

Audit Activity Report: July to December 1997

Summary of Audit Outcomes

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Canberra ACT
2 March 1998

Dear Madam President
Dear Mr Speaker

In accordance with the authority contained in the *Auditor-General Act 1997*, I present this report of the results of our audits and audit related services, over the second half of 1997, to the Parliament. The report is titled *Audit Activity Report: July to December 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 Auditor-General 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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1. Introduction

This report is the second in a series of reports to be tabled at six-monthly intervals. It summarises the audit and other activities of the Australian National Audit Office (ANAO) in the period July to December 1997.

The purpose of the report is to:

- inform Parliament of the major issues the ANAO is examining in working with agencies to encourage a better performing and more accountable public sector;
- provide Parliament with a consolidated summary of the audit reports tabled in the last six months as well as details of the Better Practice Guides and other audit services provided in the period; and
- focus on, and to highlight, some of the major lessons learnt from the work of the ANAO in order to assist agencies and Parliament to improve public sector administration.

The 1st January 1998 marked a key milestone in financial administration in the Commonwealth with the replacement of the *Audit Act 1901* by the:

- Auditor-General Act 1997;
- Financial Management and Accountability Act 1997; and
- Commonwealth Authorities and Companies Act 1997.

The Auditor-General Act 1997 provides the legislative framework for the Office of the Auditor-General and the ANAO. The Act enhances the independence of the Auditor-General and outlines the Auditor-General's mandate as the external auditor of Commonwealth public sector entities. It provides for the involvement of Parliament, through the Joint Committee of Public Accounts and Audit, in the appointment of the Auditor-General, the formulation of audit programs and in reviewing the resource requirements and operations of the ANAO.

The Financial Management and Accountability (FMA) Act provides a modern framework for the proper management of public money and public property owned or held by the Commonwealth. The Act establishes an accounting system for public money and establishes rules about how public money and property are to be dealt with.

The Commonwealth Authorities and Companies (CAC) Act regulates certain aspects of the financial affairs of Commonwealth authorities and companies. In particular it has detailed rules about reporting and accountability.

The Auditor-General Act, together with the FMA Act and the CAC Act, provides a sound legislative, financial and accountability framework for the Australian Public Service (APS) well into the next century.

This framework reflects the importance which Parliament places on the efficient and effective administration of, and accountability for, the use of public funds and provides the basic settings within which the ANAO will conduct its audits. Our focus is on the performance of Government bodies, not only for program outcomes, but also for due process and integrity in handling public resources and the rights of the Australian community.

Best practice financial management is seen as a critical success factor in successful private sector organisations but not always in the public sector. The new financial legislation and other financial reforms will require a change in the traditional roles of finance operatives and line managers. For example, by 1999-2000 the Commonwealth will be operating in an accruals-based financial management environment. As a result, Commonwealth budget funded agencies will be required to describe and cost the outputs they produce, specify the performance information required, monitor the production of outputs and report performance accordingly. However, as a recent report by the Management Advisory Board (MAB), *beyond bean counting: Effective Financial Management in the APS - 1998 and Beyond* pointed out, there are large gaps between Commonwealth current practice and best practice, including a lack of financial management skills in line areas. If we are to achieve a better performing public service this gap must be bridged. Better practice guides and specialist advice are part of the ANAO's contribution to improving public sector financial management.

In recent times there has been an increased demand for controls assurance and increased recognition that effective control structures enhance the efficient and effective achievement of program objectives.

Against this background a key focus of the work of the ANAO over the last six months has been on:

- good corporate governance and the effectiveness of internal controls to ensure the accountability of those charged with the responsibility for administering public funds; and
- the impact of public service reforms in the Commonwealth including new program delivery arrangements.

A number of our audits, especially those that have dealt with internal financial and management controls, have been accompanied by a Better Practice Guide. These guides reflect the policies and practices of better performing public sector organisations in Australia and overseas and, where appropriate, that of the private sector as well. Such guides set a fundamental baseline for Commonwealth public sector performance as well as the basis for subsequent auditing by internal audit and/or the ANAO.

An effective control structure assists the governing body to meet its corporate governance obligations for better performance outcomes. In December last, the ANAO published a Better Practice Guide to Effective Control with the aim of assisting agencies to review and redesign control structures for better performance. The guide deals with reasonable not absolute assurance as striving for absolute assurance is neither cost effective nor possible. Rather, the controls implemented should be commensurate with the nature of the business, and acceptable level of risk and program delivery requirements.

As stated in the first *Audit Activity Report: January to June 1997*, which was tabled in Parliament last August, policy changes by the Government are accelerating the rate of change experienced by the APS. Although key public service values concerning high standards of probity, ethics and accountability remain unchanged, in many aspects of public service administration change is now the order of the day. In this environment risks and opportunities are affected continually and managers need to be constantly alert to the impact of such changes. For example, high rates of change can lead to the loss of corporate memory which may increase an agency's risks. Such risks require an emphasis on policies, strategies and administrative systems within organisations to facilitate access to timely and cost effective information. As with all aspects in support of good program delivery, effective use of technology is essential.

Our audit work is complemented by our other audit activities and audit related services. For example, the ANAO continued with its program of providing specialist advice and assistance to public sector agencies on audit and accounting related matters. This included issuing client bulletins and hosting training courses on financial reporting issues in Canberra, Sydney and Melbourne. In addition, the AMODEL financial statements, illustrating financial statement disclosures for Commonwealth entities, were updated and reissued to clients. Other services included assistance in the implementation of new IT systems and supervising staff ballots under the Government's workplace relations reforms.

Other significant events during the period under review include the following.

Review of Benchmarking in the ANAO

A performance audit of benchmarking in the ANAO was conducted by the Independent Auditor. The Independent Auditor is appointed under the legislation governing the ANAO. One of the functions of the Independent Auditor is to carry out efficiency audits of the operations of the ANAO. The Independent Auditor found that the ANAO is aware of the need to meet high performance standards and appears to be performing at a high level. The Independent Auditor also found that the ANAO has improved its performance significantly over recent years.

The report made eleven recommendations directed at improving the ANAO's benchmarking practices, including:

- the use of a broader range of benchmarking partners;
- sharpening the strategic focus of its benchmarking activities; and
- ensuring that the cost effectiveness of benchmarking activities are maximised.

All recommendations were agreed to by the ANAO. In response to the report, the ANAO said that it was committed to benchmarking its operations as a key element of its focus on continuous improvement and that the ANAO would use the report to assist in refining its strategies and approaches to benchmarking to ensure maximum benefit is gained from this activity.

Evaluation of Defence Intelligence

The ANAO participated in an evaluation of the Defence Intelligence Sub-program in 1996-97. This Sub-program collects, assesses and distributes intelligence to inform Australia's strategic, defence and wider Government policies, and for the conduct of military operations. The Intelligence Sub-program became the Intelligence Program in the restructuring of the Department under the Defence Reform Program in April 1997.

The Program comprises the Defence Intelligence Organisation (DIO) and the Defence Signals Directorate (DSD), both agencies in the Department of Defence. DIO assesses and distributes intelligence on strategic and military developments and is responsible for the provision of intelligence to the Australian Defence Force (ADF) for operations. DSD collects and distributes

foreign signals intelligence and provides advice to Defence and other parts of Government on computer and communications security.

Program expenditure is estimated to amount to \$137 million in 1997-98. The Program is staffed by 1491 personnel, comprising 666 members of the ADF and 825 civilians (Budget estimates 1997-98). National security considerations preclude disclosure of the agencies' operations.

Conducted as part of the review activities of the Inspector-General of Defence and overseen by the evaluation steering committee, the evaluation sought to test the quality and relevance of products and services provided by DIO and DSD against their resource use and to establish how well placed the agencies were to meet future challenges.

The evaluation focused on the two agencies' products and services for customers, customers' assessments of the products and services provided, the ADF Intelligence System and the agencies' personnel skills and development. Recommendations to enhance the performance of the agencies were made.

Summary

The current public service reforms and changing program delivery arrangements continue to present new challenges and opportunities to public sector managers. Change is now a constant in the APS and managers must plan to manage the continually changing risks and plan to take advantage of the new opportunities available to them. A number of audits have concentrated on the changes underway with a view to identifying the key issues required to successfully manage the transition to, and implementation of, the new arrangements. In particular we noted the importance of:

- a sound control environment;
- effective risk assessment and management;
- reliable administrative systems;
- good performance information and benchmarking; and
- effective monitoring and review

These issues are dealt with in the following section of the Report.

1.

2. General issues arising out of audit activities

Control Environment

The Commonwealth public sector spends well in excess of \$100 billion annually and receives a similar amount in revenues. It controls assets valued in excess of \$200 billion and has responsibility for liabilities of the same order. Corporate governance is, in part, about the control and monitoring mechanisms put in place by an organisation with the objective of enhancing stakeholders' value (broadly defined) and their confidence in the performance and integrity of the organisation. A key role for the agency's governing body is to provide assurance to stakeholders that the control structure is effective.

The FMA Act and the CAC Act and other recent reform initiatives highlight the need for governing bodies to manage risks and shape internal control systems to help maximise performance. They also provide an ideal opportunity for governing bodies and managers to reassess the operational structures and frameworks which support both program delivery and effective governance.

The control environment is the foundation for the effectiveness of all other control components. It reflects management's commitment and attitude to establishing an effective control structure which sets the tone of the agency by conveying the clear message to staff and stakeholders, through words and actions that integrity and ethical values cannot be compromised.

A number of reports indicated a need to improve management control. For example, Audit report No.21 *Protective Security* considered that the main reason for certain protective security arrangements not operating in accordance with the relevant framework related to inadequacies in the security control environment. Audit Report No.20 *Sales Tax* noted that there has been a significant reduction in both the number and total dollar return of sales tax audits during recent years. The lack of sales tax audit fieldwork coverage, combined with the limited information being provided to the Australian Taxation Office (ATO) after registration has significantly undermined ATO's capacity to maintain the integrity of the sales tax system.

Audit report No.25 *The Gun Buy-Back Scheme* noted that a lack of communication within the Attorney-General's Department led to a situation

where funds were advanced to the States for compensation for weapons not covered by the Commonwealth's legislation at the time.

Effective planning, budgeting and reporting makes a significant contribution to program outcomes. Audit report No.25 *The Gun Buy-Back Scheme* concluded that although planning for the scheme was sufficient there were some important lessons to be learned in terms of performance information planning and planning for the audit and acquittal of funds.

Audit Report No.14 *Official Travel by Public Sector Employees* found that a critical control procedure not operating effectively in a number of organisations was the level of post-travel checking by an independent officer. This may result in overpayments to the traveller or the travel supplier remaining undetected.

Risk assessment and management

The administrative framework established by recent APS reforms gives managers and staff the responsibility and flexibility to make decisions about how best to achieve outcomes. Learning how to manage risk effectively enables managers to achieve better outcomes. Risk management now forms an integral part of the corporate governance framework and, therefore, good management.

Control has traditionally been viewed as a means of protecting agencies against financial and legal exposures. Contemporary thinking highlights that control includes the identification and treatment of risks in order to optimise efficient, effective and ethical use of resources to achieve objectives.

Risk assessment and control activities include the identification, analysis and assessment of risks to achieving objectives and the design of control policies and procedures to manage those risks, focussing on those that have potential for more significant exposures and are critical to the organisation. 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.

Audit reports have continued to give a high priority to the examination of the way in which agencies manage the implementation of their business and other risks. Progress in implementing risk management has been mixed. A number of reports noted improvements in the implementation of risk management while in others there was room for improvement.

For example, Audit Report No.2 *Government Business Enterprise (GBE) Monitoring Practices* found that the corporate plans examined by the audit

lacked a uniformly explicit identification of risks and options for improvement and also lacked considered risk management strategies which were directly linked to the overall corporate plan of the GBE. Audit Report No.15 *Internet Security Management* found that most agencies had not completed a risk assessment and analysis prior to connecting to the Internet and Audit Report No.27 *Managing the year 2000 Problem* found that the majority of agencies surveyed were not following a systematic and structured approach to the identification, ranking and treatment of Year 2000 risks.

On the other hand, Audit Report No.6 *Risk Management in Commercial Compliance* concluded that sound progress was being made and that the Australian Customs Service was now in a position to apply the risk management framework to the whole of the organisation and extend consideration to other types of risk in addition to compliance. Similarly, Audit Report No.19 *Risk Management in Australian Taxation Office Small Business Income* concluded that small business income's risk management process was basically sound and followed the MAB guidelines on risk management.

New program delivery arrangements

Many functions and services previously delivered to the public by public sector agencies are now being delivered by private sector companies or are in the process of being contracted out. Also services that were previously delivered 'in-house' such as travel bookings and information technology services have also been contracted out. Although such arrangements can have the potential to offer significant benefits in terms of economy, efficiency, effectiveness or improvements in service quality, unless properly managed there is also the potential for major difficulties.

The ANAO has responded to the changing nature of many Commonwealth programs and the reassignment of a number of administrative functions to other agencies, by conducting audits that identify the "lessons learnt" that can be applied to the new program arrangements. Examples of these audits are Audit report No.4 *Service Delivery in Radio and Telecommunications*, Report No.11 *Austudy*, Report No.16 *Equity in Employment in the Australian Public Service* and Report No.17 *Sydney Airport Noise Amelioration Program*.

The Office of Government Information Technology (OGIT) also asked the ANAO to provide assurance on the probity of the methodology and procedures applied in the evaluation of IT systems and services. The results of these audits were tabled in Audit Report No.30 *Evaluation Processes for the selection of Records Management Systems and Internet Access Services for the Commonwealth*.

The ANAO has also examined the extent to which new administrative arrangements have been implemented efficiently and effectively. For example Report No.18 *Management of the Implementation of the Commonwealth Services Delivery Arrangements* identified the factors that ensured the success to date of the transfer of the delivery of social welfare programs from the Department of Social Security (DSS) and the Department of Employment, Education, Training and Youth Affairs (DEETYA) to Centrelink. The report noted the importance of ensuring that service agreements clearly specify the respective roles and responsibilities of the parties and that there are direct links between the performance information required by the purchaser departments and that used to assess the performance of individuals or teams. In a similar vein, Audit Report No.24 *Matters Relevant to a Contract with South Pacific Cruise Lines Ltd* drew attention to the need to develop a contract that clearly specified what was to be delivered and the outcomes to be achieved and to adequately manage the subsequent contract.

Private sector involvement in the provision of public services and outsourcing has focused increased audit attention on contract management. In turn, this has raised issues of the accountability for performance both in terms of where that accountability lies and the provision of auditable information that allows the assessment of cost-effective outcomes. For example, Audit Report No.26 *Strategic and Operational Management - National Registration Authority for Agricultural and Veterinary Chemicals* found that Memorandum of Understanding (MOUs) and Agreements between the Authority and service providers do not include sufficient detail of performance and quality standards required for accountability purposes. Audit Report No.28 *Contracting Arrangements for Agencies' Air Travel* also found that there was scope for closer monitoring of service providers' performance through performance measurement and service level agreements.

In short, there is scope for better contract management and better outcomes.

Administrative systems

The ANAO recognises that an increased emphasis on outcomes has been a key factor in enhancing the efficiency and effectiveness of the public sector. However, sound administrative processes and effective management are also critical for efficient effective and sustainable delivery of programs. This is a facet of public administration which does not always receive the profile or attention that it should. Yet sound processes, determined by the application of risk management, are the essential foundations upon which efficient and accountable administration and cost effective outputs and outcomes are

delivered. In short, they are an important element of effective control and assurance to both the Executive Government and the Parliament.

The ANAO has previously defined a performance audit to include 'forming an opinion on the adequacy of internal procedures for promoting and monitoring economy, efficiency and effectiveness'. Consequently, performance audits focus much attention on the administrative systems involved in delivering government programs.

A number of reports identified shortcomings in administrative systems. For example, Audit Report No.23 *Ministerial Travel Claims*, which resulted from a request from the Prime Minister, found that the Ministerial and Parliamentary Services Division of the then Department of Administrative Services (DAS) did not have adequate systems of control and risk management which increased the risks of overpayments not being detected.

Sound administrative systems, however, rely on quality operational data. Audit Report No.7 *Immigration Compliance Function* reported that problems in the quality of data continued to reduce the efficiency and effectiveness of the compliance function. Improvements in program performance were considered possible, however, given planned advances in the Department of Immigration and Multicultural Affairs (DIMA's) computer systems. This reinforces the benefits appropriate technology can bring to program performance.

Audit Report No.9 *Management of Telecommunications Services in Selected Agencies* found that some of the selected agencies lacked information management systems which captured agency-level information about their telecommunications services, including annual expenditure on telecommunications. The audit recommended the establishment of information management systems to facilitate better reporting on telecommunications services. The report also noted that where information management processes are lacking, agencies may not have the information necessary to determine if proposals for new arrangements represent value for money or not.

Audit Report No.19 *Risk Management in ATO Small Business Income* considered that the introduction of a quality management system could help to ensure the achievement of nationally consistent business outcomes. Audit Report No.20 *Sales Tax* noted that there was scope for improvement in the quality and relevance of information contained in the sales tax audit database and that this would assist compliance strategy decision-making processes.

Technology can play an important role in helping to deliver programs efficiently and economically. Audit Report No.29 *Management of Accounts Receivable* concluded that it was important for agencies in choosing new or replacement financial systems, to consider the technological enhancements available and

how they could offer efficiencies in the management of Commonwealth revenue. Audit Report No.9 *Management of Telecommunications Services in Selected Agencies* also observed that in the rapidly changing world of telecommunications there is a need for program managers to be better informed about the potential offered by new telecommunications technologies and services.

Performance information and benchmarking

Good performance information allows an organisation to determine if program resources are being directed towards the achievement of the desired program goals in the most efficient and effective manner. To achieve appropriate accountability the performance information used must be sufficient to allow program achievement to be accurately measured and reported. A sound corporate governance framework provides assurance that an agency is achieving its objectives.

Performance information needs to be identified, captured, analysed and communicated, both internally and externally, on a timely basis. It needs to be in a form that enables people to carry out their responsibilities. Accordingly, information systems (both computer and manual) need to be in place to capture and process data in meaningful ways.

A key step towards efficient and effective management of programs is knowledge of the program inputs, outputs and outcomes. Without accurate, reliable and timely performance information that is analysed and acted on, it is difficult to achieve good program outcomes. A number of reports confirm that the quality of performance information continues to be an on-going issue for the APS. For example, Audit Report No.4 *Service Delivery in Radio and Telecommunications* noted that performance measurement and reporting were at an evolutionary stage and could have been better linked to corporate and business plans as part of good corporate governance. Audit Report No.5 *Performance Management of Defence Inventory* demonstrated the importance of using financial measures of asset performance as an incentive to improve overall performance. In the report the ANAO estimated that reducing stocks of spares by even 5 percent could yield annual cost savings of at least \$23m, together with a potential one-time \$197m capital release.

Assurance of performance relies on robust systems controls that include soundly based management information trails. Audit Report No.8 noted that the Management of Stress in the APS could be improved by the more effective use of management information on the numbers, costs and locations of stress compensation cases. Audit Report No.9 *Management of Telecommunications*

Services in Selected Agencies recommended the establishment of information management systems to facilitate better reporting on telecommunications services. Audit Report No.14 *Official Travel by Public Sector Employees* found that, in many instances, basic travel management information, let alone patterns of expenditure, was not available. As a consequence the ability of organisations to manage and control travel expenditure to achieve more cost effective outcomes was significantly restricted.

Audit Report No.16 *Equity in Employment in the Australian Public Service* highlighted problems with the accuracy of data presented to Parliament and suggested a series of improvements in the presentation of data which would enable Parliament to better assess the achievement of program objectives. The report also noted that the lack of specific measurable performance indicators published externally impaired the ability of Parliament and the public to assess the overall performance of the program.

Benchmarking

MAB and its Management Improvement Advisory Committee (MIAC) has described benchmarking as ‘an ongoing systematic process to search for and introduce best practice into an organisation.’ It involves the collection of information to undertake comparisons. The focus of benchmarking can be:

- internal, that is, comparisons of the same activity between different parts of the same organisation;
- external, that is, comparisons with other organisations of the same activity; and/or
- generic, that is, comparisons of similar processes with other organisations which may have different products or processes.

A number of reports highlighted that many organisations could improve the achievement of their program objectives by greater use of benchmarking techniques. For example, Audit Report No.8 *The Management of Occupational Stress in Commonwealth Agencies* noted that agencies could manage more effectively by benchmarking with other agencies. Comparisons with other agencies could provide an insight into the better practice in other agencies. Audit Report No.19 *Risk Management in ATO Small Business Income* noted that Small Business Income (SBI) would benefit from more extensive benchmarking of its performance to assist in identifying areas for management improvement.

Monitoring and Review

Regular and relevant information needs to be collected and communicated to enable performance to be monitored and reviewed. Monitoring and review is an ongoing process undertaken in the ordinary course of business. The effectiveness of the control structure also requires on-going monitoring and review.

Program evaluation is a key component of corporate governance. Together with performance indicators and other measures, evaluation assists in providing information to an agency's executive on internal control and management. An audit of program evaluation, Audit Report No.3 *Program Evaluation in the Australian Public Service*, found that improvements could be made by ensuring that the findings of evaluations are used to review performance information, particularly performance indicators to test their validity and to refine their usefulness.

