimed at improving the management of ADF health services. Defence supported the overall thrust of the report and agreed to all but one of the recommendations, noting that this recommendation would require a comprehensive study before a response could be given.

**Audit Report No. 33 1996-97 (tabled 15 May 1997)**  
***The Administration of the Family Court of Australia***  
**Family Court of Australia**  
**Attorney-General's Department**

The primary role of the Family Court of Australia is as a federal court and a Court of Appeal exercising jurisdiction in proceedings for divorce, nullity, division and settlement of property, injunctions, maintenance and residence (previously known generally as custody), contact and specific issues in relation to children (including ex-nuptial children).

The Court currently offers a wide range of services for clients. In addition to the traditional judicial role, the Family Court offers counselling (both voluntary and court ordered) aimed primarily at resolving disputes regarding children, conciliation conferences and, more recently, mediation. The scope and availability of services varies across registries. However, the Court does not offer marriage, reconciliation or financial counselling.

Client services are delivered through registries and sub-registries in 21 locations around Australia, excluding Western Australia which has its own State Family Court. The Court is the largest superior court in Australia. Each year, more than 100 000 adults and more than 150 000 children are affected directly by proceedings in the Court. Many more are affected indirectly.

**Audit background**

Following a recommendation of the Joint Select Committee on Certain Family Law Issues the Attorney-General requested the Auditor-General to undertake an efficiency audit of the Court. In requesting the Auditor-General to undertake the audit, the Attorney-General placed particular emphasis on an examination of the financial position of the Court.

The first stage of the ANAO's response to the Attorney-General's request was the tabling of an audit report in August 1996 titled *Use of Justice Statement Funds and Financial Position - Family Court of Australia*. The audit found that the Court had not fully expended the funds provided by the previous Government under its Justice Statement initiatives for the purposes for which they were provided.

The ANAO also noted in that report that workloads were increasing by two to four percent per year and the Court may face budgetary shortfalls by 1997-98 unless it can identify efficiencies to reduce costs. The ANAO noted that the Court may need to review its priorities, methods and approaches or even consider reducing the number or quality of services it provides. This is essential risk management which requires an assessment of potential effects as well.

The audit report foreshadowed a second audit with the broader objectives of reviewing the efficiency and economy of the non-judicial administrative functions of the Court and



to identify better administrative procedures that could be promulgated throughout the Court. This report contains the results of the second audit.

### **Overall finding**

The audit found that the Court is well focussed on a move towards best practice. In some areas it is meeting its performance targets and, on the basis of available information, compares well with the Family Court of Western Australia and other Australian superior courts of record. Human resource management was found to be generally well administered. However, in the following respects, there has not been commensurate improvement:

- The Court had not laid an adequate groundwork for effective corporate planning by establishing an appropriate planning process or framework. The Court Plan, business plans and the consultative processes could be improved particularly by identifying specific outcomes to be achieved, stating clearly the priorities of the Court, and providing links to other levels of planning. The consequences of an inadequate planning groundwork are reflected in the shortcomings in the content of Court plans. Many other public service agencies and entities are experiencing these and similar difficulties in developing appropriate corporate planning groundwork. The Court has advised the ANAO that it is reviewing the Court Plan, will review business plans and has taken steps to improve Court consultative processes.
- Key objectives and goals of the Court Plan are not linked to performance measures. Performance measures presently used by the Court are limited to throughput or compliance with Case Management Guidelines. There is a lack of quality control mechanisms to ensure the accuracy and completeness of data collected. In many cases, the data collected by the Court is not analysed in any strategic sense to improve the economy and/or efficiency of the Court's operations. Without adequate performance information it is difficult to assess the efficiency of the Court satisfactorily. The Court has commenced a review of its performance information and statistics.
- The Court does not routinely collect and analyse demographic data to determine the likely demand for its services. The ANAO concluded that the Court's resources are not being allocated in a strategic and planned manner based on a rigorous analysis of the areas of greatest demand for services.
- Regional management makes little contribution from an organisational viewpoint to the efficient and effective operation of the Court. The ANAO estimates that the Court could save up to \$600 000 net per year by the abolition of the regional organisational structure. This is in addition to the \$750 000 per year that the Court estimates it will save through changes to the regional organisational structure already made. The Court has engaged Professor Peter Coaldrake to undertake a review of the top management structure of the Court.
- When benchmarked to other Australian superior courts of record and the Family Court of Western Australia, on average the Court compares favourably in terms of timeliness and administration costs per case. However, the ANAO notes the wide variation between different registries in terms of both service delivery and cost.

- The Court does not have an Executive Information System and its management information systems are generally inadequate. The ANAO also found that the Court does not make the best use of existing systems. A review of the Court's Information Technology Strategic Plan with the objective of addressing some of these issues has been completed. As a result a new Information Technology Strategic Plan was approved by the Chief Justice's Consultative Committee in February 1997.

**Recommendations**

The ANAO has made ten recommendations aimed at improving the efficiency, economy and administrative effectiveness of Court administration. The Court accepted all recommendations made by the ANAO.

**Audit Report No. 40 1996-97 (tabled 26 June 1997)**  
**Human Resource Management**  
**Department of Foreign Affairs and Trade**

**Audit background**

Given the strategic importance of human resource management (HRM) in the changing APS environment, the ANAO decided to examine existing practices in one agency. In choosing the Department of Foreign Affairs and Trade (DFAT), the ANAO took into account that DFAT has both policy advising and service delivery roles as part of its core business, has a diverse workforce, and carries out a range of functions across a global network. The intent was to identify key features of good HRM which could position DFAT (and other APS agencies) to maximise the opportunities that will be available, when the foreshadowed changes to the public service legislation take effect. These changes aim to provide for a less prescriptive approach to public administration while enhancing public accountability.

