

The Auditor-General
Audit Report No.28 1999–2000
Audit Activity Report

Audit Activity Report July to December 1999

Summary of Outcomes

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The Publications Manager,
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Canberra ACT
3 February 2000

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 1999, to the Parliament. The report is titled *Audit Activity Report: July to December 1999—Summary of Outcomes*.

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

Yours sincerely



P. J. Barrett
Auditor-General

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

AUDITING FOR AUSTRALIA

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

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The Publications Manager
Australian National Audit Office
GPO Box 707 Canberra ACT 2601

Telephone (02) 6203 7505
Fax (02) 6203 7798
Email webmaster@anao.gov.au

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Contents

1	Introduction	7
	APS environment	8
	Summary of recent audit coverage	10
	Report Outline	11
2	Performance Audits	12
	Corporate governance	12
	Risk management	14
	Performance monitoring	15
	Legal and administrative policy compliance	16
	Contract management	16
3	Financial Statement Audits	18
	Control structures	19
	Audits of financial statements	19
	Financial statement preparation	20
	Commonwealth of Australia Consolidated Financial Statements 1998–99	21
	Financial highlights	22
	Other financial statement activities	24
	Appendices	
	Appendix 1: Audit reports tabled in the period 1 July 1999 to 31 December 1999	27
	Appendix 2: Performance audits and preliminary studies in progress at 31 December 1999	56
	Appendix 3: Speeches given by the Auditor-General and ANAO staff during the period July to December 1999	58
	Series Titles	60
	Better Practice Guides	62

1. Introduction

1.1 The Australian National Audit Office (ANAO) aims to assist Commonwealth bodies to improve their performance and accountability through the delivery of an integrated audit service. This service comprises a range of products: performance audits; financial statement audits; audits of financial control and administration (FCA); assurance control and assessment audits (ACA); protective security audits; better practice guides; and benchmarking studies.

1.2 This report is the sixth in a series of reports tabled at six-monthly intervals that summarises the audit and other related activities of the ANAO for the period July to December 1999.

1.3 The purpose of the report is to:

- inform the Parliament of the major issues the ANAO is examining in working with agencies to encourage, and provide assurance about, a better performing and more accountable public sector;
- provide the 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 highlight, some of the major lessons learned from audit services provided by the ANAO.

1.4 The ANAO's principal client is the Parliament. ANAO audit reports and recommendations are designed to be practical, outcome oriented and client focused. As such, it is important that they are supported by the Parliament and its Committees. As part of its client liaison, the ANAO conducts a survey of Members of Parliament approximately every three years to establish Parliament's views. This survey is currently underway and the views of Members of Parliament will be taken into account by the ANAO as part of its future planning.

1.5 The Joint Committee of Public Accounts and Audit (JCPAA), a statutory committee of the Australian Parliament, has particular responsibilities in relation to the ANAO. Most importantly, the JCPAA advises the Auditor-General of the Parliament's audit priorities. It also considers the operations and performance of the ANAO; reports to the Parliament about the Auditor-General's functions and powers; and makes recommendations to the Parliament on the annual budget for the Office. The JCPAA reviews all ANAO audit reports, a selection of which is subject to quarterly public hearings. The ANAO is frequently called to appear

before Parliamentary Committees, most often the JCPAA, to give evidence in support of audit findings and/or elaborate on specific issues. Briefings to individual or groups of Senators and Members are also provided on request.

1.6 The ANAO continually strives to improve the quality of its audit reports and does this in a number of ways. For example, the ANAO has looked increasingly to overseas experience and benchmarks in the pursuit of approaches to performance improvement that will assist the Australian Public Service (APS). Research is undertaken using the Internet, library searches and, for key audits, through limited overseas visits for first hand experience and exposure to common issues and audit strategies and methodologies. The ANAO has also sought to enhance the level of quantitative analysis in its reports. Sound quantitative analysis will continue to play an important role in audit reports, particularly with the recent establishment of a formal agreement with the Australian Bureau of Statistics for statistical advice and assistance.

APS environment

1.7 The APS has steadily evolved over the past 10–15 years towards a more efficient and outcomes-focused service. This change has taken place under the influence of Governments' reform agendas, which have involved the removal of central prescription and the devolution of powers to agencies. The recently introduced accrual based budgetary framework, whereby agencies must be able to fully specify and cost outputs and measure outcomes, is one of the significant reforms. Similarly, the new *Public Service Act 1999*, which embraces a principles-based approach and links into other recent Government reforms, is another. Importantly, the Act emphasises for the first time the APS Values and Code of Conduct. This has a strong bearing on the legislative requirement for ethical conduct in the use of resources.

1.8 Associated with greater responsibility and flexibility in decision-making is a commensurate focus on strengthening the associated accountability arrangements to ensure that decisions made within agencies are appropriately made and that decision-makers are held accountable for their decisions. The existence of a strong corporate governance framework, as well as sound financial management and other control structures, provide the basis for such assurance.

1.9 Corporate governance is about how an organisation is managed, its corporate and other structures, its culture, its policies and performance and the ways in which it deals with its stakeholders. A corporate governance framework, particularly where it involves sound values, cost structures and risk management processes, provides the necessary

foundation on which a cost-effective, transparent and accountable public sector can be built. The principles involved are important to any business in whatever manner they have been implemented to suit the nature and extent of that business.

1.10 Major elements of corporate governance include strategic planning, risk management, performance monitoring and accountability mechanisms. As such, corporate governance has been a theme, or indeed a specific issue, addressed in ANAO performance audits for some time. The ANAO has also produced two better practice guides on the subject to assist agencies to develop sound corporate governance frameworks: *Principles for Core Public Sector Corporate Governance* (includes *Applying Principles and Practice of Corporate Governance in Budget Funded Agencies*) (1997); and *Corporate Governance in Commonwealth Authorities and Companies—Principles and Better Practices* (1999). These guides have been well received with on-going requests from other Australian jurisdictions and overseas bodies for these publications.

1.11 Many agencies are now adopting risk management approaches to their work. Risk management is an important element of corporate governance underlying many of the public sector reforms. It requires the identification of all risks, determining their priorities and an evaluation of such risks for their potential impacts on the resources required and outputs/outcomes achieved in accordance with the risk assessments made. The level and nature of risks facing agencies vary. However, the more common areas of risk examined in performance audits, conducted in the past six months, related to the use of information technology, particularly in terms of its planning, security and linkages of performance information systems to assist better management and accountability for performance. Audit Report No.10, *Control Structures as Part of the Audits of Financial Statements of Major Commonwealth Agencies for the Period Ended 30 June 1999*, indicates that these issues have also been highlighted by financial statement audits. The report indicated that one of the most significant issues affecting agencies concerned inadequate protection over computer systems that record and process information. Two better practice guides that highlight the importance of strong financial management and support have been produced in the past six months and suggest ways to improve this aspect of public sector management. *Building a Better Financial Management Framework* outlines some of the critical considerations involved in using financial information, which are essential to the establishment of a valuable financial management framework. Its companion guide *Building Better Financial Management Support* explains some of the mechanics required to deliver this financial information efficiently and effectively.