All stakeholders, but particularly the Parliament, have to be assured that the expected performance is being achieved. Audit Report No.10 *Aspects of Corporate Governance* noted that limitations in the linkages between performance measures and statutory objectives meant it was difficult for the Australian Tourist Commission to demonstrate it was fully meeting all of its statutory objectives.

A number of other audits also noted that reporting to Government, Parliament and other stakeholders could be improved. For example Audit Report No.12 *Pharmaceutical Benefits Scheme* recommended that the Department of Health and Family Services (DHFS) maintain an integrated database to provide relevant statistics to stakeholders on the efficiency of the listing process.

1.

3. Performance Audits

This chapter summarises the performance audit reports that have been tabled in Parliament in the period July to December 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 Joint Committee of Public Accounts and Audit (JCPAA) has a statutory responsibility to examine all ANAO financial statement and performance audit reports. Following a decision by Parliament or by agreement with the JCPAA, other parliamentary committees also examine ANAO audit reports. Where a committee has examined a report the findings of the committee are outlined.

The House of Representatives Standing Committee on Legal and Constitutional Affairs reviewed Audit Report No.33 of 1996-97 on the Administration of the Family Court of Australia which was tabled in May 1997. The Committee found that Audit Report No.33 should prove valuable to the Court in a variety of ways, most relating to measuring and reporting on the Court's administration. However, the Committee noted that, in its view, important areas of the Court's administration were not the subject of detailed scrutiny in the audit report. The ANAO will take the Committee's views into account in planning future audits.

Gun Buy-Back Scheme Attorney-General's Department

Audit Report No.25 1997-98 (Tabled 18 December 1997)

Background

Following the tragic events at Port Arthur, Tasmania on 28 April 1996, the Australasian Police Ministers' Council (APMC) met on 10 May to consider a Commonwealth proposal for a national gun control strategy.

At this meeting representatives of all Australian governments agreed to a 10-point plan for the regulation of firearms. This became known as the Nationwide Agreement on Firearms.

The Nationwide Agreement on Firearms included agreement on:

- banning self-loading rifles, and self-loading and pump-action shotguns;
and

- a 12 month firearms amnesty and compensation scheme (the gun buy-back scheme);

The gun buy-back scheme was a key element of the agreement. It involved each State and Territory establishing and operating a system through which gun owners and dealers could surrender newly-prohibited weapons in return for compensation. Arrangements were also made to compensate firearms dealers for loss of business relating to prohibited firearms.

The Commonwealth's role involved policy development and coordination for the implementation of the scheme and the provision of funds to the States under the *National Firearms Program Implementation Act 1996 (the 1996 Act)*. This Act was subsequently implemented by the *National Firearms Program Implementation Act 1997*. The Commonwealth funded both the administration of the scheme and the compensation payments made in relation to prohibited weapons.

As well, a national public education campaign was undertaken in support of the gun buy-back scheme. This included both public relations and advertising campaigns.

The gun buy-back scheme started in most States on 1 October 1996 and ended on 30 September 1997. It secured the surrender of about 640 000 prohibited firearms nationwide.

The Commonwealth funded the scheme through a one-off 0.2 per cent increase in the Medicare levy to raise about \$500 million.

The total cost of compensation to owners was about \$304 million. The total cost of compensation payments to firearms dealers for loss of business will not be certain until all claims have been processed. However, by the end of the scheme, a total of 480 claims had been submitted.

About \$57 million was also paid to the States and Territories to cover the costs of establishing, promoting and operating the scheme. About \$4 million was allocated to the national public education campaign.

The audit

The main objectives of the audit were to examine and form an opinion on:

- the efficiency, economy and administrative effectiveness with which the Commonwealth planned and coordinated implementation of the gun buy-back scheme;

- the management of firearms surrender and destruction in the Australian Capital Territory (ACT) by the Australian Federal Police (AFP); and
- the management of the competitive tendering process for the national public education campaign.

Audit conclusion

Management by the Commonwealth

Planning and coordination

The ANAO concluded that, particularly given the short time in which to implement the scheme, planning and coordination by the Attorney-General's Department was sufficient to enable the States to establish their own compensation schemes. However, the ANAO noted some areas for improvement in the future as lessons to be learned in the Department's:

- risk identification and analysis;
- performance information planning; and
- planning for audit and acquittal of funds.

Advice to the States

In response to surrenders of already-prohibited firearms during the course of the scheme, the Office of Law Enforcement Coordination (OLEC) advised the States and Territories that the Commonwealth would reimburse compensation for weapons not covered by the 1996 Act. OLEC's advice, which did not have Ministerial endorsement or legislative authority, resulted in the States paying compensation for some already-prohibited firearms. OLEC's ad hoc approach to compensation policy on already-prohibited firearms and the advice to the States resulted in variations between the States in the amounts paid for already prohibited weapons and in the types of weapons for which compensation was paid.

Internal management control

OLEC's advice did not take account of the limitations on categories of firearms for which the Commonwealth could legally reimburse compensation. Senior officers within the Attorney-General's Department were not advised of OLEC's advice and continued to advance funds to the States for compensation purposes, unaware that some of the funds were being used to pay for weapons which did not legally qualify for reimbursement of compensation. Legal advice sought by the ANAO during course of the audit indicated that the advances of funds were made with appropriate legislative authority. However, the ANAO

considers that the lack of communication within the Attorney-General's Department indicates a need to improve management control.

Based on information provided by relevant State officials, the ANAO estimated that, of the \$304 million paid by the States in compensation, at least \$7.5 million was paid using funds advanced by the Commonwealth for weapons and parts which were not included in the definition of qualifying compensation in the 1996 Act. Once the officers responsible for authorising and approving payments to the States became aware of this in June 1997, the Attorney-General's Department sought Government agreement for an amendment to the Act. A supplementary Act was passed by the Parliament on 2 October 1997.

The ANAO reviewed the findings of relevant audits by various State and Territory Auditors-General. Their findings did not indicate any material systemic weaknesses in the Commonwealth's policy or coordination.

Surrender and destruction of firearms in the ACT

The ANAO found that management of the surrender and destruction of firearms in the ACT by the Australian Federal Police (AFP) was generally effective. The ACT Auditor-General found that procedures and controls in the ACT Attorney-General's Department in relation to payment of compensation on the basis of surrender schedules provided by the AFP were sound.

Management of the national public education campaign tender process

In general terms, the competitive selection process was properly managed by the Office of Government Information and Advertising and the Attorney-General's Department. However, the ANAO identified scope for improvement in documentation of key steps to ensure proper transparency of due process and greater assurance and confidence in the final outcome.

Recommendations

The ANAO recommended that:

- in order to ensure accountability for the scheme, the Attorney-General's Department clarifies arrangements for audit and acquittal of State and Territory expenditure of gun buy-back scheme funds as soon as possible; and
- OGIA reviews guidelines on policy and procedures for selection of consultants to ensure clear definition of roles, responsibilities and selection criteria, and clear documentation of decisions.

Agencies' responses

In commenting on the ANAO's report, the Attorney-General's Department advised that the Department considered the buy-back scheme to be an outstanding success which had resulted in a reduction of almost 650 000 firearms in the community. The Department considered that outcome to be strongly supported by a majority of Australians, including a majority of gun owners.

The Attorney-General's Department also stated that the report focussed, in their view, on a very small element of the program and did not provide due recognition of the achievements of this complex project. In the Department's view, the buy-back was a unique event in public administration in this country and, quite likely, the world.

The Attorney-General's Department and OGIA agreed with the relevant recommendations. Both OGIA and the AFP responded positively to the report. The AFP outlined work in progress to address suggestions made by the ANAO during the course of the audit.

Risk Management in Commercial Compliance Australian Customs Service

Audit Report No.6 1997-98 (Tabled 20 October 1997)

Background

The Australian Customs Service (ACS) is a service-oriented organisation with wide responsibilities covering industry, international commerce and travellers and the protection of the Australian community. ACS is the Commonwealth's second largest revenue collection agency and is responsible for collecting approximately 13 per cent of total government revenue.

The Commercial Compliance Branch (the Branch) is responsible for assuring that clients such as importers, exporters and manufacturers of products subject to excise comply with ACS commercial reporting and financial requirements. Its role in terms of financial requirements is to ensure that the right amount of revenue is collected, paid or forgone by ACS. In 1996-97, the Branch's financial responsibilities totalled approximately \$22.2 billion. The Branch seeks to assure and improve commercial compliance through education and enforcement mechanisms.

There has been significant impetus for change in ACS in recent years which has heightened the emphasis on risk management in the agency. Reflecting

this emphasis, ACS was one of the 'front runners' in the Australian Public Service (APS) to introduce formal risk management principles to its planning framework and the Branch was the first within ACS formally to adopt and implement systematic risk management processes.

Risk management is the systematic application of management policies, procedures and practices to the tasks of identifying, analysing, assessing, prioritising, treating and monitoring risks. Risk management forms an integral part of the corporate governance framework and therefore, good management.

The audit

The objective of the audit was to review the efficiency and administrative effectiveness of the Branch's risk management processes and to establish whether the approach provided a sound foundation for the development and application of risk management across ACS.

The audit sought to draw out lessons for implementing and continually refining risk management processes that are relevant both to ACS and the public sector generally as well as to provide examples of better practice.

The audit reviewed the development and implementation of the 1996-97 National Compliance Improvement Plan (NCIP) aimed at increasing compliance with ACS requirements.

The audit criteria were based on the Management Advisory Board and Management Improvement Advisory Committee risk management model published in October 1996 as APS guidelines for risk management.

The audit was designed to complement similar performance audits undertaken concurrently in the Australian Taxation Office. These were Audit Report No.37 1996-97 *Risk Management Australian Taxation Office* and a second report in the Small Business Income area which is expected to be tabled later in 1997.

Overall conclusion

The ANAO concluded that the Branch was making sound progress in introducing formal risk management however, there was scope for the Branch to improve the administrative efficiency and effectiveness of future risk management processes.

While not yet having fully in place the framework advocated in the APS guidelines, the risk management framework and process developed by the Branch for the 1996-97 NCIP represented a solid basis for continued development in the operational application of risk management.

It is our view that ACS is now in a position to apply the risk management framework to the whole organisation and extend consideration to other types of risks in addition to compliance risks. In doing so, it can capitalise on its own considerable experience and achievements, as well as those of other agencies, in adopting and implementing comprehensive risk management.

Key findings

The Branch's risk management framework

The Branch had developed a sound framework for the risk management process. Positive elements of its risk management framework included:

- development of a national approach to compliance risk management in a comprehensive compliance risk management plan referred to as the NCIP; and
- implementation of a suitable organisational structure designed to provide a one-stop shop for the major industry sectors and develop industry expertise in the Branch.

ACS had planned a major human resource development program incorporating elements of risk management and audit training. However, there was a continuing need for the Branch to supplement and expedite the acquisition of these skills to support the wider implementation of relevant risk practices.

The Branch's risk management process

The audit identified a number of initiatives by staff in undertaking risk management processes. These included the development of:

- techniques such as education and leverage exercises to treat risks, complementing the existing strong focus on audit-based techniques; and
- key performance indicators in three industries to monitor client production and excise duty trends.

Our examination of the development of the 1996-97 NCIP revealed that there is scope to improve the efficiency and administrative effectiveness of future risk management processes by:

- enhancing the quality and extent of documentation of the process undertaken and decisions made;
- undertaking greater consideration and analysis of the interests of external stakeholders;

- making greater use of qualitative and quantitative analytical techniques to identify, analyse, assess and prioritise risks;
- applying consistent risk management scales to allow for comparable risk assessment and prioritisation across the Branch;
- enhancing the quality of information contained in the compliance activity database to enable improved consideration of the cost-effectiveness of risk treatment strategies and better monitoring and review of risks; and
- Central Office assuming a greater role in co-ordinating the development of the NCIP, undertaking quality assurance reviews and developing and reviewing Branch performance indicators.

Risk management in ACS

The ANAO found that the ACS Executive gave risk management a high corporate priority, the organisation had refined its risk management processes and developed a good infrastructure to support corporate risk management. The measures included assigning responsibility for managing the process throughout ACS to a Senior Executive and establishing an implementation team known as the Risk Management Co-ordination Unit.

ACS could advance the full implementation of risk management across the agency and secure the business and accountability benefits of risk management in a timely way by:

- promptly establishing a realistic target completion date for the implementation of risk management; and
- preparing a statement summarising the risks facing the organisation in its key operational areas.

Recommendations and ACS response

The ANAO made twelve recommendations aimed at improving operational and strategic risk management in ACS. The agency responded positively to the audit, agreeing with all recommendations and indicating the report would assist ACS in its implementation of risk management procedures throughout the organisation.

Risk Management in ATO Small Business Income Australian Taxation Office

Audit Report No.19 1997-98 (Tabled 4 December 1997)

Background

This audit was designed to complement similar performance audits on risk management in several agencies of the Australian Public Service (APS). In particular, it follows Audit Report No.37 1996-97 tabled in Parliament on 18 June 1997 and entitled *Risk Management - Australian Taxation Office*. That audit focused on the broad strategic issues relevant to risk management in the Australian Taxation Office (ATO) as a whole. This audit follows the issues identified in that report into the day-to-day management of the Small Business Income (SBI) program (called a business line by the ATO) as an example of how risk management operates in a significant element of the ATO.

The SBI business line is the second largest business line in the ATO, accounting for some 15 percent of ATO expenditure in 1996-97. Revenue collected by SBI in that period totalled \$13.6 billion.

SBI is responsible for administering the:

- income tax for all business taxpayers with annual gross turnovers of less than \$10 million; and
- fringe benefits tax (FBT) for all taxpayers.

The ATO was among the first APS agencies to introduce formal risk management principles to its strategic planning framework. SBI has invested considerable effort in its introduction of risk management principles.

Audit objective and criteria

The objective of the audit was:

to report to the Parliament on the economy, efficiency and administrative effectiveness of the risk management process in the SBI Business Line.

The criteria for the audit were derived substantially from a model developed from the Management Advisory Board (MAB) published guidelines on risk management and Audit Report No.37.

The audit findings are presented in terms of this model with specific attention given to issues regarding:

- treatment of risks, particularly initiatives to improve compliance; and
- monitoring and review of risk treatments, focusing on issues such as performance information and benchmarking.

Audit conclusion and key findings

The ANAO acknowledges the significant advances made by SBI in introducing risk management since 1994-95 and that the process of improvement has continued during the course of the audit. We would expect that the benefits of this compliance will be seen in enhanced efficiency for SBI, as well as better compliance with tax laws and a positive effect on revenue collected.

The ANAO concluded that SBI is progressing well towards the full implementation of an economic, efficient and administratively effective risk management regime.

SBI's risk management process

The ANAO concluded that SBI's risk management process was sound and followed the MAB guidelines on risk management. In particular, we found that:

- SBI's stakeholder analysis was comprehensive and contributed to its business planning;
- SBI had developed risk criteria that were used subsequently in its risk management process;
- the prioritisation and assessment by SBI of its identified risks was thorough; and
- SBI is in the early stages of implementing a systematic program of monitoring and review.

Although recognising this progress, the audit identified a range of associated issues that, if attended to, should result in making SBI more tightly focused and efficient. For example, SBI is likely to benefit from ongoing improvements in its risk management process by:

- explicitly describing actual issues at risk as opposed to nominating a topic or generic strategic area;
- a stricter analysis and ranking of the nature and probability of individual risks. We note that SBI is already moving in this direction; and
- continuing to refine its systematic process of monitoring and reviewing its risks and risk treatment strategies.

Compliance improvement strategies

SBI uses a range of strategies to improve compliance, including audits, record keeping reviews, education seminars and tax rulings. The role of tax auditing

as a compliance strategy is well developed. It has been identified as an appropriate treatment strategy for approximately three out of every five identified risks to compliance.

The ANAO found that tax audit coverage of the small business taxpaying population has been declining to the point where it averages less than one percent of the taxpaying population. This compares with a target of two percent of the whole taxpaying population at around the start of the decade. SBI does not have a current target for audit coverage.

The ANAO recognised the need for a more empirically based assessment of the relative impact of various compliance strategies before judgments on this issue can be made. The systematic evaluation of ongoing projects with this in mind would be a first step to developing the necessary database. Without reliable compliance measurement, it is difficult for SBI to assess or demonstrate the impact of its programs on the level of compliance.

SBI does not fully quantify the costs or benefits of the various strategies to address its risks. As a result it is difficult to determine the most cost-effective strategies for any identified risk. There are various ways of ascertaining the cost of strategies. One solution may be the adoption of an activity based costing system, although the ANAO recognises that this could be costly. However, a suitable system would be a valuable tool in focusing attention on the cost of the various activities and identifying where significant improvements in efficiency can be made. It would also help to identify the most cost-effective strategies to achieve the aims of the organisation, in addition to promoting a cost-conscious mentality among staff and management.

Performance information

The ANAO concluded that SBI would benefit from refining its range of performance indicators, to provide information on the efficiency of its operations and to better evaluate performance, including from the perspective of its clients.

Quality and benchmarking

The ANAO considers that a suitable quality management system should be introduced as soon as possible to support the achievement of nationally consistent business outcomes within SBI. Further, SBI would benefit from undertaking more extensive benchmarking of its performance to assist in identifying areas for management improvement.

Recommendations

The ANAO has made fifteen recommendations aimed at encouraging ongoing improvements in SBI's risk management process. The ATO has responded positively to the audit, either agreeing or agreeing with qualifications to all recommendations.

Sales Tax

Australian Taxation Office

Audit Report No.20 1997-98 (Tabled 4 December 1997)

Background

The Australian Taxation Office (ATO) is the Commonwealth's principal revenue collection agency, collecting \$107 billion in tax revenue during 1996-97. Sales tax (also known as wholesale sales tax) is an appreciable component of this tax revenue, with net ATO collections totalling \$12.7 billion in 1996-97. The Australian Customs Service (ACS) collected an additional \$600 million in sales tax on behalf of the ATO on goods imported into Australia during the same year.

Sales tax is imposed on goods manufactured in, or imported into Australia. It does not apply to goods used in certain circumstances nor a range of exempt goods (for example, most food and clothing).

The broad aim of sales tax law is to tax the last wholesale sale of goods (usually the sale from the last wholesaler to the retailer). The law provides a quoting system designed to avoid tax becoming payable on earlier sales.

The Withholding and Indirect Taxes (WHT) Business Line is the area within the ATO responsible for administering sales tax.

Sales tax, also known as wholesale sales tax, was first introduced into Australia in 1930 with regular amendments being made to the legislation since then. In 1992, the sales tax legislation was rewritten and reorganised into a new package of legislation referred to as the Streamlined Sales Tax (SST) legislation. This legislation has continued to evolve with a number of amendments being introduced and passed in recent years to address compliance issues, legal issues and the High Court ruling on state business franchise fees.

The issues and recommendations in this report are relevant to the evolving sales tax system and the administration of indirect taxes in general.

Audit objective and criteria

The objective of the audit was to ascertain how efficiently and effectively the ATO administers sales tax collections. The audit excluded an examination of ACS sales tax administration, although it did examine coordination and liaison arrangements between the ATO and the ACS.

The audit examined five key elements of the ATO's established compliance improvement process:

- interpreting and clarifying sales tax law;
- identifying and understanding clients and markets (enabling tax officers to identify and analyse risks of non-compliance);
- providing education and information to clients regarding sales tax obligations, based on identified compliance risks;
- implementing administrative arrangements which ensure and/or assist taxpayers to meet their obligations; and
- detecting non-compliance and taking action to remedy instances of non-compliance.

The audit also examined two areas that support this process. These areas are the skills development of sales tax staff and the approach to planning, coordinating and monitoring sales tax activities. The ANAO also took into account external factors that affect the ATO's administration of sales tax, including coordination and liaison between the ATO and the ACS.

Audit conclusion and key findings

The ANAO concluded that there is scope for improvement in the efficiency and effectiveness of the ATO's administration of sales tax collections, particularly in:

- providing technical advice and education to clients;
- undertaking appropriate market research;
- ensuring compliance with tax laws; and
- coordinating activities between the ATO and the ACS.

Technical advice and education

The ANAO found that WHT had initiated a number of enhancements in its sales tax technical advising arrangements and associated training and client education. It is expected that this activity will result in better compliance. However, the ANAO considers that the ATO would benefit further from developing and implementing a nationally coordinated sales tax technical quality assurance program and assigning priority to the development and implementation of a national education strategy. Such a strategy would improve the identification, development and targeting of education material based on identified risks to compliance.

Market research

WHT restructured its operational activities to focus on market segments that have different compliance characteristics. However, the absence of market research support specialists and clear market research guidelines for staff has hampered WHT's progress in improving its market knowledge. Greater use of business systems to store and manage information regarding client markets would assist with the identification of better practices in market research and the more efficient management of information.

The ANAO also concluded that the lack of information provided by taxpayers has impeded WHT's capacity to effectively monitor sales tax compliance. The ANAO recommended that the ATO investigate the costs to taxpayers of providing additional information, such as the basis of determining liability, through sales tax returns.

Ensuring compliance

There has been a significant reduction in both the number and total dollar return of sales tax audits during recent years. The lack of sales tax audit fieldwork coverage, combined with limited information being provided to the ATO after registration, has significantly undermined the ATO's capacity to maintain the integrity of the sales tax system. The ANAO therefore recommended that the ATO assess the scope for reallocating resources to sales tax audit activities.