**Audit objective**

The ANAO's audit aims were to:

- examine the efficiency and effectiveness of DFAT's HR management; and
- identify good practice, which could position the Department, and other APS agencies, to maximise opportunities afforded by the Government's emerging public sector reform agenda.

In so doing the audit addressed a range of issues including the effectiveness of HR planning and forecasting, staff selection and deployment, performance management, and the fostering of relevant skills and knowledge. Criteria addressing these issues were developed based upon recognised international better practice, including relevant benchmarking and the Public Service and Merit Protection Commission's document, *A framework for human resource management in the Australian Public Service*.

**Key Findings**

The audit found evidence of good practices in DFAT's human resource management, particularly in some overseas posts. As well, the Department generally complied with legislative requirements that were current when the audit was conducted, although we found weaknesses in the exercise of delegated powers. The audit also found that DFAT did not have an HR strategic plan, or a plan for human resource development that directly linked strategies and action to corporate objectives. In our view, and consistent with best practice advice from the Advisory Panel for this audit, these are critical to effective support of DFAT's core business activities and their outcomes, and should be accompanied by a systematic approach to evaluation of programs.

Because of the absence of a sufficiently strategic approach to HR, we found that there were a number of operational deficiencies in DFAT's HR management practices. The audit also found that the effectiveness of DFAT's HR management was variable:

delineation, and line management understanding, of human resource management responsibilities and powers were generally inadequate; and support from specialist HR areas for line managers could be improved. There was an apparent staff perception that line management support for policies such as equal employment opportunity and elimination of workplace harassment is limited and compulsory departmental performance appraisal schemes have low levels of compliance and therefore commitment. These findings suggest that DFAT needs to put more emphasis, in personal development activities and in HR operations, on the requirement for managers to manage resources in accordance with better HR practices to deliver better policy outcomes.

The audit also found that DFAT's HRM generally tended to be ad hoc, process-driven, rules-bound, and not well integrated into strategic planning processes. In these respects, DFAT is fairly typical of APS agencies surveyed in 1995 for the MAB/MIAC report, *Achieving cost effective personnel services*. Commonly used HR indicators also suggest room for improvement in selected practices. DFAT has recognised this general situation. During the course of the audit some 15 working parties and two task forces were established to examine various aspects of HR management. In addition, a HR Planning Unit was formed in April 1997.

Emerging personnel management reform gives emphasis to developing greater flexibility and accountability in work practices and, in addition, identifies the need to learn from private sector best practice. As the benchmarking studies used in this audit revealed, and the expert Advisory Panel confirmed, human resource management in the private sector has itself undergone a fairly radical transformation in recent years, in response to the need to support business in an environment of increasing change. This process is continuing.

The major challenge for DFAT, and other APS agencies, is to position themselves better in relation to observed best practice in a constantly changing environment.

Observed good practice suggests that:

- HRM policies and practices need to be flexible, adaptive, innovative, and responsive to emerging circumstances as well as being totally focused on achievement of core business objectives; and
- consequently, the HR function should be characterised by a proactive and dynamic approach and move from its traditional focus on transaction processing to operating more as a strategic partner with other core business areas while still observing due process and fair and ethical behaviour.

### **Audit conclusion**

The ANAO concluded that:

- i. there is considerable scope for improvement in all areas of DFAT's HR planning to ensure the cost-effectiveness of staffing deployment policies against longer-term strategic requirements;

- ii. DFAT's staffing practices accord with legislative provisions in most major areas examined, but the effectiveness of outcomes of these practices could be improved;
- iii. DFAT has in place some diagnostic tools for performance management, but there is strong evidence of most systems being ineffective; and
- iv. DFAT's human resource development (HRD) outcomes are weakened both by the lack of a clearly articulated framework linking HRD objectives with core business objectives, and by putting an emphasis on training, rather than on broader personal development.

DFAT introduced a number of initiatives during the course of this audit which could be shaped to produce these outcomes. Incorporating the findings and recommendations from this report into those processes should contribute to the achievement of the required outcomes.

#### **Agency response**

The audit report has made 13 recommendations, all of which are accepted by DFAT.

**Audit Report No. 31 1996-97 (tabled 14 May 1997)**  
***Medifraud and Inappropriate Practice***  
**Health Insurance Commission**  
**Department of Health and Family Services**

**Background**

The Health Insurance Commission (HIC) is responsible for the administration of the Medicare Benefits Scheme and the Pharmaceutical Benefits Scheme. The Commission's responsibilities include addressing fraud and inappropriate practice against both Schemes.

Benefits paid through the Schemes in 1995-96 were:

Medicare	\$6038 million
Pharmaceutical Benefits	\$2362 million

The ANAO conducted the audit because:

- these very significant sums carried with them the possibility of some fraud and overservicing; and
- it was timely to follow up earlier ANAO reports on the HIC's operations, given new legislation and changes in the organisation.

**Audit purpose**

The ANAO's purpose was to report to Parliament on:

- HIC's management of approaches to minimise medifraud and inappropriate practice;
- HIC's reporting of its performance on these matters to stakeholders;
- the methodology used by the HIC to estimate the extent of fraud and inappropriate practice, including comment on the reliability of the estimates; and
- the HIC's implementation of the major recommendations from *Medifraud and Excessive Servicing* - Audit Report No.17 1992-93.