1.12 The Government's public service reform agenda has also seen an increased emphasis on contestability in the provision of public services, including outsourcing those services where the private sector can provide better value for money. Government departments and agencies are more accountable than private sector enterprises as their decisions are more open to public scrutiny. It is also important to note that outsourcing does not mean contracting out the responsibility for the administration of the service or program nor for accountability for results achieved. It remains the responsibility of the agency to ensure that the service delivery complies with government policy and relevant legislation and is both cost-effective and acceptable to the service recipients and other key stakeholders. It is important to strike the right balance between the appropriate level of accountability and the need to achieve cost-effective program delivery and program outcomes. Determination of the appropriate balance rests with the Government and Parliament. Accountability is dependent on access to information and the increased use of outsourcing of functions raises particular information issues bearing on issues of access to contractors' records and premises and the commercial confidentiality of certain information. To ensure these issues are properly addressed, the ANAO has developed a set a standard access clauses for inclusion in contracts with the private sector. The ANAO also takes the view that information should be made public unless there is a good reason for it not to be.¹

1.13 The ANAO has continued to recognise the importance of competitive tendering and contracting and it has remained a key theme of performance audits, including in the past six months.

Summary of recent audit coverage

1.14 Performance audit activity over the past six months has continued to focus on corporate governance issues, management of core programs and contract management. The results of audits tabled in this period indicate that, overall, agencies are managing the delivery of public services effectively. This has taken place within the context of major public sector reforms, referred to earlier, which have changed the way in which agencies are expected to manage and report their activities. Despite this mostly positive performance, the pace of change has opened agencies up to an increase in the level of risk as they seek to enhance performance through new service delivery arrangements and streamlined administration. The most common areas requiring stronger management attention, identified in audit reports in the past six months, included performance information systems and IT networking and security issues.

¹ For a fuller discussion of these issues see The Auditor-General, Annual Report 1998–99, pp. 2–4.

1.15 Financial statement audit activity in the same period has indicated that the financial systems, controls and processes supporting the financial statements of major Commonwealth agencies are also an area of risk requiring close management oversight.

1.16 Recommendations and lessons learned from ANAO audit reports and better practice guides highlight the importance of sound corporate governance and effective program management. These will assist agencies in this period of significant change. Details of the specific audits are discussed below.

Report outline

1.17 The following chapters summarise the audit findings from performance audits (Chapter 2) and from financial statement audits (Chapter 3). Appendix 1 provides a short summary of each of the reports tabled between 1 July 1999 and 31 December 1999. Appendix 2 lists the audits in progress as at 31 December 1999. Appendix 3 lists speeches given by the Auditor-General and ANAO staff during the period July to December 1999.

2. Performance Audits

This chapter provides a summary of the key issues arising from performance audits tabled between January and June 1999.

2.1 Performance audits evaluate the economy, efficiency and administrative effectiveness of the management of public sector entities by examining and assessing resource use, information systems, performance outputs and outcomes, including performance indicators and other performance information, monitoring systems and legal and administrative policy compliance.

2.2 The Auditor-General has a mandate, under the *Auditor-General Act 1997*, to undertake, at his discretion, performance audits of all Commonwealth bodies other than Government Business Enterprises (GBEs) or persons employed under the *Members of Parliament (Staff) Act 1984*. Performance audits for wholly owned GBEs and persons employed under the *Members of Parliament (Staff) Act 1984* may, however, be undertaken by the Auditor-General where requested by the responsible Minister, the Minister for Finance or the JCPAA.

2.3 General issues arising out of the performance audit reports tabled in the last six months included:

- corporate governance;
- risk management;
- performance monitoring;
- legal and administrative policy compliance; and
- contract management.

Corporate governance

2.4 Corporate governance continues to be a key issue in performance audit and, as outlined earlier, is essentially concerned with structures and processes for decision-making and with the controls and behaviour that support effective accountability for performance outcomes.

2.5 Effective planning is the cornerstone of effective program management. Audit Report No.1 *Implementing Purchaser/Provider Arrangements between the Department of Health and Aged Care and Centrelink*, found that Health could have implemented service delivery arrangements more effectively, with better project planning and management. Also, the lack of a sufficiently structured approach to project planning and management by Health exposed the implementation to risks that

otherwise could have been identified, assessed and ranked, which would have led to their more effective management. Centrelink's project planning was considered to be adequate.

2.6 A key component of corporate governance is the use of appropriate management information. The ANAO examined the effectiveness of the use of financial information in management reports in Audit Report No.2 *Use of Financial Information in Management Reports*. In the seven organisations reviewed, the financial responsibilities of managers were narrowly defined. Consequently, the suite of financial information provided to managers was limited. Also, limited opportunities had been taken to use available financial information, including accrual-based information, for day-to-day and strategic decision making to assist in the performance measurement of program delivery. Finance areas were not well equipped to meet the challenges of the changed finance function role that required finance staff to assist management with the analysis and interpretation of financial information.

2.7 In Audit Report No.13 *Management of Major Equipment Acquisition Projects*, the ANAO found that the management of acquisition projects had experienced systemic problems arising from the traditional top-down management of Defence's various functional groups without the fully effective lateral processes by which capability outcomes could have been better managed. Tasks, such as maintaining a balanced view of capital expenditure and recurrent costing, were often hampered by inadequate life-cycle cost estimates. Audit Report No.19 *Aviation Safety Compliance* found that addressing a range of corporate governance issues such as the completion of a corporate plan, monitoring adherence to management priorities, formal promulgation of changes in policy and the systematic analysis of trend and risk data would further strengthen Australia's highly regarded record in aviation safety.

2.8 A number of audits in the past six months have highlighted significant IT-related problems, which have exposed agencies' corporate governance to risk. In Audit Report No.3 *Electronic Travel Authority*, the ANAO found that, while the Electronic Travel Authority system was innovative and had delivered a range of efficiencies, it required implementation of appropriate IT security arrangements to provide the required level of security, particularly for data processing operations. IT security was also raised in Audit Report No.7 *Operation of the Classification System for Protecting Sensitive Information*. No agency covered in the audit was adequately protecting the confidentiality of sensitive information and the most common and serious breakdowns related to, *inter alia*, IT networks and security clearances. In a second cross-portfolio

audit, Audit Report No.18 *Electronic Service Delivery, Including Internet Use, by Commonwealth Government Agencies*, the majority of agencies were well positioned to meet Government's commitment to deliver appropriate services on the Internet by 2001. However, the audit identified significant impediments to Government agencies' increased use of the Internet, including IT skill shortages and data security and privacy issues.