The ANAO also identified scope for improvement in the quality and relevance of information contained in the sales tax audit database. This would assist compliance strategy decision-making processes. The ATO would also benefit from improving the management of 'dob-ins' from the community (regarding potential sales tax avoidance activity). The ANAO also concluded that there is a significant risk that late lodgment penalties are not being imposed in accordance with legislation.

Coordination between the ATO and the ACS

The ANAO found there was significant scope for improvement in this area and, until recently, the coordination between the ATO and the ACS had been limited. However, the ANAO noted that, during the audit, the ATO and the ACS convened a liaison committee and entered into a Memorandum of Understanding to formalise coordination arrangements. The ANAO made several recommendations about improved targeting of joint compliance activities for ACS clients and the identification of common compliance support activities.

The ANAO also found that approximately five per cent of sales tax numbers quoted to the ACS for exemption purposes were either invalid or potentially invalid. The quotation of invalid sales tax numbers (to enable tax-free importation of goods) is illegal. The ANAO recommended the agencies take appropriate corrective action and implement effective arrangements to reduce the incidence of future acceptance of invalid and therefore illegal quotations.

Recommendations

The ANAO made twenty-one recommendations to improve the ATO's administration of sales tax, including five recommendations directed at more effective coordination between the ATO and the ACS. The ATO has agreed to all recommendations. The ACS has agreed to all five recommendations relevant to them.

Service Delivery in Radio and Telecommunications Australian Telecommunications Authority and Spectrum Management Agency

Audit Report No.4 1997-98 (Tabled 17 October 1997)

Audit background

In recent years the radio and telecommunications sectors have experienced significant change in their technical, economic and administrative environments. From the perspective of public sector service delivery the most significant of these changes have included:

- the transition from a regulatory framework to an environment of coordination and support;
- the introduction of industry-developed voluntary codes of practice;
- the introduction of spectrum auctioning; and

- the rapid growth of communication technology (such as cellular mobile telephone services, digital cordless services, and satellite systems).

The Australian Telecommunications Authority (AUSTEL) and the Spectrum Management Agency (SMA) have played a pivotal role in facilitating the changes in radio and telecommunications administration during this time. The merger of AUSTEL and SMA from 1 July 1997 to form the Australian Communications Authority (ACA) means that the new organisation is well placed to consolidate the better features of service delivery by both organisations and to build upon those areas in which some improvement is both possible and desirable.

Audit objective and criteria

The objective of the audit was to review AUSTEL and SMA's approaches to service delivery against recognised good practice and to identify opportunities for the ACA to adopt the relevant features of these approaches in its service delivery. The audit criteria, developed from previous ANAO audits and a wide range of studies and publications on client service, sought to assess the degree to which:

- planning frameworks were specifically directed to the delivery of quality service;
- client communication and consultation processes identified client needs and enabled service delivery to be focussed on meeting these needs;
- resource management practices enabled resources to be allocated to where they were most needed for efficient and effective service delivery;
- the use of technology and organisational arrangements assisted quality service delivery; and
- performance measurement and reporting arrangements provided an effective assessment of service delivery performance in terms of time, cost and quality.

Overall conclusion

The ANAO found that, on the whole, both AUSTEL and SMA had been successful in delivering a good quality of client service during a period of substantial change but that there was scope for greater consistency in the standard of service provided. The ANAO identified several existing organisational and other features on which the ACA could build, for example:

- a network of area offices providing quality service accessible to clients across Australia;
- the high level of personal motivation and commitment of managers and service delivery staff;
- high overall customer satisfaction (the 1997 client survey by SMA indicated a rating of 73 per cent);
- SMA's involvement in international benchmarking, and the development of financial and operational performance indicators; and
- the formal consultative arrangements established by AUSTEL.

The ANAO also identified additional opportunities for the ACA to further develop its approaches to quality service delivery by:

- providing a clear and unequivocal corporate commitment to, and suitable frameworks for delivering, quality service. There were differing perspectives and uncertainties across management, staff and clients regarding the priorities of service delivery vis-a-vis the needs of internal administration. The development of a customer service charter presently under way should help to resolve these uncertainties;
- extending client communication and consultation processes beyond technical advisory issues so that a better understanding of clients' needs and expectations can be obtained. This includes implementing effective systems for handling complaints;
- introducing resource management practices that better match resources to workload and the priorities established for service delivery. The use of mechanisms such as internal and external benchmarking, more flexible organisation arrangements and monitoring of workload can assist the ACA to achieve a better balance between resources and workload;
- identifying and disseminating the better practices and approaches to service delivery applied across both organisations to ensure that a consistent level of client service is achieved. This can be facilitated by drawing on the innovations of AUSTEL and SMA in their use of information technology to promulgate a more coordinated approach to service delivery; and
- introducing performance management and measurement that includes monitoring and reporting on the time, cost and quality of service delivery. Performance measurement and reporting were at an evolutionary stage in both AUSTEL and SMA and could have been better linked to the corporate and business plans as part of good corporate governance.

There is also scope for introducing standardised performance reporting based on a combination of financial and operational performance indicators and targets that measure all aspects of spectrum management in terms of time, cost and quality of service delivery.

Recommendations

The ANAO has made fifteen recommendations aimed at improving the efficiency, economy and administrative effectiveness of service delivery. In agreeing with all of the audit recommendations, the ACA indicated the report was valuable and timely in providing a focus for delivering quality service.

Aspects of Corporate Governance Australian Tourist Commission

Audit Report No.10 1997-98 (Tabled 23 October 1997)

The Australian Tourist Commission

The Australian Tourist Commission (ATC) is a statutory body whose primary function is to promote Australia overseas as a tourist destination. The ATC promotes Australia to consumers and the travel industry from its head office in Sydney, and eight regional offices in Asia, Japan, Europe, the Americas and New Zealand. The ATC also works closely with industry and State and Territory tourism authorities.

The ATC has three statutory objectives:

object (a) - to increase the number of visitors to Australia from overseas;

object (b) - to maximise the benefits to Australia from overseas visitors; and

object (c) - to ensure that Australia is protected from adverse environmental and social impacts of international tourism.

The ATC has a parliamentary appropriation of \$78.3 million for 1997-98. It is governed by a ten-member Board which, with the exception of the Managing Director, is appointed by and reports to the Minister for Sport and Tourism. The Board is charged with ensuring the proper and efficient performance of the ATC and determining the Commission's policy.

The ATC has been the subject of a number of internal and external reviews, the most recent and significant being the administrative review by Bain International, *Project Eagle* (1995) (the Bain report).

The ATC is considered by the World Tourism Organisation to have one of the most efficient tourism authorities in the world. The ATC was cited as the world's most successful tourism marketing organisation at a 1995 international conference and has won a number of national and international marketing awards.

The Australian inbound tourist industry

The Australian tourist industry is dynamic and complex. Australia is one of the fastest growing tourist destinations in the world, with visitor numbers having increased by 11-12 per cent annually for the last three years. Tourism is one of Australia's fastest growing industries and is expected to contribute to significant increases in employment opportunities by the year 2003. It currently generates over \$16 billion in export earnings, a figure which is forecast to increase to \$23.2 billion by the year 2000, the year of the Sydney Olympic Games.

The ATC operates in a highly competitive international tourism environment and Australia's share of world tourism is relatively small - in 1994 it represented less than one per cent of the total world arrivals and was the 34th most visited destination in the world.

Audit objectives and criteria

The objectives of the audit were:

- (i) to determine the administrative changes made by the ATC to implement the recommendations of recent administrative reviews; and
- (ii) to identify how well the ATC is meeting its statutory objectives.

The criteria used in conducting the audit included administrative improvements resulting from the ATC's response to recent reviews and the extent to which strategies and performance information address its statutory objectives.

Audit conclusion

The ANAO concluded that:

- (i) the ATC has implemented, either in full or in part, the majority of the recommendations in the Bain report. This has resulted in a number of administrative improvements, particularly in the areas of organisational/

administrative change, cost reduction, cost recovery and marketing. Measuring the improvements has been hampered by lack of data and the absence of an effective monitoring process; and

(ii) while recognising the rapid growth of inbound tourism, the ATC is currently unable to demonstrate that it is fully meeting all of its statutory objectives; this applies particularly to the objective of ensuring 'that Australia is protected from adverse environmental and social impacts of tourism' and to aspects of the objective relating to maximising 'the benefits to Australia from overseas visitors'.

Key findings

The ATC's statutory objectives are open to varying degrees of interpretation. The Commission has particular challenges to address and translate the broader implications of object (b) - 'maximising benefits to Australia'- and to address its interpretation of object (c) - 'protecting Australia from adverse environmental and social impacts' - in its planning documents.

There are limitations in the links between the ATC's statutory objectives and corporate objectives and the extent to which the ensuing strategies can be seen to be giving effect to the statutory objectives. It is difficult to see how ATC strategies give effect to corporate objectives relating to greater dispersal of visitors and increasing employment, and the broader aspects of statutory object (b) are not explicitly addressed in strategies. A key challenge for the ATC is to ensure that the recently developed environment strategy is effectively implemented within the current planning framework to assist in addressing the Commission's statutory object (c).

The ANAO considers that further information in the Annual Operational Plan on significant program components would aid decision-making and provide assurance that resource allocation is appropriate.

The effectiveness of the ATC's performance information framework in addressing its statutory objectives is affected by limitations in the linkages between performance measures and statutory objectives. However, on the basis of the available evidence, the ANAO's qualified view is that the ATC is currently unable to demonstrate that it is fully meeting all of its statutory objectives. This applies particularly to the objective relating to 'protecting Australia from adverse environmental and social impacts', and to aspects of the objective relating to 'maximising benefits to Australia'.

The ANAO considers that it would be beneficial for the ATC to identify and develop further appropriate performance measures in order to provide assurance that it is achieving its statutory objectives. There is also scope to

improve performance reporting to the Board, and to comply more fully with requirements for reporting on performance of outcomes against objectives in its annual report. The ANAO also considers that the ATC should adopt a more structured and strategic approach to evaluating its key programs and activities.

There is a risk that the Board is unable to demonstrate satisfactorily that it is fulfilling its statutory responsibilities. The ANAO identified a number of areas in which the ATC Board could improve its operations and practices in order to be able to demonstrate that it is fulfilling these responsibilities. These areas include improving measurement, monitoring and reporting on the Commission's performance against its objectives; management of delegations; the Board's strategic role in determining ATC policy and recording of Board activities and decisions. To assist the ATC in addressing these issues, the ANAO, in consultation with legal/corporate expert advisers, has developed a suggested checklist on aspects of the operations of the Board and corporate governance generally.

Although the ATC has involvement with a number of Commonwealth agencies, the ANAO considers that these could be improved through a more structured and broader-based approach. Similarly, the ATC's involvement with its industry stakeholders, although extensive, could be further improved through, for example, more formal and regular opportunities for feedback on the performance of the ATC in meeting its stakeholders' needs, and providing relevant and timely information and appropriate access to research. The ATC has recognised the need to improve communication with industry and has a number of actions underway relevant to addressing this.

The ATC has now implemented, either in full or in part, the majority of the recommendations of the Bain report. This has resulted in a number of administrative improvements, particularly in the areas of cost reduction, marketing strategies, cost recovery and organisational administration, although they have not always gone as far as the Bain report recommended in all areas. However, measuring the improvements in all areas has been difficult because of lack of data on improvements/savings made.

The ANAO found that the ATC did not have an effective and ongoing process to monitor the implementation of the Bain report recommendations.

The audit report has made 10 recommendations, all of which are accepted by the ATC.

Management of the Implementation of the New Commonwealth Services Delivery Arrangements Centrelink

Audit Report No.18 1997-98 (Tabled 4 December 1997)

Background

Centrelink was established as an independent statutory authority in the Social Security portfolio on 1 July 1997. Centrelink has, or is planned to have, responsibility for the integrated service delivery of a range of Commonwealth social welfare payments and services, under formal purchaser/provider arrangements with the Department of Social Security, Department of Employment, Education, Training and Youth Affairs (DEETYA), and the Department of Health and Family Services (DHFS).

Centrelink is responsible for the delivery of services estimated to total some \$40 billion in 1996-97, or around 30 per cent of total Commonwealth outlays. It has a new regional network of around 24 000 staff, formed from transferring 21 000 staff from DSS, and 3000 staff from DEETYA. Services are to be delivered through 282 local offices, as well as specialist telephone enquiry service centres.

The establishment of Centrelink and the associated service arrangements has been a very large and complex project, with a wide range of interacting elements with significant outcomes required to be achieved within a limited time-frame. In particular, the project has required:

- a high level of coordination both within and across government agencies;
- the development of new approaches to purchaser/provider and governance arrangements; and
- bringing together staff from different cultures and initiation of the development of a unified working environment suitable to progress the new agency.

The Audit

The objective of the audit was to determine the extent to which the new Commonwealth services delivery arrangements were implemented efficiently and effectively, covering the period up to early July 1997, the time at which Centrelink became a legal entity.

The audit examined:

- project planning for the establishment of Centrelink, including:
 - implementation structures,
 - development of formalised project plans,
 - management of the risks to implementation, and
 - identification of project resources;
- management of the transition arrangements, in terms of:
 - compliance with government direction,
 - effective coordination,
 - processes for cultural change,
 - staging of the implementation, and
 - maintenance of standards of customer service; and
- establishment of the environment for Centrelink's operations, including:
 - development of business process reengineering activities,
 - identification of resources for transfer to the agency,
 - efficiency dividend identification,
 - purchaser/provider arrangements, and
 - parallels with key characteristics of successful contracting out project.

At the time of the audit fieldwork the transfer of service delivery from DSS and DEETYA to Centrelink largely had been completed, whereas this transfer in relation to DHFS services was approximately six months away. Consequently, the findings and conclusions of this report are based mainly on work undertaken by DSS and DEETYA.

Overall conclusion

The ANAO considers that to a large extent the implementation has been efficient and effective. The project has met its major milestones within the planned timeframe. The planning of the project was consistent with good practice. The management of the transition arrangements has generally been undertaken well and, while noting opportunities for improved practices in the future, the ANAO is satisfied with the environment being established for Centrelink's operations. Given the complexities of this project, the ANAO

considers that there has been a high level of achievement within a limited timeframe.

Notwithstanding the above, the ANAO considers that the parties should ensure that the service agreements clearly specify the respective roles and responsibilities in a way which accurately reflects the intent of the purchaser/provider arrangements.

Audit findings

The ANAO identified and summarised the key factors that have contributed to the success of the project to date. These include:

- a high level of ownership in, and demonstrated commitment to, the project from executive management;
- implementation structures which assisted in clarifying the lines of reporting and accountability and providing a coordination structure across the project;
- the development of formalised plans for the project to assist in fully identifying and monitoring progress against implementation tasks and their milestones;
- effective coordination across a wide range of stakeholders;
- the incorporation in the implementation project of a cultural change process designed to assist the development of a unified working environment suitable to progress the new agency; and
- staging the implementation to build on successes and minimise the risks.

The ANAO considered that a number of issues examined had been addressed satisfactorily, including:

- adherence to government legislation and direction;
- managing risks to the implementation;
- identifying resources for transfer;
- planning and initial implementation of reengineered business processes arising from the integration of services; and
- maintaining customer service during the transition.

The ANAO also identified scope in the future to improve a number of areas relating to planning and establishing the new environment, as follows:

- overall resource requirements were not identified in the planning stage of the implementation project, nor were the actual resources used during the project recorded. While agencies applied Commonwealth guidelines correctly in their resource management, managing costs against an approved project budget is sound management practice, and essential for decision-making and accountability. Therefore the ANAO considers that in the development of future purchaser/provider arrangements (including additions to the services currently delivered by Centrelink) both the potential purchaser department and the provider agency should identify the full costs of setting up such arrangements;
- there is an opportunity for Centrelink to work with DoFA, and in consultation with its purchaser departments, to improve the process to determine its future efficiency dividends. Understandably, the approach used to set the current efficiency dividends was based on a broad assessment in the absence of more comprehensive information on the operations and synergies of the new agency;
- there are a range of differences between the service arrangement documents that formalise the arrangements between DSS and DEETYA, and Centrelink. There is an opportunity for the agencies involved in the arrangements to draw on recognised good practice for a more uniform framework for these documents, particularly, drawing on that identified already within existing documents; and
- Centrelink should ensure that there are direct links between the performance information required by purchaser departments and that used to assess the performance of individuals or teams. Centrelink has in place a number of initiatives with the potential to achieve this, and this potential needs to be realised.

Recommendations

None of the areas where the ANAO identified scope for improvement will significantly impact on the immediate environment in which Centrelink operates. However, in order to address the scope to improve against each of these areas, the ANAO developed four recommendations.

Agencies' response.

In general, the agencies supported the recommendations.

Performance Management of Defence Inventory Department of Defence

Audit Report No.5 1997-98 (Tabled 17 October 1997)

Background

Inventory management is the logistics process, or supply chain, through which items in Defence flow from initial supplier to the units, ships, bases and personnel. That chain forms an integral part of the provision of logistics support to the Australian Defence Force (ADF).

The current Defence inventory of spares, consumables and repairable items (excluding explosive ordnance) is valued at approximately \$3.9b, with \$1b expended annually on further procurement and the maintenance of repairable items by external contractors.

Defence holds stocks of these items primarily to ensure their availability in support of ADF requirements. In some cases, this has meant procurement of sufficient stocks to maintain equipment to the end of its forecast working life. Retirement of equipment by other countries has also created opportunities to purchase bulk spares at low cost.

Defence Efficiency Review

The Defence Efficiency Review (DER) highlighted that there are significant opportunities to improve the management of Defence inventory. The DER logistic review team concluded that current levels of operating stock are far too high. This was considered to reflect a 'just in case' culture which had been exacerbated by a poor, disjointed and unresponsive distribution system.

The DER recommended establishment of a joint support command, a review of the value of Defence inventory and development of a more efficient storage and distribution system. Other relevant recommendations set out in the DER Secretariat papers were considered advisory.

Defence has now embarked on the Defence Reform Program (DRP) on the basis of the DER findings and recommendations. This includes a strategic logistics planning process. The ANAO considers that an important element in the implementation of that planning would be an effective performance management strategy and framework that enables both its effectiveness and efficiency to be measured and managed. The absence of such a framework has contributed to many of the inefficiencies in inventory management identified by the DER.

Audit objective and criteria

The objective of this audit was to ascertain whether Defence performance management strategies and practices contribute to the effective and efficient management of the supply chain. In particular, it examined the extent to which they demonstrate those practices identified as world-class.

Overall audit conclusion

In summary, the ANAO found that, despite increased focus in this area in recent years, performance management practices used in regard to the Defence supply chain do not reflect best practice. As a result, managers are not provided with adequate information or incentives to ensure decisions are based upon consideration of the efficiency and effectiveness of the total supply chain.

Although there have been worthwhile but isolated efforts to improve inventory management in each of the three Services, there has been little attention to overall management of the performance and costs of the supply chain, including inventory carrying costs.

A cultural change is needed to bring Defence practices closer to those identified as best practice. Implementation of the DER recommendations, particularly those concerned with achieving greater integration in the provision of logistic support and with relating expenditure on logistic support directly to the achievement of Defence outputs, would create an opportunity to address many of those factors. Implementation of the ANAO recommendations would assist Defence in maximising the benefits accrued.

Key findings

Set out below is a summary of the key findings of the audit. Fundamental among these is the need for Defence to take a more strategic, coordinated approach to developing and implementing credible and useful performance measures for its supply chain.

A balanced approach to performance management

Best practice in supply chain performance management is characterised by the use of a balanced and integrated set of performance measures. Despite increased attention in recent years, the measures currently used in the management of Defence inventory do not provide managers with a full and balanced picture of relevant performance.

Efforts to incorporate leading supply chain performance management practices within Defence would be enhanced by establishing a single 'centre of

excellence' responsible for developing and deploying a clearly-articulated, uniform strategy for logistics performance management.

Performance measurement of processes

There is particular need for development of performance measures that assist in pro-active management of key supply chain processes. World-class organisations have shown that, if performance within key processes improves, improved results will follow. Less than twenty per cent of the Defence measures analysed by the ANAO provided information regarding the operation of processes.

Completing the documentation of its logistics processes, including those related to the supply chain, would assist Defence in both identifying examples of better practice and in achieving greater standardisation for greater efficiency.

Managing inventory as an asset

Leaders in integrated logistics management emphasise the use of total cost analysis to make informed trade-offs to improve overall performance. There has been little focus within Defence on developing a management approach from this perspective. No measures were identified in Defence relating to total supply chain costs, with only limited analysis of the costs associated with its various elements.

The ANAO demonstrated the importance of understanding the more wide-ranging costs associated with inventory management decisions by considering, for example, the impact of inventory carrying costs. Applying a conservatively estimated carrying cost of 12 per cent suggests that Defence incurs total annual carrying costs of approximately \$472m for its \$3.9b inventory of spares, consumables and repairable items.

More use of measures of asset performance, such as inventory 'turn' analysis, may provide greater incentive for Defence inventory managers to actively manage stock levels. A turn is a measure of how many days it takes the inventory in the system to change on average.

Recent inventory turn analysis conducted by the Air Force suggested that its average stock levels of breakdown spares could eventually be reduced by up to

75 per cent, that is from 288 weeks to 65 weeks of stock. From information currently available, the ANAO estimated that reducing stocks of breakdown spares by 75 per cent could eventually generate annual carrying cost savings in the order of \$46m, together with a \$340m capital release.