The audit was limited to the HIC's activities. Prosecutions for fraud are undertaken by the Director of Public Prosecutions (DPP), while disciplinary action against practitioners for inappropriate practice is undertaken through the Professional Services Review Scheme. This audit did not cover the activities of the DPP or of the Professional Services Review Scheme.

**Audit conclusion**

The ANAO concluded that:

- the HIC had adopted a sound risk management approach to managing leakage through fraud and inappropriate practice from the Medicare and Pharmaceutical Benefits Schemes. Its approach, which emphasised the importance of preventative

action, is being amended to bring it into accord with the Commonwealth Law Enforcement Board (CLEB) guidelines for the management of fraud against the Commonwealth;

- the measures the Commission used to report to external stakeholders on management of fraud and inappropriate practice could be improved. These improvements include additional performance indicators, release of more useful information on results of Purpose Based Audits, and publication of estimates of fraud and inappropriate practice;
- while the Commission had followed advice from the Australian Bureau of Statistics in developing and using data from Source Based Audits, it was unable to produce a reliable estimate - at an acceptable cost - of leakage through fraud. The Commission intends to re-examine the possibility of producing an estimate once three years of data from Source Based Audits are available. The Commission had not produced estimates of wastage through inappropriate practice; and
- the Commission had implemented all major recommendations from Audit Report No.17 1992-93, *Medifraud and Excessive Servicing*.

### **Other key findings**

The concerns expressed in Report No.17 1992-93 of a lack of disciplinary action against practitioners suspected of overservicing no longer apply.

Privacy provisions in the relevant health legislation may need clarification to staff.

The ANAO has prepared indicative estimates which suggest that leakage through fraud, combined with the extent of inappropriate practice, is around 1.3 to 2.3 per cent of payments from the Medicare and Pharmaceutical Benefits Schemes. In financial terms, this translates to about \$110 million to \$190 million. The figures are preliminary pending the preparation of firmer estimates by the HIC.

It appears that the Commission's objective of reducing inappropriate practice by 10 per cent by the year 2000 may not be met, as the HIC inappropriate practice key performance objective has been growing at approximately 8.6 per cent per year in recent years. The Commission, in responding to a draft of this report, commented that it was confident that it could deal with the challenge of inappropriate practice and move to meeting its target by June 2000.

In 1995-96 the Commission reported that \$1.1 million in Medicare and Pharmaceutical Benefits paid incorrectly was recovered.

Expenditure by the Commission on Professional Review Division's activities for 1995-96 was \$13 million. The magnitude of the problems the Commission confronts with respect to medifraud and inappropriate practice will continue to require strong, well directed and concerted efforts for some time to come.

### **Recommendations**

The Commission responded to these findings by indicating that the audit had been a particularly useful exercise and it accepted all of the ANAO recommendations.



**Audit Report No. 28 1996-97 (tabled 6 March 1997)**  
***Use of Private Hospitals Follow - Up Audit***  
**Department of Veterans Affairs**

**Background**

Under the terms of Part V of the *Veterans' Entitlement Act 1986* the Repatriation Commission provides for medical treatment to veterans and other eligible people in respect of incapacity due to war service and other specified circumstances.

Approval for admission to a private hospital for treatment is provided for under the Treatment Principles and the Repatriation Private Patient Scheme approved by the Repatriation Commission.

**1993-94 ANAO Audit**

The major findings reported in the Auditor-General's Report No.28 1993-94 were:

- a more commercial and rigorous approach to contract negotiations would result in savings of approximately \$4 million over time;
- a more consistent negotiating framework for negotiating contracts with private hospitals was required;
- the systems of contract administration and invoice processing were not effective and placed the Department and the Commonwealth at financial risk. Overpayments of up to \$3 million were possible;
- prior approval for admission to private hospitals required strengthening; and
- systems could be developed to improve assurance that a high quality of care had been provided to all veterans.

**Purpose of the Follow-up Audit**

This follow-up audit examined the actions taken by the Department of Veterans' Affairs to address the ANAO's recommendations made in Audit Report No.28 1993-94 regarding the use of private hospitals on behalf of the Repatriation Commission.

**Overall conclusion**

The ANAO found that changes since the original audit have assisted with improving the performance of the program. These include:

- national implementation of the Repatriation Private Patient Scheme;
- changed arrangements for the planning and management within the Department;
- development of the Hospital Service Deed which introduces a measure of consistency in administration across the private hospital framework;

- introduction of better arrangements for transition to the community following discharge from hospital;
- development of the Hospital Claims Validation System to ensure that accounts received from contracted hospitals are paid in accordance with their contracts;
- further research conducted on performance information;
- approvals for admission prior to, or on the actual date of, admission to private hospitals have improved.

Overall of the 28 agreed recommendations from the original audit:

- 15 recommendations were implemented;
- 12 recommendations were partially implemented and required further work; and
- one recommendation has been overtaken by events and no further action is required.

The partial implementation of the original recommendations and Departmental reforms resulted in efficiencies estimated at some \$7 million per annum. As the remainder of the recommendations are fully implemented and casemix classifications are improved, the ANAO considers the Department will continue to achieve a higher quality and more cost effective outcome in terms of private hospital rates negotiated and a more robust payments process.

## **The Key Follow-up Audit Findings**

### *Program management*

Since the original audit, administration of contracts has significantly improved through the development of the standard Hospital Services Deed (HSD) nationally for all private hospitals.

Devolution of particular responsibilities to the States has increased the need for broad strategic direction for hospital treatments to be enhanced by National Office.

### *Contract negotiation*

Although some State Offices have developed a more commercial and rigorous approach to contract negotiations since 1993-94, there is still scope for improvements in this area through a more consistent approach, and promulgation and adoption of better practice.