Risk management

2.9 Risk management forms an integral part of the corporate governance framework. 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, focusing 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.

2.10 In the last six months audit reports have continued to examine the way in which agencies manage the implementation of their business and other risks. Audit Report No.4 *Fraud Control Arrangements in Employment, Education, Training and Youth Affairs*, found that DEETYA had generally established a sound framework to prevent and manage fraud, although the quality assurance component of the framework had not been established. Audit Report No.8 *Managing Data Privacy in Centrelink* found, generally, that suitable policies, procedures and systems relevant to privacy issues were in place. However, Centrelink's framework for the management of data privacy was incomplete in that an assessment of risks to data privacy and planning aimed at minimizing these risks had not been undertaken at an organisation-wide level.

2.11 The Commonwealth's debt management was the subject of Audit Report No.14 *Commonwealth Debt Management*. The audit found that the Commonwealth was exposed to a number of significant risks in its debt management operations, although Treasury had moved increasingly in recent years to conduct its operations within an explicit risk management framework. The audit identified several areas for improvement including, *inter alia*, the continued examination of the merits of increasing the Commonwealth's foreign currency risk exposure above the level necessary to fund expenditure and continuous reporting and proper disclosure of performance against targets. Audit Report No.16 *Superannuation Guarantee*, also found that, although generally, the ATO had effective risk assessment, risk planning, risk treatment and performance monitoring strategies in place for the superannuation

guarantee, risk management could be enhanced by reporting performance against a stronger suite of performance indicators.

Performance monitoring

2.12 Performance monitoring is another integral aspect of sound corporate governance. It is important for regular and relevant performance information to be collected and communicated to enable performance to be monitored so that program managers can assess whether programs are performing to expectations and whether opportunities exist to improve performance. Performance monitoring is an ongoing process undertaken in the ordinary course of business.

2.13 Audit Report No.5 *IP Australia—Productivity and Client Service*, examined the effectiveness of IP Australia's management of productivity and client service. The audit found that a number of areas required improvement. The agency needed to strengthen its performance information framework in two important areas. First, there were no measures of the effectiveness with which IP Australia's outcomes met its objectives. Second, there were limited measures of quality of product, an area which clients had identified as important. Furthermore, IP Australia required enhancements to its financial system to better measure unit costs of production. Similar issues were also raised in Audit Report No.22 *Weather Services in the Bureau of Meteorology*, where gaps were found in the Bureau's performance verification and reporting system and links between costs and outputs required greater attention to demonstrate cost effectiveness.

2.14 In Audit Report No.13 *Management of Major Equipment Acquisition Projects*, the ANAO found that the Department of Defence's management information systems and performance monitoring systems had not been sufficiently developed to support sound decision-making. Consequently, Defence had still to implement key performance indicators and benchmarks covering all aspects of capability management. Audit Report No.15 *Management of the Australian Development Scholarship's Scheme*, examined a range of issues including the strategic and performance management of the Australian Development Scheme. While AusAID's management of the ADS was generally adequate, its performance fell short in this area. Shortcomings in the analysis of performance information were also noted in Audit Report No.17 *The Commonwealth–State Housing Agreement*. While there had been recent improvements in the structure and content of the Agreement, there were still problems with the quality and reliability of performance and financial information provided by the States which limited the usefulness of that information for measuring and/or assessing performance against required results.

Legal and administrative policy compliance

2.15 Legal and administrative compliance has been the major subject of three audit reports in the past six months. In Audit Report No.7 *Operation of the Classification System for Protecting Sensitive Information*, none of the agencies covered in the audit was adequately protecting the confidentiality of sensitive information in accordance with the Commonwealth's security classification system, related Government policy, established standards, and recognised best practice. As outlined in the Introduction, the more common and serious breakdowns related to IT networks and security clearances, but also risk assessments and planning, allocation of responsibility, staff training and awareness, and monitoring and review activities. Audit Report No.8 *Managing Data Privacy*, indicated that Centrelink had established key elements of a sound framework to meet the Information Privacy Principles in the *Privacy Act* and confidentiality in other legislation. However, Centrelink's framework for the management of data privacy was incomplete and its performance information on the actual number of privacy breaches or significant influencing factors was not adequate for sound performance management and accountability.

2.16 In Audit Report No.20 *Special Benefit*, the ANAO found a significant degree of non-compliance of Special Benefit new claim assessment decisions with the *Social Security Act*, the Guide to the Act and other relevant guidelines. For example, a significant proportion of claims were incorrectly assessed, not fully assessed and/or failed to meet a range of other requirements under the Act and the guide to the Act. However, the monetary value of the incorrect assessment was relatively small.

Contract management

2.17 With the increasing emphasis across the whole of the APS on market testing and outsourcing, sound tendering procedures and good contract management are playing an increasing role in ensuring that public resources are used efficiently and effectively. To maintain accountability, the awarding of contracts should follow a process, which ensures open and effective competition and realisation of value for money. In addition, the reasons for a particular source selection should be able to withstand scrutiny, including from the Parliament. Also, contracts should have clearly specified performance standards, including appropriate arrangements for monitoring and reviewing contractor's performance. The ANAO has recently drawn attention to areas of contracting requiring particular care, including assessing value for money and negotiating, preparing, administering and amending major contracts.

2.18 Audit Report No.1 *Implementing Purchaser/Provider Arrangements between the Department of Health and Aged Care and Centrelink*, concluded that the purchaser/provider arrangements between the two departments, including the performance reporting framework, were adequate. However, Audit Report No.3 *Electronic Travel Authority* found that, although the electronic travel authorities has been a success, there was an opportunity for the Department of Immigration and Multicultural Affairs to improve contract management practices. Audit Report No.12 *Management of Contracted Business Support Processes*, found that elements of the control framework operating over the contract administration, monitoring and succession phases of the contract life-cycle were considered to require improvement in most of the organisations examined. Management action was required in relation to aspects of risk management, the control environment, information and communication, and monitoring and review components. Furthermore, performance measures for the quality of service delivery were not established in many instances and so this aspect of performance was less likely to be effectively monitored. Audit Report No.15 *Management of the Australian Development Scholarship Scheme* also indicated that contract management was an area where there was scope for improvement. Similar scope for improvement in contract management was noted in Audit Report No.24 *Commonwealth Management and Regulation of Plasma Fractionation*. In that report, marked deficiencies were found in the Department of Health and Aged Care's payment control system, its planning and conduct of commercial negotiations over price adjustments and its management of the Commonwealth's legal exposures.