Internal and external performance targets

Defence would benefit from using clearer performance targets to provide meaning and direction to logistics performance measures. It would also benefit from developing a sound and consistent methodology to guide determination of the levels of performance required for internal operations, functions market-tested under the Commercial Support Program and the supply of items through contracts such as vendor-held stock and prime vendor arrangements.

Logistics information systems

The improvement of Defence's logistics performance is strongly dependent on quality and timely information management and supporting technologies. Notwithstanding the advances Defence has made in this area, there is still much that can be achieved at both the strategic and operational levels. Effective performance management of the Defence supply chain has been restricted by the inability of existing systems to support integrated management.

The development of information systems that ultimately do not provide required information in a useable form has been due in large part to a failure to consider performance management issues as an integral part of systems design.

Defence should continue its efforts to plan strategically for its logistics information management needs. A clear statement of performance management requirements should be articulated prior to, or in conjunction with, development of a rationalisation strategy for Defence logistics information systems.

The use of data warehousing and executive information system technologies offers considerable potential to bring together data from heterogeneous sources, thereby providing more meaningful information to various logistics managers.

The use of benchmarking to enhance performance

There is considerable scope for Defence to help increase its use of both internal and external benchmarking to promote consistent application of better management practices.

Achieving cultural change

A coordinated strategy for addressing the training and educational issues involved in introducing a strong performance management culture could

improve the level of acceptance and awareness of performance management principles and techniques among logistics personnel.

Potential audit impact

The ANAO estimated that even a five per cent reduction in the current stock levels of spares, consumables and repairable items could yield annual savings in inventory carrying costs of at least \$23m and a potential one-time capital release of \$197m. In the ANAO's view, this is the minimum possible outcome that could be delivered.

Implementation of the audit recommendations would help to create an environment and culture in which supply chain managers were better equipped to achieve such savings, while maximising the timeliness, relevance and quality of the support provided to the ADF.

Departmental response

Defence agreed to all recommendations made in the report and commented that the ANAO report reinforces and expands on the Defence Efficiency Review. Defence also noted that, within the context of the Defence Reform Program, action is being taken to implement reforms in Defence logistics in general and in the management of the supply chain in particular.

AUSTUDY

Department of Employment, Education, Training and Youth Affairs

Audit Report No.11 1997-98 (Tabled 30 October 1997)

Background

AUSTUDY assists students whose individual and family circumstances are such that, without financial help, full time study would not be possible. In 1996 -97 expenditure for AUSTUDY was \$1.5 billion. As at 30 June 1997 there were 471 353 current AUSTUDY beneficiaries.

AUSTUDY is a tightly targeted scheme in that the legislation sets strict parameters for eligibility. This in turn requires a complex series of decisions to be made by those delivering the service before eligibility can be determined.

On 1 July 1997, the responsibility for delivering AUSTUDY was transferred from the Department of Employment, Education, Training and Youth Affairs

(the Department) to Centrelink. From 1 July 1998, AUSTUDY will form part of the Youth Allowance and the Department of Social Security (DSS) will have relevant program responsibility.

Although AUSTUDY will be terminated as a student assistance scheme on 30 June 1998, the findings and recommendations of this audit will be highly relevant to the Youth Allowance.

Audit objective and criteria

The objectives of the audit were to:

- review the implementation arrangements in relation to the transfer of delivery of AUSTUDY to Centrelink and its subsequent inclusion as part of the Youth Allowance; and
- form an opinion on the efficiency and effectiveness of the front-end processing aspects of AUSTUDY, to identify any areas for improvement with a view to providing timely advice to the Centrelink, in context of the new service delivery arrangements.

The ANAO established key criteria against which to review the efficiency and effectiveness of the front-end administrative processes as well as implementation of the new AUSTUDY arrangements. The main areas examined were:

- planning, including whether the Department had developed suitable strategic and risk management plans to address the issues associated with the transfer of delivery of AUSTUDY to Centrelink;
- AUSTUDY processes, especially at the Student Assistance Centre (SAC) level, including problems in relation to processing AUSTUDY applications and their consequences; and
- the Department's performance information relating to the front-end processing of applications and the appropriateness of the Department's action/s based on analysis of the performance information.
- The audit did not address the administration of the 1997 Actual Means Test, given that an independent review, commissioned by the Department, was underway at the time of the audit.

Audit conclusion and key findings

Planning in relation to implementation of the transfer arrangements was found to be well developed. This included the preparation of both an implementation strategy and plan, and a risk management plan.

The ANAO has identified a number of factors that contribute to the complexity of the administration of the Scheme. These factors have particular implications for Centrelink management and will continue to be important whilever AUSTUDY, or the Youth Allowance, within which it will be incorporated from 1 July 1998, remains a tightly targeted scheme.

The ANAO has also concluded that there is substantial scope for improving the efficiency and effectiveness of the front-end processing aspects of AUSTUDY, particularly in the context of the new service delivery arrangements.

The ANAO has made twenty recommendations aimed at better management of the complexities of the Scheme and addressing the opportunities for improvement in relation to the front-end processing of applications. These include:

- establishing a sound planning framework to ensure work at all levels is directed at meeting the effective and efficient achievement of the Youth Allowance objectives;
- evaluating the significant process improvement opportunities in relation to applications processing as part of the transfer of student assistance service delivery to Centrelink and the subsequent implementation of the Youth Allowance;
- reviewing and revising the current Quality Assurance processes so that they contribute directly to improving the accuracy of applications processing;
- reviewing the AUSTUDY compliance and reassessment activity to improve the current situation which results from delays in reassessment of Benefits Control Unit referrals;
- ensuring that the information technology system developed for the Youth Allowance provides adequate and user-friendly support for front-end processing staff;
- developing and implementing training strategies to address the key training needs of service delivery staff;
- reviewing the National Client Service Standards to ensure that performance information obtained is accurate, relevant and timely and is also used to improve client service; and
- implementing procedures which require the use of performance information relating to internal reviews, appeals to the Social Security

Administrative Tribunal and the Administrative Appeals Tribunal and complaints, to improve front-end processes and client service.

DEETYA response

This report is presented at a time of considerable change both in policy settings and administrative arrangements for the AUSTUDY program. The Department agrees to the relevant recommendations.

The Department notes that, consistent with the new service delivery arrangements for AUSTUDY, nineteen of the twenty recommendations of the audit report are directed either principally or jointly to Centrelink, which will also have the chief responsibility for their implementation. The Department will assist both Centrelink and DSS in the implementation of those recommendations wherever possible.

The Department commends the ANAO on the overall conduct of this audit. The Department appreciated the opportunity to receive regular and timely feedback on the findings of the audit, which it found to be both well-informed and genuinely useful. It welcomes also the constructive and forward-looking tone of this report (informed though it is by the lessons of past experience), and believes that this will substantially assist the implementation of the Government's Youth Allowance.

Centrelink response

Centrelink accepts all the ANAO recommendations. The recommendations made are very clearly related to future service delivery within Centrelink. Our responses to the recommendations represent a significant improvement agenda and as such will be the subject of discussion with our client departments, DEETYA and DSS, in context of the Service Agreements.

The work undertaken by the ANAO on this project provides a timely and valuable basis for Centrelink as we take on service delivery responsibility for AUSTUDY and later the Youth Allowance.

DSS response

DSS supports all the twenty recommendations and its comments reflect the Department's views on appropriate arrangements for the proposed Youth Allowance, rather than comments on the operation of the existing AUSTUDY program. DSS considers that the audit has proved useful in developing arrangements for the new Youth Allowance payment

Matters Relevant to a Contract with South Pacific Cruise Lines Ltd

Department of Employment, Education, Training and Youth Affairs

Audit Report No.24 1997-98 (Tabled 15 December 1997)

Background

On 16 May 1997 the Department of Employment, Education, Training and Youth Affairs (DEETYA) entered into a formal agreement with South Pacific Cruise Lines Limited (SPCL) for the delivery of a ten-week program of pre-employment training for 340 long-term unemployed persons and the subsequent employment with SPCL of all successful participants. Under this contract, the pre-employment training was to be sub-contracted to William Angliss 2000 Pty Ltd (WA2000), a Melbourne-based subsidiary of the William Angliss Institute of TAFE.

The contract covered the period 23 June 1997 to 29 August 1997 and was later varied to extend this period to 12 September 1997. The contract price was approximately \$2.8m and DEETYA paid around \$2.2m (80 per cent) to SPCL in advance of the commencement of training. The balance was to be paid once 70 per cent of participants had been in continuous employment for a period of six weeks.

The training was delivered during the contract period and on 5 September 1997, SPCL advised the Department that it would offer a traineeship to at least 264 trainees. The trainees would commence employment with SPCL on 15 September 1997. However, on 10 September 1997, SPCL issued a press release announcing that it was abandoning the cruise line project, citing the withdrawal of key financial backers due to adverse media and political interest. The Department immediately terminated the contract with SPCL and took action in an endeavour to protect any remaining Commonwealth funds held by SPCL.

On 12 September 1997, the then Minister for Employment, Education, Training and Youth Affairs asked the Secretary of DEETYA to refer the SPCL contract to the Auditor-General for investigation.

The Auditor-General agreed to the Secretary's request on 17 September 1997 and an audit, under the efficiency audit provisions of the Audit Act 1901, commenced the next day.

Audit Objective

The objective of the audit was to review the efficiency, economy and administrative effectiveness of departmental activities leading to the letting of the contract with SPCL and its subsequent administration. This has included, among other things, an examination of action taken to protect the Commonwealth's interests and the adequacy of relevant departmental guidelines and processes.

A primary aim of the audit was to identify the facts of the particular case including any administrative inadequacies that led to unnecessary financial exposure for the Commonwealth or less than satisfactory outcomes. In particular, the audit aimed to identify elements of better practice that could be followed under similar circumstances or programs in the future.

Conclusion

The ANAO concludes that the prevailing climate within the Department at the time that the cruise ship project was proposed had a significant influence upon the assessment and administration of the project. There was also some pressure to maintain program expenditure towards the end of the financial year and this project offered a guaranteed employment outcome for all successful trainees.

The project, which offered quality training linked to high employment outcomes (in line with the Government's policy) for some of the most disadvantaged unemployed clients, was clearly attractive and its prospects potentially significant. These factors also undoubtedly influenced the Department's consideration of the proposal.

The ANAO recognises that an increasing emphasis on outcomes has been a key factor in enhancing the efficiency and effectiveness of the public sector. However, sound administrative processes and effective management are also critical to sustaining long-term performance. In these regards, the Department did not:

- adequately assess the cruise line proposal, in particular to determine whether it offered good value for money to the Commonwealth;
- adequately apply accepted risk management practices to the cruise line proposal/project;
- develop a contract that clearly specified what was to be delivered and the outcomes to be achieved; or

- adequately manage the subsequent administration and oversight of the contract with SPCL (up to the date of the termination of the contract).

As a result of these shortcomings, the Commonwealth has been unnecessarily exposed to a significant level of risk and the possible misdirection of program funds.

As well, the last minute decision to ‘transfer ownership’ of the contract to SPCL was not well documented and, in the ANAO’s view, ill advised. Legal advice on the ‘transfer’ was not sought and financial viability checks on the contractor were not undertaken prior to awarding the contract or making the advance payment.

Further, the Department failed to provide full, candid and, in a significant instance, timely briefings to the then Minister in relation to the SPCL contract. This has consequences for the accountability of the Department and the then Minister, and contributed to the adverse media and political impact surrounding both the contract and the collapse of the cruise line venture. The ANAO acknowledges that DEETYA provided a detailed account of the development and administration of the cruise ship project to the Senate Legislation Committee in the course of a number of hearings that have referenced the project (particularly a special hearing convened to consider the project on 1 October 1997).

Notwithstanding the above concerns, the Department has provided substantial and significant training, at a now accredited and industry accepted level, to more than 300 long-term unemployed persons. This is a valuable outcome of the project even though well short of the outcome expected by either the participants or the Department.

As well as assisting with the delivery of the training, the Department also successfully coordinated the selection and organisation of a large number of unemployed clients against a very tight timeframe (more than 2,000 unemployed persons were interviewed and tested for suitability over a two-three week period). The logistical demands on the Department at this stage of the project should not be underestimated.

The ANAO has not had the opportunity to consider, in depth, whether the underlying problems identified in this audit are widespread within DEETYA Queensland (which was responsible for managing the contract) or more generally within the Department. However, while the circumstances of the specific contract audited seem extraordinary, there are strong indications that some of the practices highlighted may be commonplace. The ANAO considers this warrants further review by the Department.

Recommendations

The ANAO has made five recommendations aimed at improving project and contract management and other procedures in the Department. DEETYA has agreed to all recommendations.

Better practice

This case has shown that there is value in agencies ensuring that accepted practices of project management and risk management are implemented across all levels of the agency. Further, agencies should ensure their guidance material keeps pace with the environment within which the agency is operating.

The ANAO also considered there would be value in developing better practice guidelines on risk assessment of new suppliers. The better practice guidelines will offer officers involved in procurement activities a simple risk matrix, based on material available in the public domain.

It is proposed that the better practice guidelines will include advice on the source and nature of information that can be used to assess the risk of dealing with a given supplier (particularly a new supplier) and in general terms the likelihood of achieving the activity's desired outcomes. Practical advice on the interpretation of the information will be included. The ANAO will provide the guidance material to relevant agencies and Departments for comment early in 1998.

Departmental response

In summary, the Department responded that it considered the report to be comprehensive in terms of its coverage of key events and developments. The Department also noted, however, that the matters of substance had already been reported on, including to the Parliament, and that the information provided to the Minister reflected the relevant officers' honest belief at the time.

DEETYA also commented that the current programs and arrangements will largely disappear in about six months. DEETYA considers the new arrangements (which will involve a centralised tender process; enhanced financial viability checks on providers; centralised contract negotiation; payment on results; and closer monitoring of services) will reduce the likelihood of a similar occurrence in the future.

Ministerial Travel Claims Department of Finance and Administration

Audit Report No.23 1997-98 (Tabled 22 December 1997)

Audit background

On 24 September 1997, the Prime Minister requested the Auditor-General to conduct an inquiry into matters relating to travel allowance claims of the then Minister for Transport and Regional Development, the Hon John Sharp, in the following terms:

- whether the travel claims made by the Minister for Transport and Regional Development for the period 11 March 1996 to 18 December 1996 were made in accordance with established procedures;
- whether the amended return for travel allowances submitted by Mr Sharp on 27 May 1997 was processed in accordance with established procedures by the Department of Administrative Services (DAS); and
- whether the Minister for Administrative Services and the Minister for Transport and Regional Development and/or their offices acted appropriately to ensure that due process was followed in relation to the processing of Mr Sharp's travel claims.

Subsequently, the Prime Minister asked that the audit be extended to include consideration of a statement from Mr Jull's senior adviser dated 25 September 1997.

The Auditor-General wrote to the Prime Minister advising that, for the purposes of the audit, he would be examining any actions carried out by, or on behalf of, a minister which had any bearing on the operations of relevant departments. The Auditor-General said that his statutory functions did not extend to examining the operations of a minister or a minister's office other than as they related to the conduct of the audit.

Mr Sharp, Mr Jull, their staff, and the departments involved cooperated with the ANAO to facilitate the timely completion of the audit requested by the Prime Minister.

Key findings and conclusions against the audit objectives

Overview

It is apparent from the audit that most issues arose from the incorrect certification of certain travel claims by the former minister of his original travel allowance claims, which were subsequently revised, and from weaknesses in the administration of travel claims by his office and the then Department of Administrative Services (DAS). As well, it highlights the importance of information provided to the Parliament being consistent, accurate and showing clearly what it purports to be, to ensure the transparency of the way in which public money is spent.

Objective 1 - whether the travel claims of Mr Sharp were made in accordance with established procedures.

The audit identified weaknesses associated with Mr Sharp's certification of travel claims. Although Mr Sharp submitted his original claims for travel allowance within established procedures, in a number of instances he incorrectly certified that he was entitled to travel allowance. He subsequently submitted a revised claim to rectify these errors and repaid the amount he had been overpaid.

In the ANAO's view, the variation rate of 37 per cent in Mr Sharp's first revised travel allowance claim is significant. This and subsequent revisions of travel claims covering the same period are not consistent with sound administrative practice. From a risk management perspective it would be prudent, and good practice, for any person experiencing such a high variation rate to also review other claims for accuracy as a matter of course.

Objective 2 - whether MAPS processed Mr Sharp's amended return for travel claims in accordance with established procedures, and the effectiveness of administration of ministerial travel claims by DAS' MAPS.

The ANAO found that MAPS had no formally established procedures for processing revised travel allowance claims by ministers. Furthermore, when Mr Sharp's revised claims were received, MAPS did not apply the normal controls used in processing ministerial travel allowance claims by requiring a certification from the minister.

MAPS had inadequate systems of control and risk management increasing the risk of overpayments not being detected. Less than satisfactory document and record management provided an inadequate accountability trail for actions and decisions taken.

MAPS' system for processing ministerial travel claims, at the time, was inadequate. It did not provide for MAPS to undertake checks, even spot checks, of ministerial travel allowance claims for validation purposes. In addition, there was no effective management information system to enable MAPS to identify and address potential problems in the administration of ministerial travel claims and to exercise effective governance of the program. A new system recently introduced by MAPS for processing ministerial travel allowances includes cross checking with relevant data. Although the new system does not currently provide for any check on the purpose of the ministerial travel claimed, the Department of Finance and Administration (DOFA) advised that the system is to be extended to include such a check.

Where there is a significant variation rate in a minister's travel allowance claims the ANAO considers that DOFA, as part of its normal controls, should institute a review of that minister's travel claims in order to verify their accuracy.

Where a pattern of overclaiming is identified, the ANAO is of the view that DOFA should consider the advisability of suggesting to the Minister for Finance and Administration that such cases should be referred for investigation by the Attorney-General's Department.

The ANAO considers that, if the present reimbursement system is to continue, it is important to strengthen certification procedures by ministers for all travel expenditure and verification.

Objective 3 - whether the report to Parliament was accurate in respect of Mr Sharp

The ANAO found that the title and covering statement of the report, *Travelling Allowance Paid to Various Office Holders in the House of Representatives - 1 January 1992 - 3 March 1997*, tabled in the House of Representatives on 29 May 1997 were not consistent with its content in respect of Mr Sharp. In Mr Sharp's case, his schedule showed only his revised travel allowance claims which were lower than the travel allowance payments he had actually received over the period. No explanation of the variation was provided. This contrasts with the information provided in annotations for certain former ministers and office holders.

Mr Jull, as the minister responsible for tabling the report, was ultimately accountable for its content even though he could have reasonably expected MAPS and his office to have conducted thorough checks to ensure its accuracy and consistency.

In discharging their responsibilities to their minister it would be reasonable to expect Mr Jull's staff and MAPS to ensure the accuracy of material prepared on his behalf.

Objective 4 - whether Mr Sharp and Mr Jull and/or their respective offices acted appropriately to ensure due process was followed.

The ANAO included in its definition of due process consideration of proper process and due care.

Mr Sharp and his office

Mr Sharp submitted his original claims for travel allowance within established procedures. However, he is considered not to have taken due care in that in a number of instances he incorrectly certified that he was entitled to travel allowance.

Mr Sharp's office is also not considered to have taken due care in ensuring that it provided effective administrative support to Mr Sharp in the certification and verification of travel claims, invoices and management reports.

The ANAO found no evidence that Mr Sharp and his office played any role in the preparation and tabling of the report, apart from providing a schedule of revised travel allowance claims.

Mr Jull and his office

The ANAO found that neither Mr Jull nor his office had any direct role in the processing of Mr Sharp's travel claims.

Mr Jull, as the Minister responsible, tabled a report which was not accurate or internally consistent. The report provided incorrect information and was therefore open to misinterpretation with respect to Mr Sharp's claims.

Mr Jull's office is considered not to have taken due care in the preparation of the report to Parliament. In discharging their responsibilities to their minister it would be reasonable to expect Mr Jull's staff to ensure the accuracy and consistency of material prepared on his behalf.

Recommendation

The ANAO made four recommendations which were agreed by DOFA.

Evaluation Processes for the Selection of

- **Records Management Systems**
- **Internet Access Services for the Commonwealth**

Office of Government Information Technology

Audit Report No.30 1997-98 (Tabled 18 December 1997)

Summary of the Audit of the Records Management Systems Evaluation

Background

In November 1995 the Government approved a strategy of reduction in the number of Information Technology administrative systems used by Commonwealth agencies. The reduction is being achieved by OGIT managing a process of selecting a limited number of the most suitable systems for Commonwealth agencies. Systems selected will be available to agencies as part of a Shared Systems Suite. An initial selection process placed six financial management systems and four human resource management systems in the Suite.¹ As well, a further selection process sought proposals for the inclusion of Records Management Systems (RMS) in the Suite.

A period of consultation with industry followed which included releasing a draft Request for Proposal (RFP) to industry for comment. The RFP closed on 22 November 1996 with a total of 23 responses. On 13 June 1997 the Minister for Finance announced the final list of selected solutions as:-

Lead Partner

BHP IT
Computervision
Educom
Ferntree

IBM

Product

Documentum
TRIM and Optegra
DOCS Open and Records Manager
Objective and SIM (now GE Information
Technology Solutions)
TRIM and VisualInfo

¹ Australian National Audit Office 1996, Auditor-General's Report No.14 1996-97: Evaluation Process for the Shared Systems Suite, AGPS, Canberra.