### *Payments and quality assurance*

While the introduction of HCVS has the potential to improve the reliability of payments processed through it, the Department should develop a risk management policy, particularly in light of accounts processing being undertaken by the Health Insurance Commission from 1 July 1997.

### *Quality of care*

The Department has recognised that it is unable to meet its aim of only using accredited hospitals due to smaller and remote hospitals not having the means of attaining ACHS accreditation. However the Department is still aiming to increase the proportion of veterans receiving care in accredited hospitals.

The collection and monitoring of statistics from non-accredited hospitals on the quality of clinical care could be improved in some States.

### **Department Response**

The Department is generally pleased with the outcome of three years of work to achieve substantial reforms in the program. This has included the implementation of the Repatriation Private Patient Scheme, the development of a standard contract to aid with negotiations with private hospitals, improvements in veteran discharge arrangements and the development of a system to more efficiently and accurately validate hospital payments. The Department has agreed to implement the further ANAO recommendations in this Follow-up audit.

**Audit Report No. 29 1996-97 (tabled 26 March 1997)**  
***Management of Corporate Sponsorship - Preliminary Study***  
**Across-portfolio**

**Background**

The preliminary study found different levels of expertise and effectiveness in managing corporate sponsorship across the seven agencies reviewed, which largely reflected the extent to which each was involved in corporate sponsorship. Most corporate sponsorship arrangements examined in the study were relatively small in financial terms. The Australian National Audit Office (ANAO) found that there was scope for improvement in a range of areas across the different agencies. All of the agencies reviewed expressed a commitment to strengthen the management framework for corporate sponsorship within their agencies.

A number of the areas where improvements can be made are discussed in Part Two of this report, including:

- sponsorship policies and guidelines;
- codes of conduct;
- minimising the potential for sponsors to influence agency activities;
- contracts and the need to obtain Ministerial approval;
- costs associated with sponsorship;
- reporting of in-kind sponsorship; and
- the use of evaluation and performance indicators.

The preliminary study findings did not warrant proceeding to a full performance audit. However, because corporate sponsorship is likely to be a growing area of importance for the Commonwealth, the ANAO concluded that there was value in producing, from the findings of the preliminary study, a better practice guide in addition to the audit report. This the ANAO did in cooperation with the agencies audited and other organisations outside the Commonwealth. The guide is presented as an appendix to this report, and is designed to assist Commonwealth agencies to manage their corporate sponsorship arrangements better. It will also be published separately for ease of reference and will be available on the Internet.

**Audit Report No. 32 1996-97 (tabled 15 May 1997)**  
*Administration of Grants in the Australian Public Service*  
**Across-portfolio**

**Background**

The ANAO considers that the administration of grants to individuals and community organisations requires sound risk management approaches because:

- although the amount of money distributed through grants is relatively small for most agencies, in aggregate the sums involved are significant (in excess of \$1 billion);
- the grant money is given to individuals or organisations that are not directly accountable to the Government or the taxpayer for their activities;
- the imprecise nature of many of the grant programs' objectives often makes it difficult to assess the overall effectiveness of programs in any measurable way or to determine if they are targeting priority areas as well as achieving value for money; and
- the administration of grants within departments and agencies can be a relatively small component of program administration in many instances. As a result, the resource intensive activities involved in monitoring and review may receive relatively little attention. For example, emphasis may be placed on distributing grant money (in order to get the program up and running) rather than on ensuring that the money is spent according to the conditions of the grant or, more particularly, whether programs are achieving their stated objectives.

**Audit objectives, scope and methodology**

The objectives of the audit were to:

- examine the efficiency and administrative effectiveness of grant programs administered in the APS; and
- identify any specific problem areas and evidence of better practice in both program administration and agency guidelines not already included in the *Best Practice Guide for the Administration of Grants* which was first published by the ANAO in 1994 .

As part of this audit, the ANAO also undertook the revision of the *Best Practice Guide*. Significant revisions to the Guide include additional information on performance information, risk management, evaluation and legal aspects of funding arrangements.

The scope of this audit and the revised better practice guide covers grants of public funds made by Government departments and agencies either within Australia or overseas, to achieve objectives consistent with government policy. Examples of these would include various current and capital grants to non-profit community organisations, non-government organisations or individuals.

The methodology adopted was to review both ANAO audits and agency internal audits and evaluations of grant programs undertaken in the last two years. A total of 18 reviews covering 24 programs were included.

## Conclusions

There continues to be scope for improvement in the administration of grants. In the ANAO's view, a more consistent application of the principles contained in the revised better practice guide could assist in improving performance. Better planning and more effective monitoring and review of grant programs are key areas for improvement.

The ANAO considers that the reviews undertaken by agency audit and evaluation units are an important component of the overall review and evaluation process. The ANAO has noted that audit findings identified in agency audit reports have been accepted by the relevant agency management. Recommendations have either been implemented or will be implemented where they remain relevant to the current program arrangements as some programs are being restructured. This underlines the importance of the review process and demonstrates that departmental audits and evaluations are an effective means of improving administrative efficiency and effectiveness.

## Key Findings

### *Planning*

Effective planning is essential for an economic, efficient and effective grant program. In ANAO's view, many of the problems identified in this audit flow from poor planning. The following planning shortcomings were identified:

- almost 50% of the grant programs examined either did not clearly define objectives in terms of expected outcomes or failed to adequately document them;
- almost 70% of the programs examined did not have adequate program guidelines and were exposed to the risks of inconsistency and inefficiency in administrative process and grants not targeting priority areas;
- three-quarters of the programs examined did not address the need for performance measurement and evaluation during the planning process;
- of the 24 programs examined, one program was identified as having a high ratio of administrative costs to grant expenditure. However, 10 programs had not quantified or reported administrative costs to senior management. In the remaining 13 programs, administrative costs were not addressed as an issue; and
- only four reviews (22%) covering 11 programs addressed the assessment of risks associated with grant programs.