3. Financial Statement Audits

This chapter summarises the financial audits and other financial audit activities conducted by the ANAO during the period July to December 1999.

3.1 The ANAO undertakes financial statement audits of all Commonwealth entities each year. The *Financial Management and Accountability Act 1997*, the *Commonwealth Companies and Authorities Act 1997* and the Corporations Law prescribe the need for entities to prepare financial statements and arrange for their audit.

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

3.3 The audit opinion on the financial statements is designed to add credibility to the financial statements. It is not an absolute guarantee of their veracity or reliability—it is formed on the basis of reasonable evidence, not certainty. It also does not provide any direct comfort in relation to the absence of fraud or other irregularity.

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

3.5 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. This report is the principal vehicle by which the Parliament and the public are able to hold an entity accountable for its financial performance.

3.6 The Auditor-General also produces reports to the Parliament that summarise the outcomes of all financial statement audits. Traditionally, one report has been produced each year, at the conclusion of the final phase of the audits. In recognition of the importance of reporting significant audit matters to the Parliament in advance of completion of the audits of financial statements, two reports are now produced each

year. The first report summarises issues regarding financial systems, controls and processes as part of the audits of financial statements, and the second draws together the overall results of these audits of all Commonwealth entities, including the Commonwealth of Australia consolidated financial statements.

3.7 Audit Report No.10 *Control Structures as Part of the Audits of Financial Statements of Major Commonwealth Agencies for the Period Ended 30 June 1999*, and Audit Report No.21 *Audits of the Financial Statements of Commonwealth Entities for the Period 30 June 1999* are the most recent reports tabled in the Parliament. These Reports summarised the results of the audits of financial statements of all Commonwealth entities.

Control structures

3.8 Audit Report No.10 *Control Structures as Part of the Audits of Financial Statements of Major Commonwealth Agencies for the Period Ended 30 June 1999*, summarised major issues in relation to financial systems, controls and processes from examinations of major Commonwealth agencies as part of the audits of their financial statements. It raised significant issues warranting attention to improve the quality of the underlying control structures that support public sector financial performance and accountability. The most significant common issues highlighted were:

- inadequate privacy and security protection over computer systems that record and process information;
- difficulties in reconciling departmental financial systems to the Department of Finance and Administration (DOFA) accounting systems; and
- weaknesses in asset management impacting adversely on the security and maintenance public assets.

3.9 Importantly, the Report also commented on difficulties being faced by agencies in implementing their financial systems, in part because they did not deliver what was expected, and the lack of appropriately skilled staff.

Audits of financial statements

3.10 The ANAO formed an opinion and reported on the financial statements of 287 Commonwealth entities for the period ended 30 June 1999, including the Commonwealth of Australia Consolidated Financial Statements. The results of this work were reported in Audit Report No.21 *Audits of the Financial Statements of Commonwealth Entities for the Period 30 June 1999*.

3.11 The desirable outcome of an audit is an unqualified audit report, indicating the auditor agrees with the information presented by management in the financial statements. However, an audit report may be modified if the auditor does not consider the financial statements present a fair view and the information may mislead the reader. These modifications include issuing a qualified report, or a report containing 'an emphasis of matter'.

3.12 Seven qualified audit reports were issued for a variety of reasons, but predominantly for breaches of reporting requirements or the unavailability of audit evidence necessary to support the accuracy of amounts reported in an entity's financial statements.

3.13 The ANAO also included 'matters of emphasis' in reports on the financial statements of a further six entities. These references drew attention to issues which would be considered significant to the readers of the financial statements but which did not, of themselves, justify an audit qualification. Table 1 summarises the audit conclusions of Commonwealth entities since 1996–97.

Table 1
Summary of audit conclusions

<i>Financial statement audit reports</i>	<i>1998–99</i>	<i>1997–98</i>	<i>1996–97</i>
Qualified	7	9	6
Containing an emphasis of matter	6	6	34
Not modified	274	301	281
Total issued	287	316	321

Financial statement preparation

3.14 Audit Reports Nos.10 and 21 included commentary on entity performance in the preparation of financial statements and the quality and timeliness of financial information. Also reported was the considerable difficulty experienced by entities in implementing financial and human resource management information systems during 1998–99 and, as a consequence, the systems for most entities not being capable at the time of fully supporting the production of financial statements. Furthermore, the lack of reconciliations performed regularly throughout the year meant that significant effort was required at the end of the financial year to complete the reconciliations satisfactorily for financial reporting purposes. As in previous years, there continues to be the need for greater discipline and management involvement in the financial statement preparation process, as reflected in the nature of issues outlined above.

3.15 With the outcomes and outputs accrual budgeting and reporting framework, there is an increased likelihood of entities being required to finalise their financial statements earlier. For this to be achieved, quality draft financial statements would need to be available for audit by mid-July for the 30 June financial year. This will only be accomplished if appropriate management attention is paid to financial management better practice including updating and reconciling regularly asset registers, subsidiary ledgers and bank accounts. In addition, management needs to take a more pro-active role in the exercise of financial reporting within their agencies or entities.

Commonwealth of Australia Consolidated Financial Statements 1998–99

3.16 The Minister for Finance and Administration signed the 1998–99 Commonwealth of Australia Consolidated Financial Statements (CFS) on 6 December 1999. The CFS represents a consolidation of the financial reports of all material Commonwealth controlled entities, dissected into the general government, public trading enterprises and public financial enterprises. A qualified audit report on the 1998–99 CFS was issued on 6 December 1999.

3.17 As indicated in the CFS, taxation revenue was measured in previous years on the basis of revenue accrued in relation to balance dates falling within the reporting period. Taxation revenue has now been recognised in the financial statements on the basis of when tax payments are due and payable.

3.18 The approach adopted in previous years recognised taxation revenue when the Government gained control of the future economic benefits that flowed from taxes and when those future economic benefits could be measured reliably. That approach also reflected the provisions of the *Income Tax Assessment Act 1997*, whereby the obligation to pay tax exists prior to assessment, and the underlying transactions, not the assessment, give the Government control of the right to receive taxation revenues. This continues to be the approach adopted by the Australian Taxation Office in its financial statements for the year ended 30 June 1999.