Audit opinion

The ANAO's audit opinion relates to the evaluation process and not to the technical judgements of OGIT. The ANAO is of the opinion that:

- the evaluation procedures adopted by OGIT properly reflected Commonwealth Purchasing Guidelines for open and effective competition and the process conformed with those guidelines;
- OGIT processes were adequate in ensuring that the selected solutions accorded with government policies on Australian and New Zealand industry development and affirmative action;
- the evaluation process treated suppliers ethically, equally and fairly;
- the evaluation methodology, as published in the RFP, was followed by OGIT;
- appropriate records were maintained on the process by OGIT; and
- decisions on the evaluation process were adequately documented.

The evaluation methodology and procedures, which were based on the previous procedures for the evaluation of human resource management and financial management systems, were considered sound and were applied effectively by the evaluation team. Minor procedural breakdowns and other observed shortcomings were investigated and raised with OGIT. In turn, OGIT took prompt remedial action wherever necessary. The ANAO considers that the effects of these minor procedural breakdowns posed negligible risk to the overall probity of the process.

Agency response

OGIT agreed generally with the findings.

Summary of the Audit of the Internet Access Services Evaluation

Background

As part of the Commonwealth's 'Whole of Government' approach to the provision of selected information and telecommunications services, the Office of Government Information Technology (OGIT) sought proposals for the provision of Internet access services for government agencies.

Following a period of consultation with industry, including a registration of interest stage and the release of a draft Request for Proposal (RFP) to industry for comment, the RFP closed for responses on 6 December 1996. On 18 June 1997 OGIT advised respondents to the RFP of the result of the evaluation.

The signing of a contract was subject to completion of contract negotiations, achievement of endorsed supplier status (where the respondent was not already an endorsed supplier) and, in some cases, a resolution of price anomalies. The final list of selected suppliers was:

Company	Coverage
AAP Telecommunications Pty.Ltd	National
Access One	National and Regional ACT
HelpKey Computer Services Pty. Ltd	Regional
Highway 1 (Aust) Pty. Ltd	Regional
Mira Networking Pty. Ltd	Regional
Netway Technologies	Regional
OzEmail Pty. Ltd	National
Telstra Corporation Limited	National
Total Peripherals Pty. Ltd	National

Audit opinion

Probity, equity and fairness.

The ANAO's audit opinion relates to the evaluation process and not to the technical judgements of OGIT. The ANAO is of the opinion that:

- the evaluation process adopted by OGIT properly reflected Commonwealth Guidelines for Open and Effective Competition and conformed with those guidelines;
- OGIT processes were adequate in ensuring that the selected solutions accorded with government policies on Australian and New Zealand industry development and affirmative action;
- the evaluation process treated suppliers ethically and equally;
- with the exception of the timetable, the methodology, as published in the RFP, was followed by OGIT;
- appropriate records were maintained by OGIT on the process; and
- decisions on the evaluation process were adequately documented

However, the ANAO considered that delays in the evaluation process, to the extent that a project estimated to take two months took six months, detracted from the fair treatment of all suppliers. The ANAO also expressed concern that respondents to the RFP were not being advised of the delays.

Management

The terms of engagement for the audit requested the ANAO to provide advice to OGIT on the integrity of the tendering and evaluation process of the Request for Proposal for Internet Access Services. However, in conducting the audit the ANAO noted a number of deficiencies in the management of the project. These relate to the length of the project and the achievement of 'value for money'. They are described in the report.

Agency response

OGIT agreed generally with the findings of the audit. Further it indicated that:

“OGIT understands the ANAO view that the process was unnecessarily long. However, we are of the view that the Internet Service Provider (ISP) panel will achieve important outcomes beyond direct savings for Agencies and the Commonwealth. These non-dollar considerations include the opportunity to rationalise the number of ISP suppliers to the Commonwealth during the first year of deregulated telecommunications, and a far greater understanding of present and future evaluation of their services. As well, the ISP sector has had the opportunity to be formally advised of the Commonwealth’s current and future needs in this area.”

The Pharmaceutical Benefits Scheme Department of Health and Family Services

Audit Report No.12 1997-98 (Tabled 13 November 1997)

Background

The Pharmaceutical Benefits Scheme (PBS) was established in 1950 to provide access to life saving drugs to people who otherwise would not be able to afford them. Since then, the purpose of the Scheme has widened to provide timely, reliable and affordable access for the Australian community to necessary and cost effective medicines. In 1996-97, Government expenditure under the scheme was \$2.5 billion and patient co-payments contributed a further \$530 million.

In May 1996 the Industry Commission released its report on the pharmaceutical industry in which it recommended, among other things, that the Government undertake a review of the PBS listing process. The Minister for Health and Family Services requested the Auditor-General to incorporate this review into the audit already planned for 1997-98. The Auditor-General agreed to the Minister’s request.

Audit approach

The objective of the audit was to evaluate the Department's performance in pursuit of selected PBS program objectives, notably the efficiency, administrative effectiveness and accountability of the management of the selection of drugs for listing on the PBS Schedule.

This involved a review of the developments in the listing process over recent years including:

- the establishment of a comprehensive database of major applications for PBS listing between 1991 and 1996, which facilitated a detailed analysis of the time taken to list drugs on the PBS schedule;
- a technical consultancy into the DHFS' Guidelines to industry for preparation of applications for PBS listing, and into the use of the economic analysis in assessing proposals for PBS listing; and
- a review of the selection process including the operations of the PBS advisory committees.

Conclusions

Efficiency

ANAO concluded that, overall, the DHFS management of the PBS listing process was efficient. This report flags further areas that offer scope to achieve some additional efficiency gains

Since 1991 the process has required DHFS to evaluate economic analyses provided by industry in support of applications for PBS listing. This, and a 70 percent increase in the number of applications, has increased the workload of the relevant Branch without major changes in staffing levels.

The average time taken to process major applications to listing has, since 1991, decreased significantly. The time table for the process has been reduced from a range of 170-185 working days before 1993 to 145-160 in 1996; the proportion of major applications approved in the minimum time has increased from an average of 35 percent in earlier years to 48 percent in 1996.

Administrative effectiveness

The selection of drugs for PBS listing involves preparation by the sponsor (ie, the manufacturer or importer) of an application using DHFS' Guidelines. ANAO concluded that:

- the progressive introduction since 1991 of an evidence based approach - requiring data from clinical trials and economic analysis - has been a major contributor to the administrative effectiveness of the listing process;
- the Guidelines supplied by the DHFS to industry have been sound and useful, providing the basis for submissions by industry of sufficient evidence to support sound decision making;
- departmental processes, including the operations of the advisory committees, have operated effectively; and
- DHFS' selection processes were rigorous and applied high levels of clinical experience and judgement to the selection of drugs for PBS listing.

Accountability

DHFS has followed the Government's guidelines for reporting to Parliament on its performance in administering the PBS. ANAO concluded, however, that reporting to Parliament and to stakeholders can be further improved to provide for better understanding of the listing process.

Key findings

Efficiency issues

Following the major reductions in processing time since 1993, opportunities for further reducing average time for PBS listing are now limited. These include:

- increasing the proportion of drug applications approved at the time of their initial submission to DHFS advisory committees, insofar as this can be done without jeopardising the maintenance of high standards of evaluation of applications and of obtaining value for public money;
- improved monitoring of the process of individual applications to identify means by which processing time can be reduced; and
- working towards producing and distributing the PBS schedule electronically.

The selection process for PBS listing of drugs

The DHFS Guidelines to industry on applying for PBS listing have facilitated improvement in the quality of sponsors' submissions and that the usefulness of the information in applications has improved considerably. However, the quality of information varies considerably between applications so that there is considerable room for improvement in overall industry compliance with the Guidelines.

The majority of the industry representatives interviewed accepted the evidence-based approach and the use of economic analysis. However, many representatives of industry had reservations about the process, including the complexity of the Guidelines and the overall transparency of the process.

ANAO considers that:

- the Guidelines would benefit from incremental rather than major periodic revision. This applies in particular to developments in economic analysis techniques;
- DHFS could provide more assistance with the guidelines to less experienced applicants and should have more face to face consultation on more complex submissions;
- the selection process should give more emphasis to economic analyses of sponsors' applications, while maintaining the importance of clinical benefits from use of drugs; and
- DHFS should consider developing more universal outcome measures - applicable across a wide range of categories of drugs - to allow comparison of the value to the health system of drugs addressing different medical conditions.

ANAO noted that DHFS and the industry representative body have promoted greater transparency in the listing process than was the case in the past.

The composition of the advisory bodies in the PBS listing process has had little change in recent years. Following the 1993 requirement for cost effectiveness data and the need for judgement on economic issues in the PBS selection process, DHFS should consider whether the composition and operation of the advisory bodies are consistent with their changing roles.

PBS as a purchasing program

Government spends over \$2.5 billion annually on PBS. The cost of the program has grown between 8 and 13 percent annually in recent years. This audit did not examine all factors affecting the growth of Government outlays under this program. Rather it focussed on the listing process as one significant factor.

The Budget status of PBS bears on DHFS' management of the program. Rather than have a predetermined Budget limit as is the case with most appropriations, PBS has a Special Appropriation and is demand driven. In such a case, the Budget outcome each year depends on the level of demand by consumers. This makes some conventional purchasing and budgeting

strategies, such as setting priorities and planning purchasing strategies, difficult to apply and operate effectively.

DHFS could achieve better value for money if it could more fully promote to the public and GPs the quality use of the medicines which it subsidises. The secrecy provisions of the National Health Act impose limitations on how DHFS can advise on the relative merits and limitations of drugs purchased through the PBS. DHFS should examine whether these provisions of the Act are still necessary to effectively implement Government policy and, if not, what changes would be desirable to allow GPs and the public to be better informed.

Recommendations and DHFS response

The ANAO made fifteen recommendations aimed at improving the management of the PBS, in particular, the listing process. The Department noted that it appreciated the value of an independent review of the PBS process. Of the fifteen recommendations, twelve were agreed and three were agreed with some qualification.

Immigration Compliance Function Department of Immigration and Multicultural Affairs

Audit Report No.7 1997-98 (Tabled 21 October 1997)

Background

The 'immigration compliance function' of the Department of Immigration and Multicultural Affairs (DIMA) refers to its responsibility for ensuring that temporary entrants to Australia comply with conditions of their entry, and particularly that they do not overstay the period of their visa.

In 1996-97 DIMA located 10,138 people who were unlawfully in Australia and physically removed 1,359. Over the 1990s there has been a gradual reduction in the estimated number of 'overstayers' in Australia. At December 1996 DIMA estimated that there were 45,100 overstayers, 64 per cent of whom had overstayed by four years or more. However, since the September 1994 reforms to the migration regulations, DIMA has provided a significant number of people, who would previously have been 'overstayers', with temporary 'bridging visas'.

The follow-up audit

This follow-up audit has assessed DIMA action on the recommendations of an ANAO efficiency audit reported in 1993-94. The follow-up audit was undertaken by the ANAO in 1996-97.

DIMA agreed with or partially agreed with most of the 17 recommendations that the ANAO made in 1993-94.

Conclusions

In this follow-up audit, the ANAO found that:

- satisfactory action had occurred against seven recommendations;
- there had been considerable progress on a further seven but further development was advisable;
- two recommendations were still to be adequately implemented; and
- one had been rejected after fuller consideration.

Following tabling of the 1993-94 audit report, DIMA started to act on the ANAO's recommendations. However, subsequently, the department's action slowed due to organisational restructuring and changes in management priorities. During the follow-up audit in 1996-97 there was again a tighter focus on administration and improved activity in the areas covered by the recommendations.

Specific areas of relevant administration are discussed below. Each forms a chapter in the follow-up audit report.

National operational coordination

The previous audit made recommendations for improving the lawfulness and effectiveness of compliance work in DIMA's regional offices through:

- national overviewing of standards and quality assurance;
- effective training strategies; and
- furthering identified best practice in compliance action.

There is still scope for strengthening national support of a regional operational capability.

Performance measurement and management

During 1996-97, some progress was made towards more efficient use of compliance resources through program performance measurement and

monitoring, particularly through the development of performance benchmarking.

While recent progress on audit recommendations regarding performance measurement has generally been good, there are aspects which require continuing development, for example:

- improved reliability of performance information;
- improved reporting of trends in resources allocated to compliance work; and
- improved understanding of the factors contributing to reported trends.

Information sharing and cooperation

Development of data matching and cooperation with other relevant Government agencies was slow due to a number of factors. Nonetheless, in 1996-97 there were measurable gains in cooperation with agencies, such as the Australian Taxation Office and the Department of Employment, Education, Training and Youth Affairs. Maintenance of strong coordination of effort by DIMA remains a priority in order to realise the potential for achieving compliance through data matching.

Quality of operational data

Problems in the quality of data continue to reduce the efficiency and effectiveness of the compliance function. These problems can lead to serious errors in enforcement action.

DIMA had taken some action to improve data quality in accordance with earlier audit recommendations. However, further action is necessary to ensure that DIMA's information systems are sufficiently robust and reliable to enable efficient and effective immigration compliance. This can be achieved by having defined standards, by adequate monitoring, and by coordinating national reporting on compliance problems arising from poor data in order to make timely improvements.

Further improvements in program performance are possible, given planned advances in DIMA's computer systems. DIMA has entered a partnership with an information technology firm to improve its business systems. Accordingly, DIMA advises that development of an Integrated Client System Environment (ICSE) project is commencing during 1997. As the ICSE project is implemented in the next few years, systems are likely to be better integrated. As a result DIMA anticipates that operational data will improve significantly, leading to more effective action against visa overstayers.

Other issues

Since the 1993-94 audit recommendations, DIMA has given attention to the investigation of immigration schemes involving misuse of passports. DIMA recognises this as an area of continuing threat to the integrity of immigration programs.

The 1993-94 audit also recommended that DIMA improve its implementation of the statutory provisions to recover the costs of compliance action from offenders. The ANAO recommended improved recovery practices before offenders were removed from Australia. This had not happened. DIMA is now reconsidering this issue.

Departmental response

DIMA commented that since 1996 there has been a tighter focus on its administration of the compliance function. DIMA saw the follow-up audit as a salutary reminder to concentrate on the fundamentals such as reliable systems, performance management, and training.

The follow-up audit report gives recognition to the department's activities during 1996-97, as the program was working through achieving a series of major priorities, largely encompassing the recommendations of the 1993-94 audit report. DIMA advised that, while it had made progress in these respects over the last year, it would further this by action on the specific problems identified in this audit report.

Strategic and Operational Management National Registration Authority for Agricultural and Veterinary Chemicals

Audit Report No.26 1997-98 (Tabled 23 December 1997)

Background

The National Registration Authority for Agricultural and Veterinary Chemicals (NRA) was established to undertake the Commonwealth's responsibilities under the National Registration Scheme for agricultural and veterinary activities. Under the scheme the NRA is responsible for the evaluation, registration and review of agricultural and veterinary chemicals and their control up to the point of sale. The States and Territories retain responsibility for control-of-use activities, and for carrying out reviews and providing advice on the effectiveness of agvet chemical products against their intended use.

The NRA is a Commonwealth statutory authority, with responsibility for its strategic direction vested in a Board of Directors. The NRA funds its operations almost completely through a system of statutory charges, with revenue from application and renewal fees and levies for 1996-97 being \$14.1 million.

Audit approach

The objective of the audit was to assess the efficiency and effectiveness of the NRA's strategic and operational management, particularly the assessment and registration activities. The audit criteria took into account the scope for the application of risk management principles which are integral to strategic and operational management. The audit did not seek to form judgements on scientific matters related to chemical product and safety outcomes.

Audit conclusion

The NRA has had the challenge of integrating State-based regulatory schemes into one national scheme while dealing with a complex operating environment involving various stakeholder groups. The NRA has taken a number of initiatives to improve its processes. However, in the ANAO's opinion, risk management has not yet been applied in a sufficiently comprehensive and integrated manner to the management of the NRA's operations to produce more cost effective outcomes. The use of risk management principles needs to develop from the NRA's corporate and strategic planning and link directly into its operations, particularly its consideration of applications for registration. The results of the NRA's risk management planning also need to be reflected in resource allocation decisions. The ANAO noted that applications for registration are often not approved within statutory timeframes.

The ANAO also considers that efficiencies would result from applying business re-engineering principles to the assessment procedures. Improvements proposed by the ANAO to the agreements between the NRA and those agencies providing expert services should provide a useful indication of the additional scope available to the NRA to ensure that it is receiving value for money and that service providers are properly held accountable.

Key findings

Strategic direction and corporate planning

The ANAO considers that linkages between the NRA's corporate objectives and its statutory responsibilities are not sufficiently clear for effective management. The NRA needs to ensure that, as part of its corporate planning framework, the corporate objectives are carried through into operational action and are supported by an effective performance information framework.

In conjunction with the establishment of its corporate planning framework, the ANAO suggests that a more structured and systematic approach to risk management would help ensure that stakeholders' views are incorporated

directly into the NRA's operations as part of good corporate governance and result in better outcomes.

Assessment procedures

The NRA has implemented a number of initiatives in response to concerns of agvet manufacturers about the time taken to process applications. However, the ANAO considers that the evidence suggests NRA's performance could be significantly improved. For example, only 65% of applications have been completed within statutory timeframes (for agricultural product assessments only approximately half are finalised within statutory timeframes).

The ANAO found that elapsed time to complete applications for registration was often well in excess of the time the application was under active management by the NRA. Using elapsed time as a secondary performance indicator would help improve overall timeliness performance and provide a greater focus on service to customers.

The ANAO considers that scope exists using business re-engineering techniques to make improvements to the assessment processes. In addition, tailoring the NRA's overall approach to deal with lower risk chemicals in a way that incorporates enhanced risk management has considerable potential to achieve improvements in the NRA's efficiency and effectiveness.

External service provision

Memoranda of Understanding and Agreements between the NRA and service providers do not include sufficient detail of how the professional assistance is to be provided and of performance and quality standards required for accountability purposes.

The ANAO considers that including levels of fees for services provided in agreements with service providers would permit greater assurance about value for money and provide benchmarks to facilitate contestability. It would also be of benefit for the NRA to examine the possible use of alternative sources of professional assistance to achieve better cost effective outcomes.

The ANAO found that guidelines for reviews undertaken by the States of the effectiveness of agvet chemical products against their intended use are not up-to-date or sufficiently clear. Improved guidance should include, for example, clear parameters as to the priority of, and the time(s) required for, the reviews.

Other NRA programs

As currently managed, the Existing Chemical Review Program will not be able to review a significant proportion of active ingredients registered prior to the establishment of the National Registration Scheme for a number of years.

There has been a high initial level of non-compliance with the good manufacturing practice code for Manufacturers' Licensing Scheme, of the order of 60%. The NRA has identified lack of industry awareness and knowledge of the code as key factors. The ANAO considers it important for the NRA to extend its analysis of outcomes to include the adequacy of industry practices, the relevance and appropriateness of codes and the auditing process.

The ANAO concludes that there would be benefits in the NRA adopting a structured, comprehensive risk management approach which would involve the NRA addressing issues related to all its program activities in an integrated manner.

Resource allocation and fee implications

Using a more quantitative approach to match resources to workload should provide the basis for enhanced approaches to, and greater efficiency of, resource allocation. It is also important that resource allocation decisions are made consistent with outcomes of the risk management process.

The ANAO considers that the NRA's cost recovery model, with income largely driven by manufacturers' sales and re-registration of products, does not impose any pressure for improvements in efficiency and effectiveness. This view was reflected in a 1993 Prices Surveillance Authority report.

This report makes 12 recommendations covering key management issues including planning, risk management, process administration and cost recovery.

NRA response

Overall, the NRA accepts the thrust of the conclusions and recommendations contained within the audit report. The general approach of applying risk management principles to the NRA's activities is endorsed, and the recommendations generally appear logical and appropriate for this stage of the NRA's development. Indeed they are consistent with many of the initiatives the NRA has already implemented and is continuing to develop.

Sydney Airport Noise Amelioration Program

Department of Transport and Regional Development

Audit Report No.17 1997-98 (Tabled 4 December 1997)

Background

The Sydney Airport Noise Amelioration Program (NAP) is a Commonwealth program to acquire properties voluntarily and provide financial assistance for the noise insulation of residential and institutional buildings in areas most severely affected by aircraft noise. The aim of the program is to reduce the impact of aircraft noise on residents living around Sydney's Kingsford-Smith Airport (KSA).

Total expenditure under the program is estimated to be of the order of \$300m over six financial years. The program is expected to be completed by June 2000. The cost of the program is to be recovered over time by an aircraft noise levy imposed on the operators of jet aircraft using KSA. Airlines usually recoup that cost from passengers.

The Department of Transport and Regional Development (DoTRD) is responsible for the overall administration of the NAP and the collection of the aircraft noise levy. Airservices Australia collects the levy under an arrangement with DoTRD. The then Department of Administrative Services (DAS), through its business unit Australian Operational Services (AOSS), was the project manager for the NAP, under successive Memoranda of Understanding (MoU) with DoTRD, the program manager. On 15 August 1997, the Government sold AOSS to a private sector buyer. The buyer will provide project management services under a contract to DoTRD.