### *Operation*

The establishment and continued operation of a grant program include the central functions of establishing and promoting the program, processing and appraising applications and offering grants to successful applicants. The ANAO found that:

- programs were generally well promoted. Potential applicants are provided with comprehensive information about the program, its objectives, eligibility criteria and assessment process;

- 50% of grant programs had efficient appraisal procedures for decision making purposes. Varying procedural deficiencies were noted in the remaining 12 programs; and
- almost one-third of the programs examined had either no formal agreement or inadequate terms and conditions for some grants. The ANAO observed that agencies responsible for administering these grants had no legally enforceable agreements. As well, and partly as a consequence, they were unable to ensure that funding assistance was being used appropriately and the Commonwealth's interest was adequately protected.

### *Monitoring*

Effective monitoring is an essential element of program management. By assessing the extent to which conditions may not have been satisfied it provides assurance that conditions attached to grant offers have been met and indicates how effective individual grants have been. The ANAO found that the majority of grant programs were not monitored effectively, in particular:

- only one program (4% of all programs reviewed) was reported as monitoring grants effectively (by reference to milestones or the use of financial or performance information), and meeting financial accountability requirements;
- four programs (17%) noted instances where funds were paid in advance of cash flow needs contrary to Commonwealth cash management guidelines;
- financial and project progress reporting was ineffective in the majority of programs because reports were untimely, incomplete, not in accordance with the terms of the agreement, not analysed or not followed up; and
- six programs (25%) identified instances where grants had not been properly acquitted. These program managers were unable to validate the financial activities of grant recipients in relation to the grants received or ensure that funds had been used as agreed.

### *Review and Evaluation*

Most reviews noted that program managers could not measure the achievement of program objectives due to shortcomings in the collection and analysis of performance information. Where adequate performance information existed, it was not always used effectively for planning and decision making. Prior to the reviews, 21% of programs examined had never been evaluated. Some of these programs had been in operation for many years.

### **Recommendations and Agencies' Responses**

All agencies that chose to comment on the draft report either agreed or agreed in principle with the report's three recommendations.

**Audit Report No. 36 1996-97 (tabled 5 June 1997)**  
***Commonwealth Natural Resource Management and Environment Programs -***  
***Australia's Land, Water and Vegetation Resources***  
**Across-portfolio**

**Background**

The National Landcare Program (NLP) administered by the Department of Primary Industries and Energy (DPIE) and related vegetation and water monitoring programs (ie Save the Bush, One Billion Trees, National Corridors of Green, River Murray Corridor of Green, Grasslands Ecology and Waterwatch) administered by Environment Australia form key components of the Commonwealth's natural resource management and environmental strategies.

The program elements examined as part of the audit have involved Commonwealth expenditure of around \$400 million over the four years from 1993-94. They will form important components of the Government's \$1.25 billion expenditure over the six financial years from 1996-97 under the Natural Heritage Trust (NHT). The NHT aims to encourage 'a more rapid and effective shift to ecological sustainability in Australia'.

**The Purpose of the Audit**

The purpose of the audit was to examine and benchmark the administrative processes established for the above programs. By providing a comprehensive analysis of the lessons learned from the purchaser/provider arrangements in DPIE and Environment Australia, it is hoped to assist in the development and implementation of the NHT for more cost effective outcomes.

**Conclusions**

The ANAO recognises the evolutionary nature of Commonwealth natural resource management and environment programs and that it will take many years to redress environmental damage to any appreciable degree. Environmental outcomes can be difficult to measure because of the long lead times involved. Nevertheless, the ANAO considers that progress towards achieving ultimate program outcomes can and should be measured to the maximum extent possible. DPIE and Environment Australia have measured some outputs such as the number of landcare groups, the level of community awareness of programs and the amount of fencing to protect vegetation. However, after some five years since the then Prime Minister's Statement on the Environment and nearly eight years into the Decade of Landcare, the Commonwealth is still unable to indicate in any detail the outcomes that have been achieved from any of the programs examined. The ANAO considers that DPIE and Environment Australia have the scope and capability to make significant improvements to the performance and financial accountability of Commonwealth programs audited.

The ANAO recognises that a balance has to be struck between the need for administrative controls and the desirability of conferring on service delivery agencies some flexibility in the management of program inputs. This balance can be largely



achieved through the systematic management of risks. However, at the present time, there is a high concentration of Commonwealth resources devoted to input controls for project development in programs such as the NLP, the One Billion Trees and Save the Bush programs. This tends to result in unnecessary overlap between the role of the Commonwealth and that of the States and Territories. It also leaves few resources free for essential program level monitoring, evaluation and reporting at the national level.

The ANAO accepts that DPIE and Environment Australia are constrained by poor baseline information on the current condition of the environment which makes determining needs and national priorities all the more difficult. In this regard, the ANAO notes that the timely production of National Land and Water Audit outcomes will be critical for the appropriate targeting of NHT funds.

The ANAO also acknowledges the important contribution made by DPIE in developing the NLP Partnership Agreements and associated administrative processes. The ANAO notes that the partnership approach has been adopted by the Government for the NHT. However, any delays in finalising the NHT partnership agreements will inhibit the Commonwealth in its ability to assess NHT program performance.