3.19 The effect of the change on the CFS in 1998–99 was to defer the time at which taxation revenue is recognised in the financial statements. The treatment adopted in the preparation of the CFS does not accord with Australian Accounting Standard AAS 31 *Financial Reporting by Governments* which requires that all of the Government’s assets, liabilities, revenues and expenses be recognised on an accrual basis in the financial statements. As indicated in the CFS, the financial effect of this change and the accounting for it, is to understate the operating result attributable to the Commonwealth for the year by \$0.4 billion and to understate accrued taxation revenues by \$24.5 billion, accrued taxation liabilities by \$14.6 billion and accumulated results by \$9.9 billion at 30 June 1999.

Financial highlights

3.20 The key highlights of the CFS were:

- cash at the end of the year of \$1.8 billion (1997–98 \$1.7 billion);
- total net commitments of \$71.7 billion (1997–98 \$73.3 billion);
- net quantifiable contingencies of \$11.1 billion (1997–98 \$11.9 billion);
- an operating result of \$4.4 billion (1997–98 result of \$7.5 billion); and
- a negative equity (accumulated results and reserves) position of \$65.2 billion (1997–98 negative equity of \$62.7 billion).

3.21 As indicated in *National Commission of Audit Report to the Commonwealth Government June 1996*, the negative equity figure has little meaning in the absence of benchmarks that can only be built up over time relative to such measures as Gross Domestic Product or Commonwealth revenues. That report indicated that a more significant measure of financial performance was the impact of the operating surplus on the Government’s financial position. Of fundamental importance in that respect is the way in which the Commonwealth Budget (budget) impacts on accumulated results in future years. While the 1998–99 budget is cash-based and there is no direct relationship with the CFS, there is an important issue, as discussed below, to be resolved for the 1999–2000 financial year.

3.22 In preparing its budget for 1999–2000, the Government has adopted an accrual budgeting framework for public sector budgeting and reporting. As noted in the *Budget Strategy and Outlook 1999–2000*², the main advantage of accrual measures is the more comprehensive indication they provide of the long-term activity of government and the long-term effects of current policy. The full cost of Commonwealth service delivery will be identified, and public sector managers will be accountable for the performance of their agencies in contributing to the achievement of government outcomes.

3.23 As indicated in the *Budget Strategy and Outlook*, the major external standards used in preparing the budget are the Australian Accounting Standards and the new accrual Government Financial Statistics being introduced by the Australian Bureau of Statistics in 1999–2000, including the measure of fiscal balance³. Under this new accrual framework, the key fiscal indicator adopted by the Government is fiscal balance. Under an accrual accounting framework, the operating result is the prime measure of financial performance.

3.24 Given the above, there will be differences between the various measures. Of significance here, for example, is the issue of taxation revenue recognition principles. As indicated earlier, the 1998–1999 CFS was qualified regarding recognition principles for certain Commonwealth taxation revenues. Such principles will require consideration and/or explanation in the context of the preparation of the budget and CFS for 2000–01.

3.25 Audit Report No.38 of 1998–99, *Management of Commonwealth Budgetary Processes* indicated that it is important for Ministers, other members of Parliament and other stakeholders to be informed properly of the implications of moving to the accrual basis of budgeting and its likely impacts on estimates. An issue that will require close management attention is ensuring that there is consistency in the accounting concepts and treatments used in the construction of the accrual budget estimates, of agency financial statements and of the CFS to allow estimated and actual outputs and outcomes to be compared on a similar basis.

² *Budget Strategy and Outlook 1999–2000*, Budget Paper No.1—Appendix D: Alternative Commonwealth Budget Presentations.

³ The fiscal balance is *effectively* a measure of government net lending, the gap between government savings and investment. It measures the government's net call on other sectors in the economy, and so corresponds to the government's direct contribution to the current account deficit. (Ibid p. 9–32).

3.26 Prudential management of the Commonwealth's balance sheet will be fundamental for demonstrating sound financial management, and importantly, a major determinant for future funding requirements over the longer term.

Other financial statement activities

3.27 The ANAO assists its clients' financial reporting in a number of ways during the period under review. In July 1999, seminars were held in Canberra, Sydney and Melbourne covering developments in financial reporting requirements. Better Practice Guides for the preparation of the 1999 financial statements of agencies and Commonwealth authorities were also published.



Canberra ACT
3 February 2000

P. J. Barrett
Auditor-General

Appendices

Appendix 1

Audit reports tabled in the period 1 July 1999 to 31 December 1999

Audit Report No.1 1999–2000

Performance Audit

Implementing Purchaser/Provider Arrangements between the Department of Health and Aged Care and Centrelink

Centrelink

Department of Health and Aged Care

The objective of the audit was to determine the administrative effectiveness of the implementation of the service delivery arrangements between Centrelink and Health by examining project planning for, and management of, the implementation, and the establishment of on-going purchaser/provider arrangements. The audit focussed on the work of Health in undertaking the aged care implementation from the time of the 1996 Budget announcement to September 1998, and Centrelink's management, from the time it took responsibility for the service delivery component (namely, residential care fee income testing) from the former Department of Social Security (DSS) in October 1997, to September 1998.

Health and Centrelink achieved the implementation of aged care service delivery by the amended due date of 1 March 1998, as required by Government. Both Health and Centrelink complied with the Government's policy and legislative requirements. However, had the original implementation date of 1 July 1997 remained Government policy, implementation would not have been adequately progressed to meet the standard required by Government. With respect to Health, the ANAO concluded that implementation could have been more effective with better project planning and management. Project plans had not been sufficiently developed for either the overall project or for all key sub-projects for the implementation. Therefore senior management did not have a suitable basis on which to monitor the progress of the implementation and to have adequate assurance regarding coverage of gaps. The lack of a sufficiently structured approach to project planning and management by Health exposed the implementation to risks that otherwise could have been identified, assessed and ranked which would have led to their more effective management. Several recommendations were made to assist

the achievement of greater efficiency, effectiveness and accountability of large projects in the future. Centrelink's project planning approach was considered to be adequate. The ANAO also concluded that the purchaser/provider arrangements, including the performance reporting framework, are adequate. The ANAO highlighted a number of improvements required to more closely align the arrangements with better management practices. Recommendations have been made to ensure a common understanding between the parties of the requirements under the agreements. It could be beneficial if these improvements were taken into account in reviewing the current arrangements and for future similar arrangements.

Both Centrelink and Health agreed with all of the recommendations that were relevant to their respective agencies.

Audit Report No.2 1999–2000

Financial Control and Administration Audit

Use of Financial Information in Management Reports

Cross Portfolio

The objective established for the audit was to provide assurance to the Parliament on the effectiveness of the use of financial information in management (internal) reports and form an opinion on whether:

- the financial information produced for management purposes was relevant to, and satisfied, managers' planning, operational and reporting needs; and
- the current processes for defining, accumulating, producing, assessing and reporting financial information to satisfy those managers' needs were appropriate for the new accrual-based performance management framework including external reporting.