Audit objectives and criteria

The objectives of the audit of the NAP were to:

- assess the extent to which major program objectives were being achieved;
- identify major strengths and weaknesses related to the economy, effectiveness and efficiency of the program administration; and
- identify areas of improvements and risks which should be addressed in arrangements with a private sector project manager.

The audit criteria addressed the areas of program planning and implementation, performance measurement and monitoring, responsiveness to emerging issues, dispute resolution mechanisms, risk management and program improvement measures.

Overall conclusion

The audit indicates that, on the whole, the program is achieving its objectives. Over time DoTRD has initiated a number of measures designed to achieve performance targets and contain costs. However, in respect of the output targets, not all the original targets for 1994-95, 1995-96 and 1996-97 were achieved. More comprehensive and timely remedial action was necessary to meet program targets.

Suggested areas of improvement in DoTRD's program administration included:

- the introduction of a risk management plan and an overall implementation plan for the program;
- setting and achieving measurable objectives for the residential insulation element and realistic output targets for the program;
- establishing performance information for cost monitoring and quality control; and
- transparency in, and detailed justification for, the amount of the project management fee.

The audit identified the following key risks to be taken into account in planning for the transfer of the project management to a private sector manager:

- the need for flexibility in the contract to accommodate changes in the size and composition of the program;
- an extension of the duration of the program leading to an escalation of project costs;
- the need for clear dispute resolution mechanisms to minimise the risk of litigation; and
- the need for systems and procedures to verify the basis of claims for payment.

Key findings

Program planning

The ANAO found that alternative means of achieving program outcomes had been explored. With the exception of the residential insulation element, the program elements contained both specific operational output and noise reduction targets. In the light of the experiences in managing the program, DoTRD revised the MoU with AOSS, seeking to improve program performance by incorporating improved target setting and financial incentives.

The ANAO also noted that:

- DoTRD had not conducted a risk assessment nor developed a risk management plan for the program as a whole. Such a plan would have enabled the Department to be more pro-active in its management of the program;
- no specific measurable performance indicators were published externally, impairing the ability of the Parliament and the public to assess the overall performance of the program;
- in the case of the residential insulation element, which is the largest part of the program, the lack of any quantifiable noise reduction target made it difficult for the program management to assess its own effectiveness in the administration of this element or to hold contractors accountable for the achievement or otherwise of specific standards of noise reduction;
- changes to the scope of the program and shortfalls in meeting the program outputs contributed to a number of reductions in the annual program output targets. These reductions of the annual targets were not accompanied by planning to ensure that the NAP would be completed within the total budget and time-frame envisaged for the program; and
- the negotiation and dispute resolution processes in the institutional element of the program tended to be protracted, mainly because of the arm's-length tripartite relationship between the Commonwealth, the contractor and the building owners, and the large size and complex design aspects of individual projects. There were appropriate dispute resolution mechanisms for the residential insulation element, but it took over two years to establish an independent committee to review complaints about administrative decisions taken by the program and project managers.

Program Management

The ANAO found that DoTRD had given reasonable consideration to containing the costs of insulation measures and had provided appropriate advice to Ministers on options to contain program costs.

The indications were that program quality was satisfactory in that the outcomes achieved were in line with the program objectives.

Given the then Government's decision that DAS would be involved in the initial program, there was no market testing of the level of the project manager's fee when the NAP was originally established nor has there been a subsequent zero-based review of the level of that fee. In the absence of any such a review by DoTRD it was difficult to assess the reasonableness of the fee. The audit

found that despite significant shortfalls against the original targets, close to the full project management fee was paid.

Action to remedy indications that annual program targets would not be achieved was absent in some cases and not comprehensive or timely enough in others. As a result, significant shortfalls against the original program targets occurred in each year of the program.

DoTRD initiated a number of reviews related to program effectiveness. However, advice on new strategies and options arising from these reviews, including options for the insulation of light-weight houses, could have been given to Ministers in a more timely manner.

Recommendations

The ANAO made nine recommendations aimed at:

- enhancing program effectiveness and accountability;
- improving planning to complete the program on time and on budget; and
- providing a greater client focus and improving the dispute resolution mechanisms of the program.

Departmental response

DoTRD agreed with all nine recommendations made by the ANAO.

Government Business Enterprise Monitoring Across-Portfolio

Audit Report No.2 1997-98 (Tabled 24 September 1997)

Background

Currently, there are fourteen Commonwealth Government Business Enterprises (GBEs) which are a mixture of companies and statutory authorities. In 1995-96, GBEs generated revenue of nearly \$21 billion; provided dividends of \$1.6 billion; and controlled assets of some \$41 billion. They incur different business risks resulting from, among other things, different levels of competition in their product markets and from their varying capital structures. On average, the businesses produced a 12.8 per cent return on assets in 1995-96.

Over the past decade, governments of the day have significantly reduced externally imposed shareholder controls on GBEs relying on an arms length approach involving performance monitoring for accountability purposes. Following a request from the Prime Minister for a review of GBE governance arrangements, the Minister for Finance announced on 23 December 1996 the appointment of Mr Richard Humphry AO, Managing Director of the Australian Stock Exchange, to undertake the review. The review report was released in June 1997.

The Government issued revised governance arrangements for GBEs in June 1997, following consideration of the review report. These new arrangements replace the 1993 *Accountability and Ministerial Oversight Arrangements* which applied until 1 July 1997 and against which this audit tested monitoring of selected GBEs by agencies. In preparing this report, the ANAO has had regard to the recently issued governance arrangements which incorporate improvements recommended by the *Review of GBE Governance Arrangements* and agreed by the Government.

Audit approach

The objectives of the audit were to examine:

- the effectiveness of the GBE monitoring arrangements in providing appropriate performance information to the Government;
- the extent to which agencies and the selected GBEs comply with the monitoring arrangements and legislative arrangements; and
- whether the GBE monitoring system provides an effective level of accountability to Ministers and the Parliament.

The approach taken in the audit was to review the application by the Department of Finance and the portfolio departments of the 1993 *Accountability and Ministerial Oversight Arrangements for GBEs* which applied until July 1997 and any statutory monitoring and reporting requirements applying to the selected GBEs provided under their own establishing legislation.

In identifying the sample of agencies whose monitoring activities were to be reviewed, the ANAO sought to include some of those agencies with major responsibility for GBEs. The agencies selected were the Department of Defence with regard to its monitoring of ADI Limited; the Department of Communications and the Arts with respect to the Australian Postal Corporation (Australia Post); the Department of Transport and Regional Development with respect to the Australian National Railways Commission (Australian National);

and the Department of the Treasury with respect to the Housing Loans Insurance Corporation (HLIC).

In March 1997, the Government invited expressions of interest in tendering for Australian National's businesses. On 28 August 1997, the Ministers for Finance and Transport and Regional Development announced that the businesses were to be sold to three separate consortia for a total of \$95.4 million. In addition, in the 1997 Budget, ADI Limited was included in the \$15 billion asset sales program.

Conclusions

Performance information

The improvement in GBE corporate planning information available to agencies as a result of developments in the GBE monitoring arrangements has generally increased agencies' understanding of the GBEs' businesses, where this information has been provided. However, the Department of the Treasury has yet to ensure compliance by HLIC with the requirements of the GBE guidelines with regards to submitting a corporate plan approved by the relevant Minister.

Considerable effort has been devoted in recent years by both portfolio departments and the Department of Finance to the development of economic rate of return targets for GBEs.

The 1993 arrangements included provision for regular reviews of the capital structure of GBEs to be carried out at least every five years. In respect of the selected GBEs considered by this audit, adequate capital structure reviews have been conducted in accordance with the arrangements.

Risk transparency

In the corporate plans examined by the audit there was not uniformly explicit identification of risks and options for their treatment. Consistent with the better practice developments in both the private and public sectors, the ANAO considers it desirable that governance arrangements be further strengthened in regard to risk management. The development of well considered risk management strategies, which are directly linked to the overall corporate plan of GBEs, would enhance transparency of assessed exposures. This approach should allow the Government, as shareholder, to be assured that such exposures are being adequately managed; that the GBEs are managing effectively within their business environment; and that GBE exposures should not result in future unnecessary calls upon the Budget.

Accountability

There have been improvements in recent years in internal reporting mechanisms, including: the introduction of periodic reporting to Ministers; surveys conducted by the Department of Finance of GBEs' use of derivatives and explicit Commonwealth guarantees; and increased reporting requirements.

Accountability has been further enhanced by the introduction of the June 1997 Governance Arrangements which require GBEs, in consultation with Shareholder Ministers, to prepare an annual Statement of Corporate Intent for tabling in the Parliament. In addition, during the financial year, the Minister for Finance may require a GBE to prepare an interim report for tabling in the Parliament by the relevant portfolio Minister.

Recommendations

The ANAO made three recommendations which were accepted by the departments involved. Departments either agreed, or agreed with qualification, to the recommendations that:

- portfolio departments periodically commission an independent assessment of corporate plans of GBEs within their portfolio to provide objective assurance to Ministers and the Parliament;
- departments ensure that GBEs within their portfolios comply with the requirements of the 1997 *Governance Arrangements*; including the preparation and submission of corporate plans, when they are being sold or restructured unless and until otherwise agreed by the Shareholder Ministers; and
- consideration be given to the advantages of amending the 1997 *Governance Arrangements* to require GBEs to specify in their corporate plans and progress reports their material risks and strategies for treating these risks.

Program Evaluation in the Australian Public Service Across-Portfolio

Audit Report No.3 1997-98 (Tabled 29 September 1997)

Background

Program evaluation (commonly referred to simply as 'evaluation') is the systematic assessment of the appropriateness, effectiveness and/or efficiency of a program, or part of a program. As such, it is of considerable value both to agency managers, external decision-makers and other stakeholders. It is clearly a critical tool in assessing performance and in this way contributes importantly to sound management practice.

Since the late 1980s, there has been a number of mandatory requirements in place in relation to evaluation planning and the publication and use of evaluation results. However, the Department of Finance (DoF) and other Australian Public Service (APS) agencies have felt that these requirements can often lead to a predominantly process oriented approach. Accordingly, a new approach is currently being developed by DoF, in consultation with other APS agencies. The new approach, which revolves around a number of identified principles, is designed to ensure that evaluation becomes an integral part of a broader performance management framework across the APS.

As well, program evaluation is a key component of Corporate Governance¹. Along with performance indicators and other measures, evaluation assists in providing credible accountability information to assure the Chief Executive Officer (CEO) on internal control and management of the organisation, the planning and review of its operation and progress, and ensures consultation and constructive feedback on agencies' program activities.

The audit

The objective of the audit was to examine the effectiveness of the management and control of program evaluation in the APS.

1. For more information about Corporate Governance, refer to the ANAO's 1997 publication: *Principles for Core Public Sector Corporate Governance*.

The ANAO made an assessment against criteria which were designed to test whether agencies were undertaking evaluations in a way which would enhance their overall effectiveness. The main issues examined were:

- approaches to evaluation planning;
- the conduct of individual evaluations;

- the quality of evaluation reports; and
- the impact of evaluations.

The methodology for the audit had three components:

- an in-depth review of evaluation in the following four agencies:
 - Department of Health and Family Services (DHFS);
 - Department of Immigration and Multicultural Affairs (DIMA);
 - Department of Industry, Science and Tourism (DIST); and
 - the Office of Evaluation and Audit (OEA);²
- a review of the quality of a sample of completed evaluation reports drawn from all portfolio coordinating agencies³. The reports were assessed against various aspects of quality related to areas such as terms of reference, methodology, relationship of conclusions to data and evaluation recommendations; and
- a survey of evaluation activity in all APS portfolio coordinating agencies.

2. The OEA is the evaluating and auditing arm of the Aboriginal and Torres Strait Islander Commission (ATSIC).

3. Portfolio coordinating agencies are classified as those agencies required under DoF guidelines to produce Portfolio Evaluation Plans (PEP), which includes all portfolio departments plus the Department of Veterans' Affairs, Department of Administrative Services and ATSIC but excludes the parliamentary departments.

A number of consultants with evaluation skills and experience was employed to assist in the conduct of the audit. The ANAO also established an Audit Reference Group, which included membership from DoF, to provide specialist advice on such matters as a possible audit approach, criteria, questionnaire design and the likely future direction of evaluation.

Audit conclusion

Overall, the ANAO considers that a number of aspects of the management and control framework of evaluation were operating adequately. However, there were particular areas where there was significant scope for further improvement.

In respect of evaluation planning, the ANAO found that the overall evaluation plan in agencies was generally satisfactory with most agencies involving the responsible Ministers and the agency executive. Further improvements could be made by:

- establishing a formal framework aimed at ensuring that evaluation planning considered major issues of strategic importance;
- providing clear links in corporate/business plans to the evaluation strategy to ensure that evaluation activities are relevant to, and directly inform, decision-making; and
- ensuring that the findings of evaluations are used to review performance information, particularly performance indicators to test their validity and refine their usefulness.

The ANAO found that agencies generally had mechanisms in place aimed at assisting a quality outcome from the conduct of individual evaluations. These mechanisms included bringing together the required level and mix of evaluation skills; providing an adequate range of guidance material; and establishing executive evaluation committees and/or steering committees, with a responsibility for monitoring the progress of individual evaluations. However, the audit also identified areas where further improvement could lead to better performance, as follows:

- effective monitoring mechanisms need to be implemented to minimise the risk of slippage in evaluation timeframes and help ensure that the results of evaluations are available to feed into decision-making at key points;
- the roles and responsibilities of key participants in the evaluation process need to be clearly defined; and
- the areas of concern identified in the review of the quality of evaluation reports in relation to evaluation processes and/or report writing need to be addressed. Agencies need to determine whether the concerns raised about the quality of reports stem from a gap in analytical abilities or a lack of knowledge of appropriate methodologies or, simply, an inability to provide the appropriate information in the final report.

The ANAO found that agencies had some strategies and processes in place to help ensure that evaluations had an impact, for example, in endorsing and monitoring the implementation of evaluation recommendations. However, the ANAO also found that many agencies could not fully gauge the effectiveness of evaluations because the mechanisms needed to establish the full cost and

impact of evaluation activities had not been implemented. As well, the impact of evaluations could be improved by publicly releasing the results of evaluations wherever possible, particularly to encourage useful feedback from the various stakeholders and facilitate improvements.

Given the resources involved in planning and conducting evaluations, it is essential for agencies to ensure that evaluation activity achieves the desired impact. This is particularly important considering the key role that evaluation should play in the policy development and performance assessment framework.

Recommendations

The ANAO has made a number of specific recommendations aimed at further improving the planning, conduct and impact of evaluations undertaken in those agencies examined as part of its in-depth review.

In addition, the report provides a series of better practice principles which have relevance for all agencies. Their aim is to enhance the management and control of evaluations across the APS. The principles have been drawn from issues raised during the course of this audit and, therefore, are not necessarily exhaustive in terms of what individual organisations might need to do. However, they are expected to be useful for any management consideration of their approach to evaluation as a tool for performance improvement.

Agencies' responses

The four agencies examined as part of the in-depth study agreed with all the recommendations.

ATSIC/OEA consider that the audit makes a useful contribution to the management of evaluation and that the better practice principles, identified in the audit, are very relevant. DHFS agreed with the thrust of the audit findings and has started action to address the recommendations. DIMA noted that the audit provides a rich source of ideas for improvement and that the development of the better practice principles is particularly welcome and timely. DIST indicated that this report provides useful information and advice on how agencies can ensure that evaluation is an integral part of performance management.

Management of Occupational Stress in Commonwealth Employment Across-Portfolio

Audit Report No.8 1997-98 (Tabled 20 October 1997)

Background

Occupational stress is a significant direct and indirect cost in Commonwealth employment.

- In 1996-97 it accounted for around \$35 million in compensation payments to agency employees. At \$38 million in 1995-96, stress was the third highest cost category of illness and injury experienced by the Commonwealth workers' compensation scheme after back injuries and strains.
- The number of stress related workers' compensation cases rose from around 900 in 1989-90 to over 1600 in 1994-95. More recently, numbers declined to around 900 in 1995-96 and still further to 535 in 1996-97.
- The average cost to the Commonwealth of a stress case is of the order of \$23,000 compared with an average for non-stress compensation cases of \$8,000.
- The average period of employee incapacity was over 20 weeks for 1994-95 stress claims, compared with around three weeks for claims for all injuries.
- It has not been possible to assess the indirect costs related to occupational stress, including the costs of replacement staff, but agency experience would suggest they are significant.

Because of different practices and definitions, there are difficulties in comparing Commonwealth experience with that of State and Territory workers' compensation authorities. However, broad comparisons suggest that the Commonwealth has relatively high case numbers and costs.

Audit objectives and criteria

The audit objectives were to establish:

- whether Comcare took an effective leadership role in helping to manage the cost of occupational stress to the Commonwealth; and
- whether agency management of occupational stress was efficient and effective.

The audit included reviews of the management of stress in four agencies.

The ANAO criteria for the audit focused on how well Comcare understood the impact of occupational stress across APS employment, and supported agencies in their management of the disability. They also dealt with how well agencies understood and measured the impact of stress, and planned for its prevention or minimisation.

Overall conclusion

The audit found that Comcare had taken an effective leadership role in recent years in helping to manage the cost of occupational stress to the Commonwealth. Comcare had strategies to assist agencies in understanding and preventing stress and had acted recently to focus specialised resources on the management of stress claims. Through changes in its processes of claims examination and approval, Comcare had reduced the rate at which such claims were approved.

Comcare could improve management of stress in APS employment overall by:

- promoting to agencies the advantages of better management information on the impact of occupational injuries (including stress) and demonstrating how Comcare data could be more effectively used by agencies;
- ensuring that the results of recent pilot prevention programs are disseminated effectively to employing agencies;
- more investigation to establish appropriate benchmarks of APS experience against that of the States and Territories; and
- reviewing claims procedures in other workers' compensation jurisdictions and adopting identified better management practice where justified.

Agency management of occupational stress was found to be adequate with respect to strategies and programs to address the causes of stress in workplaces, that have been increasingly adopted in recent years. However, agency information on the impact of occupational stress was, in some cases, limited. Agencies could manage more efficiently by:

- better use of Comcare data on the numbers, costs and locations of stress compensation cases. While cost-benefit considerations must be taken into account in developing management information systems for work related injuries and illnesses, it is likely that by drawing on information available from Comcare, all agencies would be better placed to manage stress;

- benchmarking with other agencies. Comparisons of case numbers, duration and cost levels could provide an agency with a broader base of experience and insights into better practice in other agencies; and
- monitoring the effects of agency OH&S strategies and programs on the incidence of stress claims to enable management to take appropriate action to target locations and workplaces where claims arise.

Key findings

The audit found that:

- an increasing proportion of workers' compensation claims made by Commonwealth employees was related to stress. In 1989-90, five per cent of claims made cited stress. In 1995-96 stress was cited in twelve per cent of claims;
- the rate of acceptance of stress claims has declined markedly. In 1990, around 80 per cent of stress claims made by employees were accepted by Comcare. Around 50 per cent are currently accepted, reflecting closer adherence to existing statutory provisions concerning medical evidence and the relationship of a stress condition to employment;
- stress claims are costly compared to other work related illnesses. In 1995-96 stress accounted for only 7 per cent of accepted workers' compensation claims but 19 per cent of Commonwealth expenditure on compensation; and
- The level of cost reflects comparatively longer periods of absence from work compared with other injuries and illnesses. The average period of employee incapacity was around eight weeks for 1995-96 stress claims.

Recommendations and better practice

There are six recommendations directed to Comcare that deal with benchmarking data on the impact of occupational stress in Commonwealth employment, the processing of stress claims and the data services that Comcare provides to customer agencies.

The audit also considered the application to occupational stress of the Safety, Rehabilitation and Compensation Commission Risk Management Model, issued by Comcare to agencies during 1996-97. Management procedures in four selected agencies were tested against the elements of the Model. Generally, agency strategies and activities to manage the impact of occupational stress accorded well with the direction of the Model. There were

a number of different observations of good practice in agency management, as well as practices that could be improved.

A joint guide addressing the management of occupational stress has been produced by ANAO in cooperation with Comcare.

Management of Telecommunications Services in Selected Agencies Across-Portfolio

Audit Report No.9 1997-98 (Tabled 23 October 1997)

Background

The Office of Government Information Technology (OGIT) has estimated that in 1995-96 Commonwealth expenditure on telecommunications carriage services was at least \$383 million. In addition, there is substantial expenditure by agencies on services such as technical support for their networks, contracted management support for their telecommunications facilities and Internet arrangements.

In the 1996-97 Budget context, the Government required all Commonwealth departments and budget-dependent agencies to use mandated whole-of-government agreements for carriage services and to comply with their terms and conditions.

Audit approach

The ANAO objectives for the audit were to report on the efficiency and effectiveness of selected agencies' management of telecommunications services. The specific purpose was to :

- identify the potential for more effective management of telecommunications services;
- consider the appropriateness of Commonwealth agencies' management of telecommunications services to take advantage of technological opportunities; and
- identify the elements of sound administration in the management of telecommunications services.

This audit dealt with the management of telecommunications services in a range of small to medium sized agencies and the relationships between those

agencies and OGIT. Ten agencies² were selected to illustrate a variety of operating environments, patterns of utilisation of tele-communication services, business orientations and geographical dispersion. The audit focussed primarily on telecommunications services, as distinct from related capital items and equipment.