## **Key Findings**

### *Performance Accountability*

The key performance accountability findings from the audit were:

- program objectives are generally too broad and, where they have been made specific, they have not been reported against. This makes it difficult to determine the extent to which programs are achieving their intended outcomes;
- while improvements have been made to better define the purchaser/provider relationship between the Commonwealth and the States/Territories and non-government service delivery agencies, the challenge for the Commonwealth will be to maintain a clear and committed focus on outcomes at the strategic level for the NHT;
- performance information is not adequate for program managers in DPIE or Environment Australia to determine the quality or the nature of the outcomes being achieved;
- in the absence of a rigorous needs assessment process, programs can not consistently target Commonwealth resources to the highest priority needs;
- program administration tends to be overly input-focused and the linkages between project outputs and the achievement of program outcomes is often unclear. With an appropriate risk management strategy in place, the Commonwealth could reduce overlap and take greater advantage of the administrative savings offered through the One Stop Shop process administered by the States and Territories;
- while major improvements have been made to the client focus of programs, further improvements could be made to streamline the project approval process and reduce apparent confusion amongst client groups; and
- monitoring, review and performance reporting has not been adequate to manage potential risks. DPIE documentation indicates that more than half of all project

reports are overdue although this may be attributable to inadequate record keeping in the case of DPIE.

#### *Financial Accountability*

The key financial accountability findings from the audit were:

- for the NLP, the majority of grant acquittals do not technically meet legislative requirements. 62.2 per cent of grants, valued at \$151.3 million, had not been acquitted. In relation to the One Billion Trees and Save the Bush community grants sub-programs, 74.2 per cent of grants valued at \$5.7 million had not been acquitted. Consequently, the Commonwealth can not be assured that taxpayers funds allocated to grant recipients have been spent for their intended purposes;
- incentives and sanctions to encourage compliance with conditions in the contracts are rarely applied by DPIE or Environment Australia. While recognising that care needs to be taken in their application, improvements can be made through linking payments directly to actual performance against specified milestones in contracts;
- there is scope for improving cash management practices. For example, the ANAO calculates that the Commonwealth could save \$9.9 million over the life of the NHT just by moving to quarterly payments;
- competitive tendering is one way that DPIE and Environment Australia can reduce administrative costs. However, a balance needs to be struck between the costs involved and the benefits to be obtained;
- while DPIE and Environment Australia have sound fraud control mechanisms, there are potentially significant risks from cost-shifting that will need to be carefully managed in the implementation of the NHT; and
- at the current rate of progress it could take up to 18 months to finalise the NHT partnership agreements. As a result, the Commonwealth will not be able to adequately assess NHT program performance in 1997-98 and possibly in 1998-99. Every effort should be made to ensure that agreements are in place before payments are made.

#### **Recommendations**

The report makes fourteen recommendations aimed at improving the administration of programs in DPIE and Environment Australia. The key recommendations relate to:

- improving the quality and utility of operational objectives and performance information;
- strengthening the needs assessment process through accelerating efforts to complete the National Land and Water Audit, benchmarking performance and facilitating better practice in regional program assessment;
- developing a more strategic focus on achieving outcomes;
- enhancing the client focus of programs through risk management processes aimed at reducing the length of time for project approvals; the progressive allocation of discretionary block grants to regional catchment committees; and considering the

merits of funding larger, high priority catchment level projects over 2-3 year time horizons;

- maintaining a more pro-active focus on monitoring, review and reporting aspects of performance and financial administration;
- strengthening incentives and sanctions as well as cash management practices within agreements to link progressive payments directly with actual performance;
- considering the greater application of competitive tendering processes to reduce administrative costs and other mechanisms to better manage financial risks for the Commonwealth; and
- finalising contracts under the NHT as a priority to ensure efficient and effective program delivery.

### **Agency Responses**

DPIE and Environment Australia generally agree with the recommendations. The ANAO notes the positive attitude and approach taken by officials from DPIE and Environment Australia throughout the course of the audit. Many of the suggestions raised by the ANAO in the discussions with agencies have already been incorporated with the draft design of the proposed NHT Partnership Agreements.

## **4. FINANCIAL CONTROL AND ADMINISTRATION AUDITS**

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In order to meet the changing needs of its clients ANAO has, in recent years, broadened the range of its audit products. Two new types of audits, Financial Control and Administration (FCA) audits and Assurance and Control Assessment (ACA) audits, have been added to our traditional range of financial statement and performance audits.

### **Financial Control and Administration Audits**

FCA audits were introduced by the ANAO in 1996 as part of a strategy to satisfy client expectations in relation to the types of audits undertaken and to contribute further to our mission of adding value to public sector administration.

The results of each FCA audit are reported separately. Each report is complemented by a companion handbook which is part of the better practice guidance series published by the ANAO.

### **Audits Reported in the Period 1 January to 30 June 1997**

*Audit Report No 39 1996-97 Audit Committees*

This was the third Financial Control and Administration Audit Report . It dealt with the role and responsibilities of audit committees in all Commonwealth public sector entities including departments and similar agencies, and commercial and non-commercial statutory authorities.

The audit took account of the requirements of the proposed new financial management legislation. The major objective was to form an opinion on the extent to which entities already comply with the requirements of the proposed legislation; or alternatively, to gauge the extent and nature of change required by entities to achieve compliance.

As with all FCA audits the other objective was to identify and/or develop better practice. The intention being that entities will be able to utilise this information when reviewing the establishment and use of their audit committees.