In the organisations reviewed, the financial responsibilities of managers were narrowly defined. Consequently, the suite of financial information provided to managers was limited. The focus was largely on accountability for compliance with budgets and managing expenditure. The audit also concluded:

- wider financial management responsibilities (and hence accountabilities) in terms of the management and use of resources to achieve efficient and effective outputs and outcomes were not well defined. Accordingly, the financial information available did not align with these broader responsibilities;
- limited opportunities had been taken to use available financial information for day to day and strategic decision making to assist in the performance measurement of program delivery and therefore current processes for defining managers' broader financial information needs will be largely ineffective in the new framework;
- although managers are able to use available financial information to support decision making, the implementation of the new framework poses major challenges to organisations. Basically, the latter requires managers to understand how to use accrual financial information effectively to support decision-making and in the cost effective delivery of outputs and the achievement of outcomes;

- finance areas are also not well equipped to meet the challenges of the changed finance function role that will require finance staff to assist management with the analysis and interpretation of financial information; and
- considerable effort and senior management commitment will continue to be required to plan and coordinate implementation of the new framework in order to meet these challenges successfully.

Audit Report No.3 1999–2000

Performance Audit

Electronic Travel Authority

Department of Immigration and Multicultural Affairs

An Electronic Travel Authority (ETA) is an electronically-stored authority for travel which facilitates the entry of tourists and short-term business travellers from countries where the risk of non-compliance with visa conditions is low. The objective of the performance audit was to assess the administrative effectiveness of the ETA with particular regard to:

- the reliance that can be placed on information technology (IT) systems;
- the contribution of the Movement Alert List (MAL) to the effective operation of the Electronic Travel Authority System (ETAS);
- the management by DIMA of the contribution of external parties in the operation of the ETAS; and
- the financial management of the ETAS.

The audit found that the ETAS is an innovative, Australian developed system which has the support of the travel industry. It has delivered efficiencies and has made the issuing of visas more effective. The ETAS has been implemented in almost all of the countries assessed as low risk and attracts a significant proportion of visa applications in these locations. It has also enabled visa waiver arrangements to be extended to Australian travellers to the USA, France, Japan, Spain and the Republic of Korea following introduction of ETAS in these countries.

The audit also found that DIMA could improve the administration of the ETA in some key areas. These areas included implementation of IT security arrangements to improve security protection of data operations and strengthening the procedures for MAL data management. DIMA also needs to develop a strategy for dealing with key external parties (such as travel agents) that play an important role in delivering ETA and to improve financial and contract management practices. DIMA accepted all recommendations made in the report.

Audit Report No.4 1999–2000

Performance Audit

Fraud Control Arrangements in Employment, Education, Training and Youth Affairs

Department of Employment, Education, Training and Youth Affairs

The objective of the audit was to establish whether the Department had developed a sound fraud control framework in the areas of policy and planning, performance assessment, quality assurance and training and awareness raising. Each of these areas was examined against the key better practice principles established by the Commonwealth Law Enforcement Board and sound management practices generally.

The ANAO concluded that the Department generally had established a sound control framework to prevent, as well as manage, fraud. The ANAO found that a number of arrangements worked well in practice, such as the development of appropriate policy statements, risk assessment and a fraud control plan. Some areas required improvement to achieve better practice, particularly the specification of measurable performance indicators to assess price, quantity and quality and the documentation of monitoring undertaken. As well, the quality assurance component of the framework had not been established, meaning that there was a risk that delays in taking action would inhibit the achievement of successful investigations and/or prosecution of fraud cases. The ANAO made four recommendations aimed at improving performance in these areas and these were all agreed.

Audit Report No.5 1999–2000

Performance Audit

IP Australia—Productivity and Client Service

IP Australia

IP Australia, a division of the Department of Industry, Science and Resources, is the sole agency in Australia which provides intellectual property (IP) rights in respect of patents, trade marks and designs. The objective of the audit was to examine the effectiveness of IP Australia's management of productivity and client service. The audit addressed performance information on productivity and client service; the impact of improved productivity and increased demand for IP Australia's services on the achievement of its cost-recovery objectives; and the adequacy and effectiveness of mechanisms for improving productivity and client service. The audit criteria were based on goals set by IP Australia for itself, adapted in some cases to reflect the scope of the audit.

The audit found that IP Australia had improved its productivity and the cost and timeliness of its client services substantially in the last few years. Prices were reduced by some 22 per cent in 1998. The average time taken for key steps in the processing of applications for IP rights had also fallen markedly. IP Australia has exceeded the cost recovery target set out in its financial framework. Revenue exceeded costs for each of the previous five years, due in part to a surge in demand, and hence revenue, which was not predicted. As a result, IP Australia had accumulated a surplus of \$31.5 million at 30 June 1998, equivalent to almost six months' expenditure.

The report also found that IP Australia faces a number of challenges in delivering its IP services efficiently and effectively. IP Australia would be better placed to address its changing environment by formalising the approach to analysis of its competitive position and by integrating this into its planning, performance management and performance improvement processes. Currently there are no measures of the effectiveness with which IP Australia's outcomes meet its objectives, although this issue is being considered in the Outcomes and Outputs Framework. Furthermore, there are limited measures of quality of the product, an area which clients have identified as of key importance to them. A quality assurance framework which focuses more on client perceptions of quality, would improve the management of processes and outputs.

Enhancements to IP Australia's financial system to measure unit costs of production more conclusively would enable it to assess the extent to which it has achieved its unit cost reduction objective. IP Australia agreed to all recommendations.

Audit Report No.6 1999–2000

Audit Activity Report: January to June 1999

Summary of Outcomes

The report summarised the audit and other related activities of the ANAO in the period January to June 1999. Key themes to emerge were corporate governance, risk management, performance monitoring, legal compliance, contract management and asset sales.

Audit Report No.7 1999–2000

Protective Security Audit

Operation of the Classification System for Protecting Sensitive Information

Cross Portfolio

The audit was a follow-on to Audit Report *No. 21, 1997–98, Protective Security*, which reviewed, among other things, information security other than computer and communications security, against the policy and procedures outlined in the Commonwealth's 1991 Protective Security Manual (PSM). The main objectives of the audit were to:

- determine whether organisations are protecting the confidentiality of sensitive information in accordance with the Commonwealth's security classification system, related Government policy and standards, and recognised best practice; and
- recommend improvements as necessary, including those that could be applicable to all organisations.