Audit conclusions

The audit's conclusions, outlined below, flow from the audit objectives to assess the adequacy of agencies' management of their telecommunications services and their use of telecommunications to add value to their business operations, and to identify the elements of sound practice in the management of telecommunications services. The conclusions also address anomalies in the implementation of the prevailing whole-of-government arrangements for telecommunications services as these anomalies impact on the selected agencies' management of their telecommunications resources.

Whole-of-government arrangements

Four of the ten selected agencies reported to the ANAO that, in the first half of 1996-97, they were able to access lower prices through using either private lines (which are not covered by whole-of-government arrangements) or pre-existing arrangements for carriage service products available outside the whole-of-government arrangements.

The ANAO supports the proposed evaluation in 1998 of OGIT's whole-of-government telecommunications arrangements, to ascertain whether the expected outcomes, including savings arising from these arrangements, were actually achieved.

Information deficiencies resulted in OGIT providing some anomalous estimates of agencies' usage of whole-of-government telecommunications services, which the Department of Finance used to calculate \$7.5 million reductions in agencies' running costs in 1996-97, and some \$70 million in subsequent outyears. Several of the selected agencies advised the ANAO that they have not achieved benefits from the whole-of-government arrangements equivalent to their running cost reductions in 1996-97.

² The selected agencies were the Australian Bureau of Statistics, Australian Customs Service, Australian Securities Commission, Australian Sports Commission, Austrade, Department of Communications and the Arts, Department of Health and Family Services, Department of Immigration and Multicultural Affairs, Department of Primary Industries and Energy and the National Library of Australia.

Agency management

Agencies' processes for the procurement of telecommunications services across the selected agencies were generally adequate given the current environment of transition from monopoly supply to whole-of-government arrangements in a deregulated environment. Notwithstanding this, agencies need procurement guidance which matches the contemporary telecommunications procurement environment. As well, model contracts for services outside the whole-of-government arrangements would assist improved administration.

The selected agencies' telecommunications managers would be assisted to carry out their functions more effectively by enhanced access to support services, including training in relation to negotiation and contract management; access to information and other assistance in relation to client service issues; coordinated dissemination within government of information on products, services and better practices; and the establishment of government telecommunications users groups to exchange information and develop skills.

In any realignment or outsourcing of the management of telecommunications functions, agencies should retain an effective strategic telecommunications management capability, linked to their planning and performance management processes. Where information management processes are lacking, agencies may not have the capability to assess fully whether any proposed arrangements for comprehensive packages of managed telecommunications services would provide value for money.

Technologies

The use of telecommunications to support business process re-engineering is evident in the selected agencies, having regard to their business needs and organisational characteristics. In view of the relatively short life span of products and technologies, there is need for agency program managers to be more informed about the potential of telecommunications technologies and services to contribute to the achievement of agencies' business objectives; the range of telecommunications services available to support business processes; and the costs and benefits of various services. This would enable a more strategic use of telecommunications services required to support business processes and program delivery.

Recommendations

The ANAO made eleven recommendations addressing the above issues. The ten selected Commonwealth agencies and OGIT agreed or agreed with

qualification to all the recommendations. The Department of Administrative Services (DAS) agreed with both recommendations applicable to it.

The report has made recommendations in relation to:

- procurement guidance and model contracts for telecommunications services not currently covered by whole-of-government arrangements;
- establishment of information management systems to facilitate better reporting on telecommunications services;
- the scope for OGIT and DAS to support agencies' procurement practices;
- the integration of agencies' telecommunications planning with their business planning;
- review of anomalies in supplier accounts;
- cost management strategies and codes of conduct;
- performance monitoring and benchmarking; and
- periodic reviews ('audits') of services.

During the period that the report was being printed, responsibility for the administrative functions of the Department of Administrative Services were assigned to a new Department of Finance and Administration. References in the report to the Department of Administrative Services now refer to the Department of Finance and Administration.'

Third Tranche Sale of the Commonwealth Bank of Australia Across-Portfolio

Audit Report No.13 1997-98 (Tabled 12 November 1997)

Background

The sale in July 1996 of the Commonwealth's remaining 499.1 million shares in the Commonwealth Bank of Australia (CBA) represented the largest public share offering in a Commonwealth owned enterprise to that time. The sale comprised a public share offer of 399.1 million shares by the Commonwealth Government and a buy-back by the CBA of 100 million shares. The sale of the third tranche of the CBA (CBA3) involved the sale of the Commonwealth's shares to the value of \$5.15 billion with proceeds of the sale being a major component of the Government's Budget strategy for 1996-97 and 1997-98.

The sale by instalment model which was devised for CBA3 provided for the Commonwealth to sell its shares in two instalments. The first instalment of \$6.00 was paid when the sale shares were purchased, at which time the investor was issued with an instalment receipt and a beneficial interest in the corresponding CBA share (the legal title for the shares being held by the Commonwealth Instalment Receipt Trust). Holders of instalment receipts received, to the maximum extent possible, the dividend and voting benefits of a normal CBA shareholder. Investors are required to pay their second instalment of \$4.45 by 14 November 1997, although they also have the option to pay earlier.

Audit approach

The ANAO objectives in auditing the third tranche sale of CBA were to review the extent to which the Government's sale objectives have been achieved; the effectiveness of the management of the share offer and share buy-back processes; the management and reporting arrangements associated with on-going Commonwealth exposures; and the consideration of improved administrative practices for future asset sales.

Audit conclusions

The ANAO considers that, given the magnitude and complexity of the task, the third tranche sale of the Commonwealth Bank was generally effectively and efficiently managed by the then Task Force on Asset Sales A.

Sale objectives

The ANAO considers that the Government sale objectives for the public share offer and buy-back of CBA shares were met as follows:

- Commonwealth net sale proceeds are estimated by the ANAO to amount to \$5.06 billion with sale costs amounting to an estimated \$88 million;
- a timely sale was achieved with the commencement of trading of instalment receipts on the Australian Stock Exchange on 15 July 1996 and completion of the share buy-back of 100 million shares by the Bank on 22 July 1996 with the payment of \$1001 million;
- the final pricing decision was soundly based and represented fair value, having regard to the interests of the Commonwealth and the investors in the public share offer;
- a stable after-market was achieved in a large part due to the pricing of the issue and generally favourable conditions in the equity markets; and

- widespread ownership of sale shares in the Bank was encouraged with the public share offer resulting in some 354 000 holders of instalment receipts, of which 156 000 were new investors joining the Bank's share register. At the completion of the sale, over 85 per cent of the Bank's share capital remained in the hands of Australian investors and institutions.

Sale management

The Task Force completed the sale within the allocated sale budget. However, the ANAO considers that the Department of Finance and Office of Asset Sales need to improve their management information systems to ensure that they can accurately and completely identify sale costs.

The costs of the CBA3 sale are estimated to be some 1.7 per cent of gross proceeds which the ANAO considers to be reasonable and compares favourably with previous Commonwealth public share offers. However, the figure is higher than the 1.5 per cent of gross proceeds achieved in the second tranche sale of the Bank. The ANAO considers that international selling commission levels should have been subject to greater competitive pressure as a means of lowering sale costs.

The Task Force's innovative structuring of the public share offer by the use of sale by instalment contributed to the success of the sale. The management of the share offer and share buy-back processes was effective with all available shares being sold. The buy-back of 100 million shares, at the price achieved in the public share offer, ensured that the Commonwealth's financial position was not disadvantaged.

The allocation of the shares (in all but broker firm allocations) was carried out in accordance with a prescribed formula as intended. The process was devised to avoid any perception of bias in the allocations and the ANAO considers that this aim was achieved. However, the ANAO considers that a potential conflict of interest situation arose in the procedure for the broker firm share allocations, which could have been avoided or at least minimised. In contrast with the allocations in the institutional offer of 140 million shares, which was quantitatively based, the broker firm offer had a significant qualitative component applied in the scale-back of the 90 million shares.

Commonwealth exposures

The broad range of risks that the Commonwealth assumed to facilitate the sale were generally effectively managed. The enforceability arrangements developed for the payment of the second instalment effectively protects the interests of the Commonwealth. The quantum of the first instalment payment,

and a shortened period of exposure, represent effective means of protecting the Commonwealth's financial position in future public share offers, using a sale by instalment model. However, the prepayment process has proven cumbersome and costly and should be reassessed prior to its use in any future instalment sale.

The ANAO considers that the current reporting requirements administered by the Department of the Treasury of the Commonwealth Bank's guarantee, which amounted to \$325 billion as of 30 June 1996, are appropriate for assessing the level of any potential liability and the probability of the guarantee having to be paid. This assessment was based on written advice from the Department of the Treasury and the Reserve Bank of Australia on the adequacy of the prudential supervision of the banking industry by the Reserve Bank in protecting the Commonwealth's exposures.

The various sale indemnities were issued in accordance with the criterion which requires that, when issuing indemnities, the Commonwealth's interests are advanced sufficiently to outweigh the level and cost of the risks which the Commonwealth will be assuming.

Administrative practices

The ANAO considered that post sale financial management by the Office of Asset Sales and the Department of Finance and Administration was such that prepayments of the final instalment have not been adequately managed to ensure the Commonwealth received monies due to it in a timely and complete manner and therefore the Commonwealth's cash management interests have not been adequately protected.

The ANAO has identified improved administrative practices for future public share offers relating to contracting arrangements, sale costing, setting of selling commission rates, share allocations and post sale financial management practices.

Recommendations

The ANAO made eleven recommendations. The Office of Asset Sales, Attorney General's Department and the Department of Finance and Administration either accepted or agreed with relevant recommendations to enhance the conduct of secondary public share offers.

Equity in Employment in the Australian Public Service Across-Portfolio PSMPC and other agencies

Report No.16 1997-98 (Tabled 2 December 1997)

Audit background

The Government has outlined its policy on equity in Australian Public Service (APS) employment in the Public Service Bill introduced into Parliament in June 1997. The Bill articulates a set of key APS values including a commitment to fairness, the application of the merit principle and an absence of direct and indirect discrimination. It requires agency heads to establish workplace-diversity programs to help promote these values and the PSMPC to facilitate and evaluate employment practices and to report annually on the state of the APS. These changes reflect the strategic shift in Australian organisations from developing and implementing equal employment opportunity (EEO) programs to the broader management of diversity.

Previous requirements outlined in the *Public Service Reform Act 1984* required APS agencies to produce EEO programs for four groups—women, Aboriginal and Torres Strait Islander people, people with disabilities and people of non-English speaking backgrounds (NESB). The publication *Equal Employment Opportunity: A Strategic Plan for the APS for the 1990s*, launched in 1993, set targets for the representation of these groups, required improved data on EEO status, and the development of EEO programs throughout the APS.

The introduction of the Public Service Bill and *Workplace Relations Act 1997* provides an ideal opportunity for agencies to review their management of diversity and for the PSMPC to review the contribution it can make to assist agencies to maximise the benefits of the diversity of their employees in improving APS performance.

Audit objective and criteria

The objectives of the audit were to examine the benefits of diversity management in the APS and review the progress made towards equity in employment in the APS, including the EEO Program. The audit included:

- an assessment of the progress towards achieving equity across the APS and by individual agencies;
- an assessment of the quality of agency EEO programs;

- an assessment of the role of the PSMPC in approving programs and monitoring trends across the service;
- a consideration of legal obligations and agencies compliance with these; and
- the possible risks to, and opportunities for, equity under the Workplace Relations Act.

Audit conclusion

The key objective of the EEO program was to achieve a representation in the APS that reflected the composition of the Australian community. To achieve this, targets were set and agencies required to produce EEO programs. These were submitted to the PSMPC for approval.

A number of targets have been met. Targets set for 1995 for the representation of women in Senior Officer Grades A and B and equivalent and Senior Executive Service positions have been met as well as the year-2000 targets for Aboriginal and Torres Strait Islander and NESB employees. However, a continual decline in the representation of people with disabilities has occurred over the last decade, and the targets for the completeness of data on EEO status and approved agency EEO programs have not been met.

Community comparisons conducted by the ANAO show that the APS outperforms the private sector in representation of Aboriginal and Torres Strait Islanders and is about on a par with the representation of women and NESB employees. The proportional representation of women in senior positions might be smaller in the APS when the number of women in the APS workforce is considered, but representation at senior levels is increasing more quickly than in the private sector. It is not possible to compare the representation of people with disabilities because of inter-sectoral definitional differences and data collection problems.

There is scope for improvement in the management of equity in APS employment particularly if agencies are to reap the benefits of fully utilising the skills of a diverse workforce. These improvements are required at both the agency and the aggregate level, reflecting the dual responsibilities of agency heads and the Public Service Commissioner.

At the agency level, EEO programs vary significantly in quality. Although the ANAO finding that two-thirds of the programs had achieved a medium to high level of progress is encouraging, almost a third of programs had achieved only minimum progress. There are high costs associated with poor management of

equity, for example in terms of turnover and in morale, dedication, confidence and commitment which impact markedly on agency performance

While recognising varying levels of performance between agencies, many agencies would benefit from greater attention to the development of a strategic link between diversity management and other corporate objectives; more visible leadership in achieving diversity outcomes; stronger accountability for outcomes; and ensuring consultation with, and evaluation of programs for, each of the EEO groups. There is also a risk that a number of agencies may not meet the standards necessary to successfully defend a vicarious liability claim for harassment and discrimination.

At an aggregate level, monitoring and reporting should provide information that permits the Government and Parliament to judge the extent of equity in employment in the APS. Information presented to date has included inaccurate trends and invalid community comparisons. Results across agencies have been variable and it is difficult, if not impossible, to assess the performance of individual agencies on all aspects because the focus of reports has been on EEO group rather than by agency. Nor has it allowed a comparison of the relative performance of agencies over time, taking into account their size or the relative representation of EEO groups in each workplace.

Future directions

The ANAO report notes opportunities to improve on the information presented to the Government and the Parliament on employment practices in agencies and in the capacity of the PSMPC to fulfil its proposed new role. The recommendations made reflect the devolution of responsibility for over all management and workplace bargaining to agencies. Hence they are more directed at the PSMPC in its expected role in developing, promoting, reviewing and evaluating APS employment policies and practices. However, the various elements discussed are also relevant to the management of diversity at an agency level and could be reported in agency annual reports as part of their performance information.

The introduction of the Workplace Relations Act and the proposed new Public Service Act will provide all agencies with the authority and flexibility to integrate diversity management fully into their business practices. EEO, anti-discrimination and flexible work practices, as well as workplace agreements, can each play their part in the management of diversity and contribute to achieving a better and more efficient workplace and improved program performance.

On the basis of this audit the ANAO supports the recommendations, relating to workplace diversity, made in the Joint Committee of Public Accounts Report 353, *An Advisory Report on the Public Service Bill 1997 and Public Employment (Consequential and Transitional) Amendment Bill 1997*. In particular, recommendations 9 and 12 which call for agency evaluations of diversity programs to specifically address 'outcomes' and for the Commissioner to specify the performance indicators and criteria which should be used by agencies in carrying out these evaluations, and to collect, analyse and publish the comparisons.

PSMPC response

The PSMPC generally supports the thrust of the report. The audit report has made eight recommendations which have been accepted by PSMPC, one with qualification.

Managing the Year 2000 Problem Across-Portfolio

Audit Report No.27 1997-98 (Tabled 23 December 1997)

Background

Over the next two years, many computerised business systems or other equipment and machinery using micro-processors may malfunction because of an inability to represent the year 2000 as a two digit year date unless they are repaired or replaced. This has been variously referred to as the 'Year 2000 problem' or the 'millennium bug'.

Among the risks to key government functions associated with the Year 2000 problem are:

- government revenue not being received or being processed incorrectly;
- program expenditure not being made or made correctly (including payments to beneficiaries);
- disruption of business processes with consequent costs arising from, for example, lost productivity, reduced efficiency and loss of stakeholder confidence;
- legal risks arising from liability for adverse effects upon other parties such as contractors or clients/customers;

- the risk that government entities may be unable to fulfil statutory obligations; or
- risks to personal security or safety.

The Year 2000 problem is basically a management/business problem that needs to be addressed in a corporate manner and communicated to all staff as a shared concern.

Computerised information systems which have not been modified will react in a variety of ways to the Year 2000 problem. Some may not be able to cope and will simply fail to operate. Others may continue to run, but will produce meaningless or erroneous data.

Audit approach

The audit objectives were to:

- assess the adequacy of agencies' planning in relation to achieving Year 2000 compliance;
- review and assess agencies' implementation, management and monitoring of Year 2000 compliance strategies;
- review agencies' strategic risk assessment in relation to the Year 2000 changeover; and
- raise auditees' and other Commonwealth agencies' awareness of the Year 2000 problem.

The ANAO's analysis is largely based upon 74 completed questionnaires. Agencies were surveyed to ascertain the appropriateness and adequacy of their approach to the identification and management of Year 2000 related risks. The questionnaire was designed to provide both an indicative assessment of Commonwealth agencies' state of preparedness and to identify issues that need to be addressed. Agencies' responses to the questionnaire were analysed on an unweighted basis (for more detailed explanation of the analytical approach, refer to Chapter 3 of the report).

Conclusions

Overall, the ANAO found that the majority of agencies surveyed are not following a systematic and structured approach to the identification, ranking and treatment of Year 2000 risks. There is also evidence of good practice in a number of agencies which reflects what can and should be done to address the problem. The ANAO considers that unless agencies can provide reliable assurances about their management of business risks associated with the

Year 2000 problem, the possibility exists that core functions of government and the interests, and confidence of clients and other stakeholders will be adversely affected.

The ANAO found the following:

Whole-of-government planning coordination

The Office of Government Information Technology (OGIT) has been effective in raising awareness of the Year 2000 issue in Commonwealth agencies and coordinating Year 2000 efforts within and across government. However, OGIT's activities to date have not been supported by a structured or systematic approach in which the effectiveness of its work with agencies can be readily measured or assessed. OGIT, through its central coordinating role and influence, needs to give increased attention to seeking assurance of Year 2000 compliance from third party suppliers of a broad range of business-critical services to government, both directly (in the case of utility suppliers) and indirectly (by providing strategic advice to agencies).

Adequacy of agencies' planning

Agencies responding to the ANAO survey have commenced their Year 2000 planning at different points in time. About half commenced planning for Year 2000 compliance in June 1996 when the issue was first raised by OGIT. However, few agencies have adopted a structured and systematic approach to the assessment of their Year 2000 problem and the identification of solutions. Consequentially, agencies are at differing stages of preparedness. Smaller agencies appear to be generally less prepared than larger agencies.

Risk management

Most agencies surveyed have undertaken some identification and analysis of Year 2000 risks, but few agencies have done so as part of an overarching corporate risk management plan. Only 36 per cent of agencies responding to the survey reported having a corporate risk management plan.

Agencies have generally commenced the preparation of inventories of information technology, business functions, business services and other non-IT services. However, this work is not well advanced in most cases and, as a consequence, potentially significant sources of risk requiring early action may not have been identified or could even be overlooked.

Risk analysis is incomplete or deficient in many agencies with limited ranking (or prioritisation) of risks. Few agencies have undertaken comprehensive testing of systems and applications and few have contingency, business resumption or disaster recovery plans in place. Agencies need to take into account the probability that testing activities may require generous lead times and in some cases will require the re-direction of internal resources and re-allocation of priorities which, in the short term, may affect the efficiency and

effectiveness of some business operations. However, there is no real substitute for proven performance under operational conditions.

Implementation, management and monitoring

Year 2000 project planning and management is generally lacking in the majority of agencies surveyed. Considering the potential risks and costs involved, agencies have not demonstrated that sufficient internal resources have been assigned to address the Year 2000 problem or that they have adequately assessed the need for the procurement of products and services necessary to assist in becoming Year 2000 compliant.

For the most part, agencies have not been able to show that appropriate management and reporting structures have been put into place to support a whole-of-business approach to the problem and assure effective corporate governance of Year 2000 risks.

Few agencies have estimated the full cost of achieving Year 2000 compliance. Those costs which have been derived have not been prepared in accordance with a comprehensive methodology and, as a result, do not provide adequate assurance to management about agencies' Year 2000 exposures.

The majority of agencies report that their Year 2000 projects are primarily a responsibility of an information technology (IT) functional unit. As a result there is apparently insufficient attention being given in many agencies to the non-IT risks and effects of the Year 2000 problem. In some agencies treatment of Year 2000 problems and testing/validation activities are well under way. However, the majority of agencies have not reached these crucial stages and, as a result, are not yet in a position to offer assurances that their systems will operate as required in the year 2000 or earlier, in some cases.

Few agencies appear to be utilising external expertise to provide quality assurance about the adequacy or appropriateness of their Year 2000 activities. This is surprising considering the limited experience to date in addressing the problem in the public sector.

Awareness of the Year 2000 problem

The ANAO has also endeavoured to raise agencies' awareness of the urgency of the Year 2000 problem and its major elements. The questionnaire used by the ANAO has been used by agencies as an aid for self assessment of their Year 2000 activities and has stimulated awareness and discussion of risk factors which had not previously been generally recognised. All agencies surveyed report that they are aware of the Year 2000 problem. However, the

nature and extent of agencies' understanding of the problem and available solutions vary widely.