#### **Audit Result**

Based on the results of the survey and the subsequent review it was concluded that:

- the majority of Commonwealth entities are reasonably well placed to meet the proposed new legislative requirements relating to the establishment and operation of audit committees;
- a minority of audit committees are considered to be operating at or near better practice; and

- the general lack of 'external' representatives on audit committees in departments and similar entities, while appropriate in the context of their accountability frameworks, limits the potential effectiveness of these committees.

#### *Recommendations*

The following overall recommendations were made:

- all Commonwealth entities use the introduction of the financial management legislation as an opportunity to formally review the role and operation of their audit committees;
- the better practice model contained in the report be used as the basis for any review of the audit committees; and
- entities that operate without an external Board consider the extent to which their audit committee should have independent membership. The chief executive should review the powers and functions of the committee in light of these considerations.

#### **Audits in Progress**

The following audits were in progress at 30 June and are expected to be completed and reported before 31 December 1997.

The audit objectives, scope and focus of each audit are outlined below.

#### *Accounts Receivable Management*

The overall objective of this audit is to assess the management and administration of the accounts receivable function and to publish a consolidated better practice guide for use by all public sector agencies.

#### *Internet Security*

The objectives of this audit are to provide assurance to the Parliament on the effectiveness of security procedures over use of the Internet in the public sector; and provide detailed guidance to agencies to assist them in either establishing an Internet connection or reviewing current practices and procedures surrounding use of the Internet.

#### *APS Travel Arrangements*

This audit deals with the management and administration of travel undertaken by public servants on official business. The audit covers both domestic and international travel and all significant expenditure associated with travel including direct costs in relation to transport, allowances and indirect processing costs.

The objective of the audit is to form an opinion on the extent of compliance with Commonwealth and agency travel policy and procedures and to determine the extent to which these policies and procedures accord with better practice.

Particular attention will be given to the adequacy and effectiveness of travel policies, the existence and usefulness of travel management information, the effectiveness of controls over travel expenditure and steps taken to minimise the overall cost of travel in each agency.

### ***Protective Security***

The objective of the audit is to assess the management and administration of protective security across Commonwealth agencies and to identify, develop and report better practice in security management. Particular attention is being given to:

- the role of management in protective security, and
- the operation of security systems and practices.

The audit does not include computer security and communications security, as they are specialist subjects that will be subject to separate independent audit coverage.

### **Assurance and Control Assessment Audits**

In 1996-97 the ANAO introduced another new product called Assurance and Control Assessment audits. These audits complement the existing suite of audit products and examine activities which, while not often material in many agencies when considered separately, represent a significant element of public sector expenditure when taken as a whole.

The objectives of ACA audits are to provide the Parliament and agencies with positive assurance about the operation of key controls across the various activities.

As 1996-97 is the first year in which the ACA audits have been programmed, they were in progress in a number of agencies at the time of this report. The 1996-97 coverage has included employee attendance and leave records, control over accountable forms, pay system output controls, employee commencements and termination payments, receipting and banking controls, and expenditure authorisation and certification.

## 5. FINANCIAL STATEMENTS

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The Auditor-General is required by the *Audit Act 1901* and other legislation to audit and report on the financial statements of Commonwealth entities, which include departments, statutory authorities, companies and other reporting entities such as trusts and joint ventures.

The results of the financial statements audit are reported progressively to management during the audit with a report on the overall results being provided to the Minister, Board of Directors or equivalent at the conclusion of the audit. The financial statements audit is publicly reported at the conclusion of the audit in two ways. The primary reporting medium is the audit report on the financial statements which is included in the entity's annual report. The other medium is the Auditor-General's report to Parliament on the Results of the Financial Statements Audits of Commonwealth Entities.

Audit Report No. 19 of 1996-97 "Results of the 1995-96 Financial Statement Audits of Commonwealth Entities" provided details of the audit results including any matters of significance requiring attention identified during the 1995-96 audits.

### **Results of 1995-96 financial statement audits not previously reported**

The above mentioned Audit Report No. 19 of 1996-97 which was tabled in early December 1996 covered those entities which had presented their signed 1995-96 financial statements for audit by 29 November 1996. A total of 20 entities out of 362 did not submit their 1995-96 financial statements for audit by the end of November. These financial statements included the Aggregate Financial Statements prepared by the Minister for Finance and a number of small subsidiary companies of statutory authorities. The audits on all these financial statements have now been completed and the audit reports were unqualified.

### **Whole of Government Financial Statements**

In May 1997 the Minister for Finance announced that the Government will implement an accrual financial management framework which will result in a significant improvement in the way the Commonwealth budgets and manages its finances. The accrual framework when implemented will include amongst other things audited consolidated financial statements of the Commonwealth from 1996-97.

The ANAO is a firm supporter of whole of government reporting. However, we recognise that its implementation needs to be managed carefully. We see little benefit in adopting such reporting if the Commonwealth is unable to cope with the associated reporting requirements. With this in mind, we have attempted to ensure that the timing of the introduction of the reporting takes account of our knowledge of the current reporting capabilities within the Commonwealth.

In line with recommendations of the JCPA, the Department of Finance and the ANAO prepared a trial set of financial statements based on 1994-95 financial information of Commonwealth entities. The emphasis of the trial was on determining an appropriate form for the financial statements and identifying the best means to obtain the information required for the financial statements from the 200 or so entities to be covered within the Commonwealth. Our objective in participating in this trial and a review of a trial whole of government accrual based financial statement for the year ended 30 June 1996 was to assist in the identification of issues which require resolution prior to the preparation of audited financial statements for the year ended 30 June 1997.

The review of the 1995-96 trial statements raised a number of issues which are currently being addressed by Finance.