In the opinion of the ANAO, all organisations covered by the audit were not adequately protecting the confidentiality of sensitive information in accordance with the Commonwealth's security classification system, related Government policy and standards, and recognised best practice. While the extent of the breakdowns in information security varied among the organisations, the more common and serious breakdowns related to risk assessments and planning, allocation of responsibility, IT&T networks, security clearances, staff training and awareness, and monitoring and review activities. As a result, there was a high risk of unauthorised access to sensitive information within most of the organisations examined. The ANAO considers that all of the organisations examined need to improve their information security arrangements in order to protect sensitive information in accordance with the requirements of the PSM. On this basis, the ANAO made a number of recommendations to assist all Commonwealth organisations achieve better performance in information security management. The recommendations in the Audit Report are applicable to all Commonwealth organisations that hold sensitive information.

Audit Report No.8 1999–2000

Performance Audit

Managing Data Privacy in Centrelink

Centrelink

As a service provider, Centrelink collects personal information on its customers. Agency responsibilities and a general framework for data collection, processing, storage, access, use and disclosure of personal information are, primarily, set in the *Privacy Act 1988* and, in particular, the eleven Information Privacy Principles set down in the Act.

The ANAO found that Centrelink had established key elements of a sound framework to meet the Information Privacy Principles in the Privacy Act and confidentiality provisions in other legislation. Generally, suitable policies, procedures and systems relevant to privacy issues are also in place. However, Centrelink's framework for the management of data privacy was incomplete in that an assessment of risks to data privacy and planning aimed at minimising these risks had not been undertaken at an organisation wide level. As well, Centrelink's performance information on the actual number of privacy breaches or significant influencing factors was not adequate for performance management or accountability purposes. Consequently, Centrelink's management was unable to be assured of the effectiveness, in practice, of the elements of the framework which had been implemented.

The ANAO made 11 recommendations aimed at improving the management and controls relevant to the collection, processing, storage, access, use and disclosure of personal information. Centrelink's response to the audit findings was positive and it has agreed with all recommendations.

Audit Report No.9 1999–2000

Performance Audit

Managing Pest and Disease Emergencies

Agriculture, Fisheries and Forestry—Australia

The objective of the audit was to evaluate the administrative effectiveness of the Commonwealth's planning and response strategies to deal with exotic and new endemic disease and pest emergencies with particular reference to coordinating the Commonwealth's involvement in emergency response planning and in monitoring, surveillance and diagnostic support.

The report found that, overall, the Commonwealth's emergency planning and response strategies have enabled it to deal effectively with most aspects of recent exotic and new endemic pest and disease incursions in the animal and plant sectors. Planning and coordination by the Commonwealth have generally been effective in facilitating containment, and eradication where appropriate, of emergency disease and pest outbreaks, and minimising the impact of the emergency.

Notwithstanding the outcomes of recent emergencies, aspects of the emergency management framework should be strengthened to provide adequate assurance that the Commonwealth is fully prepared to respond in a timely and appropriate way to future pest and disease emergencies. In particular, planning should be strengthened by ensuring that the planning framework appropriately addresses the various roles of Commonwealth agencies and that the plans are up to date and relevant for all types of emergencies. Facilitating coordination with the States/Territories, relevant industry bodies and other Commonwealth agencies could be made more effective by strengthening the operations of some consultative committee mechanisms; developing mechanisms to engage industry more effectively; and developing a strategy to ensure that relevant Commonwealth agencies are effectively engaged during an emergency.

The ANAO made nine recommendations aimed at improving the emergency preparedness of the Commonwealth. The majority of recommendations have been directed at better planning for emergencies. Agriculture, Fisheries and Forestry—Australia agreed with all the recommendations.

Audit Report No.10 1999–2000

Financial Statement Audit

Control Structures as Part of the Audits of Financial Statements of Major Commonwealth Agencies for the Period Ended 30 June 1999

The Report summarised major issues in relation to financial systems, controls and processes from examinations of major Commonwealth agencies as part of the audits of their financial statements. It raised significant issues warranting attention to improve the quality of the underlying control structures that support public sector financial performance and accountability. The Report's timing was significant in that matters of a control nature were reported in advance of completion of the audits of financial statements, recognising the increased responsibility on agencies to maintain effective control structures.

The changing public sector financial environment has necessitated increased focus on the control structures that facilitate Chief Executive Officers meeting their responsibilities under the *Financial Management and Accountability Act 1997* and as a part of good corporate governance. The ANAO's audits place greater emphasis on identifying business risks impacting on the financial operations, and evaluating the design and effectiveness of control structures to mitigate those risks. This work is reported to entities so that major weaknesses affecting the control structure can be rectified quickly and subsequent improvement in public administration, performance and accountability can result.

The most significant common issues highlighted in the Report were:

- inadequate privacy and security protection over computer systems that record and process information;
- difficulties in reconciling departmental financial systems to the Department of Finance and Administration accounting systems; and
- weaknesses in asset management impacting adversely on the security and maintenance public assets.

Importantly, the Report also commented on difficulties being faced by agencies in implementing their financial systems, in part because they did not deliver what was expected, and the lack of appropriately skilled staff.

Audit Report No.11 1999–2000

Performance Audit

Financial Aspects of the Conversion to Digital Broadcasting

Australian Broadcasting Corporation

Special Broadcasting Service Corporation

The Minister for Communications asked the Auditor-General to assess financial aspects of the digital conversion strategies of the Australian Broadcasting Corporation and the Special Broadcasting Service Corporation.

The ANAO concluded that the overall processes involved in compiling the digital conversion estimates gave confidence that the ABC and SBS digital strategies reflected the minimum reasonable costs for this phase of their conversion to digital broadcasting. The ABC had spent less, and the SBS more, than originally estimated. Sample testing confirmed that the expenditure was consistent with the Government's funding decision. The ABC and SBS were expected, under the terms of the Government's funding decision, to contribute to the costs of the conversion, drawing on funds gained from the rationalisation of their properties. The ANAO was not able to reach any conclusions about the quantum of proceeds from property rationalisations, as no relevant properties had been sold at the time of audit. The ANAO highlighted a number of other (largely existing) sources of revenue potentially available to the national broadcasters and also found that the ABC and SBS had drawn down their government contributions in advance of need, although the cost to the Commonwealth is not significant. The ANAO noted that, in the period since the assumptions underpinning the government's decisions on Phase 1 funding had been made, there had been changes in the financial positions of the broadcasters and in the environment in which they have operated.

Audit Report No.12 1999–2000

Financial Control and Administration Audit

Management of Contracted Business Support Processes

Cross Portfolio

The objectives of this audit were to:

- provide assurance on the effectiveness of the management of contracted business support processes in selected organisations, and
- identify and disseminate better practices in related contract management.