Recommendations

The ANAO made eight recommendations which were agreed, or agreed with qualification by agencies. The recommendations focused on whole-of-government approaches to the Year 2000 problem (recommendations 1 to 3) and actions which could be taken by agencies to assess and manage their Year 2000 risks (recommendations 4 to 8). Agencies have generally responded positively to the audit and a number of agencies have written to the ANAO commending the report and its findings.

Contracting Arrangements for Agencies' Air Travel Across-Portfolio

Audit Report No.28 1997-98 (Tabled 23 December 1997)

Background

Access to low cost, convenient and efficient air travel services is important in the effective administration of agency programs. The Australian National Audit Office (ANAO) estimates that expenditure on air travel by Commonwealth agencies amounts to more than \$200 million annually³. About three-quarters of this is for domestic airline travel (\$150 million), with the balance on international air travel.

Agencies are able to enter into a common-use contract with a nominated travel service provider for the provision of services for between one and three years. Currently, there are four nominated providers available under the common-use arrangements detailed in *Buyers' Guide - Travel Services - Domestic and International (BG83)*. The two major domestic airline carriers together account for the major share of agency expenditures.

Under Commonwealth procurement policy, agencies are permitted to take up the standing offers in the common-use *Buyers Guides* without further tendering. However, for travel services there is usually significant further negotiation between agencies and travel service providers. Frequently, this commences with agency-specific requests for proposals involving all or several of the common-use providers.

³ This estimate is restricted to only those Commonwealth departments and agencies that are not legally separate from the Commonwealth and which operate on the Commonwealth Public Account.

The Department of Finance and Administration is currently consulting agencies and the air travel industry in relation to arrangements to apply following the expiry in April 1998 of the current arrangements. In addition, a broader review is under way on Commonwealth procurement mechanisms.

Audit approach

The objectives for the audit were to report on the efficiency and cost effectiveness of selected agencies' procurement of air travel services. Specifically the audit was to:

- identify the potential for more cost effective procurement in agencies' contracting for air travel services;
- produce estimates of potential savings in expenditure by improved contracting arrangements in agencies where possible; and
- outline any improvements to procurement management practices, including improvement in Commonwealth coordination activities.

The audit was undertaken in the Department of Finance and Administration (in terms of its Commonwealth coordination responsibilities), the Department of Defence, Centrelink (which also services the Department of Social Security air travel requirements), the Department of Primary Industries and Energy, Attorney-General's Department, the Department of Immigration and Multicultural Affairs, and the Department of Workplace Relations and Small Business.

The selected agencies spent \$85.7 million on airline travel in 1996-97, comprising \$63.6 million on domestic travel and \$22.1 million on international travel. The agencies represent some 43 per cent of the estimated \$200 million in expenditure on airline travel by Commonwealth Public Account agencies.

The ANAO has also undertaken complementary work through a 1997-98 Financial Control and Administration audit of travel (*ANAO Audit Report No.14 1997-98 - Official Travel by Public Sector Employees*). That audit reviewed travel management to determine compliance with approved policies and procedures and reported on better practice. It assessed control over official travel more broadly, including officer travel allowances, whilst the focus of this audit is on the administrative effectiveness of air travel contracting. However, both audits are complementary and indicate scope for more cost effective outcomes of travel arrangements.

Conclusions

Overall, selected agencies have realised increasingly significant financial benefits in the course of their air travel contracting over the past five years.

Improved agency procurement practices

There is scope for further efficiency gains by agencies in air travel procurement through grouping with others to offer an attractive air travel turnover (in excess of \$10 million for international travel and \$15 million for domestic air travel) to air travel service providers; through exchanging information between agencies on travel contracting; and through enhancing competitiveness amongst the panel of travel service providers in the periodic negotiation of contracts. Improved efficiencies can be gained by agencies through more effective management of booking procedures jointly with service providers and better education of staff as to travel policy and contractual benefits. There is also scope for closer monitoring of service providers' performance through performance measurement and service level agreements. In short, there is scope for better contract management and better outcomes.

Savings estimates

Analysis by the ANAO indicates that the potential for domestic air travel savings by all Commonwealth Public Account agencies is some \$6 million annually. This estimate is based on all agencies' cost centres being able to reduce overall expenditure by four per cent by moving to the achieved average level of savings in rebates and discounts. The ANAO has also commissioned sensitivity analysis using a linear programming technique to benchmark agencies' air travel efficiency. This approach identified an upper potential of about 9 per cent savings if agencies were to move to 'best practice' achieved by cost centres within the selected agencies. The varying nature of agencies' activities and hence their travel requirements, as well as constraints on discounting by airlines, restrict the extent to which agencies are able to achieve savings. But the observed outcomes in particular areas suggests real scope for further across the board savings.

Coordination of agency contracting

The common-use arrangements have been assisting the devolution of procurement of air travel to agencies. However, there is scope for enhanced coordination of agencies' air travel procurement under current common-use arrangements. Also, closer adherence to the common-use model would remove unnecessary duplication in agencies' contracting processes. In the current re-evaluation of the *BG83* arrangements there would be benefit if services were developed to eliminate a number of areas of common difficulty for agencies. These common problems include overcoming restrictions on the

ability of agencies to share market related information; development of the travel management information that agencies receive from their travel service provider; development of effective systems to manage frequent flyer reward schemes; and quality control and effective monitoring of the provision of discount fares.

Options for improving coordination

Under the current system of devolved contracting, improved procurement of air travel could be achieved through improved information sharing and benchmarking of performance between agencies, as well as the development of a 'best practice' role by leading agencies. The ANAO has identified scope for enhancing purchasing power through greater consolidation of agencies' air travel turnover. This could occur through voluntary grouping of agencies in their purchasing, promoted and assisted by 'lead agencies'. Options for improvement could include, for example, a grouping of agencies that have low to moderate international travel budgets to contract together for international travel, and a proposal for a system for domestic travel of fixed government fares (net of all price reductions) to absorb and simplify the existing contract conditions and fare pricing structures. There are clear indications that these are quite feasible options.

Recommendations

Generally, the agencies agreed or agreed with some qualification to the audit recommendations. The ANAO made six recommendations which dealt with the following air travel contracting issues:

- competitive tendering, contract management and benchmarking of performance by agencies;
- agencies' sharing of market-related information;
- strategic coordination by the Department of Finance and Administration;
- developments in areas of common interest to agencies, including 'frequent flyer' reward programs, monitoring the provision of fare discounts, and travel management information;
- whole-of-government information and analysis of alternative approaches for procurement of air travel (such as the proposal for a system of fixed government fares for domestic travel); and
- group purchasing options.

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4. Business Assurance Audits

This chapter summarises the Financial Control and Administration (FCA), Protective Security and Assurance and Control Assessment (ACA) audits undertaken in the period July to December 1997. These three types of performance audit are generally conducted across a selection of entities with the results being reported generically. In the case of FCA audits, the main output is usually the production of a better practice guide.

Financial Control and Administration Audits

FCA audits were introduced to satisfy client expectations by providing a bridge between financial statement audits and more broader based performance audits, and to contribute further to our mission of adding value to public sector administration.

The results of each FCA audit are reported to Parliament separately. Each report is complemented by a companion handbook which is part of the better practice guidance series published by the ANAO. FCA reports are also provided to other APS agencies so that agencies can undertake an assessment of their operations against the results of the audit.

FCA Audits Reported in the Period 1 July to 31 December 1997

Official Travel by Public Sector Employees - Audit Report No.14 1997-98

Commonwealth public sector travel expenditure is estimated at around \$600 million annually. It was last subject to extensive review during the Government's Efficiency Scrutinies of 1987.

Audit objective

The primary objective of the audit was to review the management and administration of travel undertaken by public sector employees to determine whether, and to what extent, it complied with approved policies and procedures.

The audit dealt with short-term travel by Commonwealth public sector employees on official business. It was conducted in twelve Commonwealth entities at fifteen locations. The audit did not address travel by Parliamentarians or their staff.

Audit conclusion and key findings

The audit found high levels of compliance with current government and entity travel rules and regulations. However, the present entitlement-based allowance system was considered to result in higher direct and indirect travel costs than would otherwise be the case under a reimbursement-based system operating on better practice principles.

The ANAO calculated that savings in the order of \$84 million each year could be achieved across the Commonwealth by introducing a reimbursement-based system and associated other better practices.

A reimbursement-based system would provide the capacity to collect management information on the entire travel spend in an entity and overcome public perception and criticism that the present system is overly generous and able to be used for personal gain. The projected savings would be realised through:

- changes to travel allowance entitlements which produce a better match with actual costs;
- improved relationships with the suppliers of transport, accommodation and travel services;
- elimination of unnecessary controls and redesign of processes; and
- an appropriate level of management interest in containing travel costs through monitoring employee travel patterns and behaviour.

In addition, the audit found that better management of frequent flyer points remained an intractable issue. Entities were only now seeking solutions which would improve control over the use of these points. They have yet to demonstrate they can effectively manage such points to achieve significant cost savings.

The ANAO made nine recommendations.

Better practice

A better practice guide, titled *Public Sector Travel* was issued in conjunction with the audit. The audit was also complemented by a performance audit, *Audit Report No.28, 1995-96, Contracting Arrangements for Agencies' Air Travel*.

Internet Security Management - Audit Report No.15 1997-98

The Internet is a public communication network that provides an e-mail facility and an electronic pipeline for information between governments, businesses, consumers and individuals. Historically, the main uses of the Internet were limited to electronic mail and research. However, increasingly, the Internet is being used for commercial purposes such as selling goods and services, electronic banking and marketing. The Internet has expanded rapidly in recent years and is expected to continue to do so. It is estimated that the number of Internet users worldwide will increase from 38 million in 1996 to 200 million in 1999⁴.

Audit objective

The objective of the audit was to form an opinion on the effectiveness of Internet security measures within the Commonwealth public sector. It was conducted in 10 Commonwealth entities.

Using the Internet is subject to several risks, including outside users ('hackers') gaining unauthorised access to data or functions, or sabotaging information technology services, and computer viruses being imported into internal networks. Entities using the Internet need to ensure that an appropriate control framework has been implemented to minimise these risks. Furthermore, as entities expand their use of the Internet they will need to review continuously the adequacy of security provided and necessary controls to ensure that risks continue to be adequately addressed.

Audit conclusion and key findings

The ANAO concluded that most entities had some of the core elements required for effective Internet management, eg. appropriate physical security and technically skilled staff; however, improvement was required in several key areas, including:

- security policies and supporting procedures (eg Internet Security Plans);
- risk assessment and analysis prior to connecting to the Internet;
- the configuration, operation and management of 'firewalls', that is, mechanisms that control access between two networks; and
- monitoring and analysis of security logs and the use of specialised tools or software for the security audit function.

A small number of entities were operating and managing their Internet facilities at or near identified better practice.

⁴ Price Waterhouse, Information Technology Forecast 1997

Several entities were planning to provide services or make payments via the Internet through the use of electronic commerce. These proposed activities will increase the risk of unauthorised access, sabotage or fraud, and expose entities to certain legal issues, such as what documentation is required to support transactions given the electronic nature of the Internet.

The ANAO made seven recommendations aimed at achieving more effective Internet security management.

Better practice

A separate better practice guide, titled *Internet Security Management* is to be published in early 1998.

Management of Accounts Receivable - Audit Report No.29 1997-98

Receipts from the sale of goods and services are the largest component of non-taxation revenue of the Commonwealth. Sales of goods and services in the 'general government sector' (departments and Commonwealth authorities), to individuals and entities external to that sector, amounted to \$2,890 million in 1995-96 (the latest available figures).⁵ A large proportion of these sales are made in advance of receipt of the money (ie. on credit). At 30 June 1996 the amount uncollected in relation to this revenue was \$385 million (or 13 per cent of total sales and 15.6 per cent of estimated credit sales).

Audit objective

The objective of the audit was to assess the cost-effectiveness of the management and administration of the accounts receivable function in the general government sector. It was conducted in 15 Commonwealth entities.

¹The audit was limited to trade debtors (normally for goods and services), levies, other charges and recoveries from staff. The audit did not examine taxation receipts, repayment of loans or the recovery of benefit and allowance payments.

Audit conclusion and key findings

The ANAO concluded the direct labour costs associated with the accounts receivable function in the Commonwealth were higher than those of the private sector, and that there was scope for improvement in the management and

⁵ Based on the trial and unaudited Whole of Government financial statements of the Commonwealth for the year ended 30 June 1996.

administration of the function. In particular, the management and organisational framework could be improved by:

- establishing a comprehensive and clear policy framework which has been endorsed by executive management;
- identifying, analysing and assessing risks to revenue collection;
- transferring responsibility for strategic decision-making in relation to debtor management to program managers; and
- strengthening management reporting and performance measurement.

The ANAO also found scope for improving accounts receivable processes through the integration of sale and billing systems, the introduction of alternative payment options and a more structured approach to the recovery of debt.

Further, it is important that entities, in choosing new or replacement financial systems, consider the technology enhancements available and how they could offer efficiencies in the integration, recording and collection of Commonwealth revenue.

The ANAO also found that cost savings from reduced debt follow-up action could be achieved, in relation to debt owed by one Commonwealth entity to another, through increased use of direct credit arrangements. The level of inter-entity debt, in the general government sector, as at 30 June 1996 was 15 per cent of the total debt outstanding⁶.

The ANAO made five recommendations for entities with accounts receivable functions.

Better practice

The audit identified examples of better practice currently used by the entities reviewed. Where these practices had general application, they were consolidated with applicable private sector better practices to create the companion better practice guide for the management of accounts receivable in the Commonwealth public sector.

Protective Security Audits

⁶ Based on the trial and unaudited Whole of Government financial statements of the Commonwealth for the year ended 30 June 1996.

Protective security in the Commonwealth was subject to a major public review in the 1979 Enquiry into Protective Security undertaken by Mr Justice Hope. This enquiry resulted from the bombing of the Sydney Hilton Hotel during a regional meeting of Commonwealth Heads of Government in February 1978.

Following on from the Hope Enquiry, the ANAO commenced a program of protective security audits in the early 1980's.

Protective Security - Audit Report No.21 1997-98

'Protective security' is the protection of information, assets and people from potential threats and dangers, eg industrial espionage, theft and abuse. It does not generally cover fire, natural disasters and work safety matters.

Within the Commonwealth each entity is responsible for establishing protective security arrangements commensurate with its operational responsibilities and environment. The Attorney-General's Department is responsible for the development and coordination of protective security policy, and issues standards and guidelines in the form of a Commonwealth protective security manual.

Audit objectives

The objectives of the audit were to determine whether the management and administration of Commonwealth protective security arrangements complied with Government policy, standards and guidelines; and to identify, recommend and report better practice in security management. The audit covered security management and administration at thirteen entities and the policy role of the Attorney-General's Department.

The audit did not include computer security and communications security. These are specialised topics subject to separate independent audit coverage.

Audit conclusion and key findings

The ANAO found that most entities had established a protective security framework similar to the model recommended in the Commonwealth protective security manual. However, certain protective security arrangements examined by the audit were not operating in accord with the framework in many of the entities; and, as a result, the potential for breaches of security was sometimes higher than would normally be desirable. The ANAO concluded that there is a need to raise the profile of security management and awareness across Commonwealth entities.

In addition, there has been a need for some time for the Commonwealth protective security manual to be updated as a result of changes in the public sector and security environments over recent years, eg. organisational changes such as outsourcing, and technological changes such as the increasing reliance on information technology systems - a new issue of the manual is planned for 1998. The new manual should create an ideal opportunity for raising the awareness of protective security and encouraging improvements in security management within Commonwealth entities.

The key audit findings were:

- insufficient allocation of responsibility and accountability for protective security to program level;
- limited security training for staff, including security officers;
- risk reviews not updated for changes in the security environment;
- lack of formal planning detailing the treatment of identified risks;
- inadequacies in the classification, handling and storage of classified information including incorrect classification of material, no controls over the copying of documents and lack of appropriate storage facilities; and
- inadequacies in the monitoring of security incidents, and in the review of automated recording systems.

The ANAO made five recommendations, one for the Protective Security Policy Committee, and four for all Commonwealth entities to consider.

Better practice

Better practice principles and guidelines were included as an appendix to the report. The principles and guidelines are largely based on the revised draft of the protective security manual.

Assurance and Control Assessment Audits

Assurance and Control Assessment Audits (ACA) were introduced in 1996-97. The objective of these audits is to provide the Parliament and agencies with positive assurance about the operation of key controls in relation to selected activities. During 1996-97 ACA audits were performed in over fifty Commonwealth entities. These audits targeted the extent to which key controls were in operation over common agency activities such as receipting and banking, administrative expenditure, termination payments, personnel commencements, attendance recording and payroll.

The results of the first year of ACA audits were reported in Audit Report No.22 *Audit of the Financial Statements of Commonwealth Entities for 1996-97*. In general, the ACA audits found that control activities over receipting and banking and administrative expenditure were sound while weaknesses were detected in controls over attendance recording, termination payments and payroll.

Personnel and Payroll

In relation to attendance recording the audits found instances of attendance records not adequately reviewed and weaknesses in the operation of controls designed to ensure that attendance and leave forms were submitted and processed in a timely manner. In reviewing termination payments the audits identified control deficiencies in ensuring that the payments were accurate, resulting in a high error rate in the calculation of payments. The audit of the payroll systems focussed on reconciling payroll output reports to the inputs processed by agencies. This reconciliation is a key control in the detection of unauthorised payments. The audits noted instances where the reconciliation had not been performed.

Audits in Progress

For the 1997-98 cycle the scope and focus of ACA audits has been widened to emphasise legal, regulatory and administrative compliance. Issues of probity and propriety will continue to be a major focus of the program. The ongoing program includes the continuation of activities covered in the 1996-97 program and has been extended to include coverage of the use of credit card, selected personnel allowances and aspects of asset control.

Better Practice Guides

In addition to those better practice guides produced in conjunction with Financial Control and Administration Audits the ANAO also produces a number of stand-alone guides which relate to financial management and control.

A guide to effective control '*Controlling Performance and Outcomes*' was published in December. It presents a framework of recognised better practices designed to help managers assess the effectiveness of their control structures.

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5. Financial Statement Audits

The Auditor-General undertakes audits of the financial statements of all Commonwealth entities each year. The need for entities to prepare financial statements and arrange for their audit is now prescribed by *the Financial Management and Accountability Act 1997*, the *Commonwealth Authorities and Companies Act 1997*, both of which commenced operation on 1 January 1998, and the Corporations Law. Up to 31 December 1997, financial statement audits were carried out primarily under the *Audit Act 1901* which has now been replaced by the above Acts and by the *Auditor-General Act 1997*.

The results of financial statement audits together with any important audit findings arising from the audit are reported directly to the responsible Minister, generally at the completion of the audit, and progressively to the Executive Management of each entity.

The Audit Report on the financial statements, which contains the audit opinion, is included, together with the financial statements of each entity, in its Annual Report tabled in the Parliament.

The Auditor-General also produces a Report to the Parliament which summarises the outcomes of all financial statement audits. Audit Report No.22 '*Audits of the Financial Statements of Commonwealth Entities for 1996-97*' is the most recent of these reports and was tabled in Parliament on 4 December 1997.

Whole of Government Financial Statements

For the 1996-97 financial year and subsequent years the Government will produce an audited set of consolidated 'Commonwealth of Australia' financial statements. This involves the consolidation of the financial reports of some 200 entities.

During the year the ANAO conducted an examination of the processes employed in the preparation of trial and unaudited whole of government statements for the year ended 30 June 1996 and reported on significant issues that required resolution to enable the production of fully audited statements.

At 31 December 1997 the audit of the financial statements for the year ended 30 June 1997 was in progress.

Aggregate Financial Statements

The aggregate financial statement reports on the aggregated cash receipts and expenditures against the Consolidated Revenue, Loan and Trust Funds. The 1996-97 statements were prepared by the Minister for Finance pursuant to section 50AB of the then *Audit Act 1901*.

An unqualified audit report was issued in respect to these statements and the Audit Report (No.31 of 1997-98) was tabled on 20 January 1998.

Commonwealth Entity Financial Statements

The above-mentioned audit report (No.22) includes details of the outcomes of the audit of 317 entities for which an audit report had been provided by 21 November 1997. Only six entities from the 321 reporting entities subject to audit had their financial statements qualified this year. This represents less than 2% of all financial statement audit opinions issued for the period and is a slight improvement on past years.

After 21 November five audit reports have been provided. All of these reports were unqualified and no significant matters were noted.

The ANAO evaluates, and may examine in some detail aspects of, the control framework of each entity as part of a financial statement audit. The following key issues, with across entity implications, emerged from this examination:

- information technology:-
 - access control and security over computer systems and applications; and
 - control over system and software changes; and
- asset management.

AMODEL Financial Statements

These guides provide an illustrative set of financial statements for both departments and non-commercial statutory authorities, based on prescribed disclosure requirements.

The guides were updated for the 1996-97 financial year and reissued to agencies in September 1997.

Canberra ACT
2 March 1998

P. J. Barrett
Auditor-General

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Appendix 3

Assistance to Parliamentary Committees

The Joint Committee on Public Accounts and Audit has a statutory responsibility to examine all ANAO audit reports. By agreement with the JCPAA 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 assisted the JCPAA in its review in December 1997 of Audit Report No.5, Performance Management of Defence Inventory. The outcomes of parliamentary reviews of ANAO audit reports will be reported in subsequent Audit Activity Reports.