### ***AMODEL Financial Statements***

AMODEL Financial Statements is a series of Better Practice Guides prepared by the ANAO to assist Commonwealth entities in the preparation of their financial statements. The Guides provide an illustrative set of financial statements based on the disclosure requirements of the Minister for Finance Guidelines for Financial Statements of Commonwealth Departments and Commonwealth Authorities.

In May 1997 the ANAO commenced a revision of the AMODEL Guides for the financial statements of departments and non-commercial authorities to reflect changes incorporated in the new Guidelines recently issued by the Minister for Finance.

### **Financial Reporting Bulletins and Client Seminars**

The Financial Reporting Bulletin is an ANAO technical publication for Chief Finance Officers and staff of Commonwealth entities. The Bulletin provides a quarterly update on current accounting and auditing developments and is supplemented with client seminars which assist in meeting changing financial accountability and reporting requirements on financial statement clients.

The first Financial Reporting Bulletin was issued in January 1997 and followed up by client seminars in Canberra, Sydney and Melbourne during April and May at which approximately 270 participants attended. Topics covered at the seminars included accounting for non-current assets, asset valuation, employee entitlements, Whole of Government issues, quality assurance processes in financial statement preparation and the new Audit Legislation.

The second Financial Bulletin was issued in May 1997 and seminars are currently being planned for late July. The seminars will deal mainly with the changes to the Minister for Finance Guidelines for *Financial Statements of Commonwealth Departments* and Minister for Finance Guidelines for *Financial Statements of Commonwealth Authorities* and their implementation. Other changes to Accounting Standards and Urgent Issue Group Consensus Views will also be discussed.



## **Technology Implementation Project**

In June 1995 the ANAO embarked on a project under which a range of technology products would be developed to meet public sector auditing requirements. The ANAO considered this initiative would significantly enhance planning and execution of financial statement audits by fully integrating information technology into all phases of the audit process.

In April 1997 the technology product Planet for Public Sector ("Planet PS") was nominated for the annual Institute of Chartered Accountants in Australia Information Technology awards. Planet PS was developed by the ANAO in conjunction with Price Waterhouse and fully automates the audit planning process from risk assessment to procedure selection to satisfy identified risks.

Planet PS received a highly commended award from the Institute's judging panel and demonstrates the ANAO's commitment to harnessing the benefits of technology in positioning it as a leader in public sector auditing and best practice in financial statement audit methodologies.

Canberra ACT  
xx XXXXXXXXXXXX 1997

P. J. Barrett  
Auditor-General

## **Appendixes**



## **Appendix 1**

### **Reports and other audit related products**

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**Page No.**

Audit Report No.26 Performance Audit  
Community Development Employment Projects Scheme - Phase Two of Audit  
Aboriginal and Torres Strait Islander Commission

Audit Report No.27 Performance Audit  
Army Presence in the North  
Department of Defence

Audit Report No.28 Performance Audit  
Use of Private Hospitals  
Department of Veterans' Affairs  
Follow-up Audit

Audit Report No.29 Preliminary Study  
Management of Corporate Sponsorship

Audit Report No.30 Performance Audit  
Australian National University Administration

Audit Report No.31 Performance Audit  
Medifraud and Inappropriate Practice  
Health Insurance Commission

Audit Report No.32 Performance Audit  
Administration of Grants in the  
Australian Public service

Audit Report No.33 Performance Audit  
Administration of the Family Court of Australia

Audit Report No.34 Performance Audit  
Australian Defence Force Health Services  
Department of Defence

Audit Report No.35 Performance Audit  
1996 Census of Population and Housing  
Australian Bureau of Statistics

Audit Report No.36 Performance Audit  
Commonwealth Natural Resource Management  
and Environment Programs  
Australia's Land, Water and Vegetation Resources

Audit Report No.37 Performance Audit  
Risk Management  
Australian Taxation Office

**Page No.**

Audit Report No.38 Performance Audit  
External Funds Generation  
Australian Institute of Marine Science  
Follow-up Audit

Audit Report No.39  
Financial Control and Administration Audit  
Audit Committees

Audit Report No.40 Performance Audit  
Human Resource Management  
Department of Foreign Affairs and Trade

#### **Other Audit Related Products**

Better Practice Guide:  
Management of Corporate Sponsorship

Better Practice Guide:  
Administration of Grants

## **Appendix 2**

### **Assistance to Parliamentary Committees**

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The Joint Committee on Public Accounts has a statutory responsibility to examine all ANAO audit reports. By agreement with the JCPA audit reports are sometimes referred to other Parliamentary Committees for review. An important role for the ANAO is to assist parliamentary committees in their review of our reports.

The ANAO has assisted the following Committees in respect of the specified reports tabled between January and June 1997. The outcomes of parliamentary reviews of ANAO audit reports will be reported in subsequent Audit Activity Reports.

#### **Joint Committee of Public Accounts**

Audit Report No 27, Army Presence in the North  
Audit Report No 34, Australian Defence Force Health Services  
Audit Report No 36, Commonwealth Natural Resource Management and Environment Programs

#### **House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs**

The House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs has completed its review of the CDEP in light of Audit Report No. 26, *Community Development Employment Projects Scheme - Phase Two of Audit*. The Committee agreed with all the ANAO's recommendations. The House Expenditure Review Committee is undertaking a separate review of the CDEP Scheme.

#### **House of Representatives Standing Committee on the Environment, Recreation and the Arts**

Audit Report No 36, Commonwealth Natural Resource Management and Environment Programs

#### **House of Representatives Standing Committee on Legal and Constitutional Affairs**

Audit Report No 33, The Administration of the Family Court