Elements of the control framework operating over the contract administration, monitoring and succession phases of the contract lifecycle were considered to require improvement in most of the organisations examined. In particular, management attention and action were required in relation to aspects of risk management, the control environment, information and communication, and monitoring and review components. The performance of service providers under the contracts examined, in terms of the timeliness and cost of service delivery, was considered satisfactory. However, there was considerable room for improvement in the management of the quality of service delivery, for example, performance measures for the quality of service delivery were not established in many instances.

Audit Report No.13 1999–2000

Performance Audit

Management of Major Equipment Acquisition Projects

Department of Defence

Defence spends some \$2.4 billion a year on major equipment acquisition projects. It manages over 200 such projects with a total estimated cost of some \$43 billion.

The audit objective was to assess Defence's higher-level management of major equipment acquisition projects. The audit scope embraced Defence's corporate governance framework, outputs budgeting and financial management, performance monitoring and reporting, business process improvement and personnel management.

Management of acquisition projects in Defence is a complex task that relies on sound planning, programming, budgeting and implementation activities within at least four functional groups—Australian Defence Headquarters, Defence Acquisition Organisation (DAO), the relevant Service and Support Command Australia.

The ANAO found overall management of acquisition projects has experienced systemic problems arising from a traditional top-down management of Defence's various functional groups without fully effective lateral processes by which capability outcomes can be managed better. Management information systems and performance monitoring systems that view capability management as a continuum across several functional groups have not yet been sufficiently developed to support sound decision-making. Consequently, Defence has still to implement key performance indicators and benchmarks covering all aspects of capability management. Defence is seeking to improve its capability management processes but, given the absence of appropriate output management systems and agreed key performance indicators, any objective measurement of process improvements over time may be some years off.

Defence has not yet established the career structures it requires to be reasonably self-reliant in developing suitably experienced professional project managers who know and understand the Defence environment, including capability outcomes. DAO remains reliant to a large extent on Australian Defence Force officers posted-in from the Services as project managers and on increasing numbers of contracted-in professional service providers.

The audit report contained six recommendations. Defence agreed to the audit recommendations with some qualifications.

Audit Report No.14 1999–2000

Performance Audit

Commonwealth Debt Management

Department of Treasury

From 1 July 1999, the Australian Office of Financial Management (AOFM) assumed responsibility for Commonwealth debt management.

The scope of the audit included management of Commonwealth Government Securities and over-the-counter derivative transactions, comprising interest rate and cross currency swaps. The audit aimed to:

- review, and consider opportunities to improve, debt reporting and disclosure;
- assess the effectiveness of the raising, management and retirement of Commonwealth debt, consistent with an acceptable degree of risk exposure; and
- determine whether there are opportunities to improve the approach to raising, managing and retiring Commonwealth debt.

The audit found that Treasury's debt issuance programs have met Budget funding requirements. Domestic debt management has been effectively undertaken through: the issue of various borrowing instruments; the redemption and early repurchase of Commonwealth Government Securities; the formulation and undertaking of portfolio management; and assessing the budgetary cost of the debt portfolio.

The Commonwealth is exposed to a number of significant risks in its debt management operations. Treasury's debt management objective is to raise, manage and retire Commonwealth debt at the lowest possible long-term cost, consistent with an acceptable degree of risk exposure. Treasury has moved increasingly in recent years to conduct its debt management responsibilities within an explicit risk management framework.

Treasury's administration of the Commonwealth's contractual obligations in relation to its marketable debt instruments was found to be effective.

ANAO made six recommendations, all of which were agreed to by the AOFM.

Audit Report No.15 1999–2000

Performance Audit

Management of the Australian Development Scholarships Scheme

Australian Agency for International Development (AusAID)

Australian Development Scholarships (ADS) are the principal mechanism by which Australia provides scholarship assistance for individuals from developing countries to undertake studies at Australian education institutions. The scholarships help to meet the human resource development needs of developing countries and contribute to their development across various sectors. Scholarships also have an important role in fostering and sustaining Australia's relations with developing countries, particularly in the Asia-Pacific region.

The objective of the audit was to evaluate AusAID's management of the ADS scheme, particularly strategic and performance management of the ADS scheme, the provision of ADS assistance to partner developing countries and the management of contractual arrangements with Australian education institutions.

The ANAO found that administrative arrangements for ADS are a substantial improvement on those which existed for previous scholarship schemes. They have put AusAID's relationship with education institutions on a sounder basis, better integrated scholarship assistance into country aid programs and enhanced targeting of awards to meet the needs of partner countries. While AusAID's management of ADS is generally adequate, its performance falls short in some key areas of strategic and performance management, scheme planning and delivery, and contract management. AusAID is continuing to pursue options for improving the ADS scheme. In support of this, the ANAO made 11 recommendations to improve the management of the scheme for better outcomes in contributing to the development of partner countries. AusAID agreed with all recommendations.

Audit Report No.16 1999–2000

Performance Audit

Superannuation Guarantee

Australian Taxation Office

The objective of the audit was to review the Australian Taxation Office's (ATO) administration of the Superannuation Guarantee (SG) and to identify appropriate opportunities for improvement.

The ANAO assessed the ATO's administration of SG using a risk management framework with a focus on the ATO's performance in the areas of risk assessment strategies (identifying significant SG risks); risk planning strategies (prioritising identified SG risks and developing business plans that include strategies to address these risks); risk treatment strategies (developing and implementing SG risk treatment strategies including education, client service, audit and enforcement); and, performance monitoring strategies (developing performance indicators and monitoring the progress and outcomes of risk treatment strategies).

The ANAO found that the ATO's administration of the SG was sound. Generally, the ATO had effective risk assessment, risk planning, risk treatment and performance monitoring strategies in place for SG. However, the ANAO identified a number of areas where improvements were possible and made eight recommendations to improve the ATO's administration of SG. The ATO considered that the ANAO's recommendations had merit and were consistent with the ATO's general direction in relation to SG administration. The ATO agreed to the ANAO's recommendations, with qualification on one matter.

Audit Report No.17 1999–2000

Performance Audit

The Commonwealth–State Housing Agreement

Department of Family and Community Services

Under the Commonwealth–State Housing Agreement (CSHA) the Commonwealth and States both contribute funding in the form of grants, which are used by State Housing Authorities to provide a variety of housing assistance programs to people on low incomes or at a particular disadvantage (in 1998–99 the Commonwealth allocated \$967.3 million). The overall objective of the audit was to assess and report to Parliament on how effectively the Department of Family and Community Services (FaCS) administers the CSHA and to identify any areas where improvements could be made.

The ANAO found that due to significant improvements in its structure and content, the 1996 CSHA reflected a shift towards a performance driven regime with an emphasis on the achievement of outcomes. This was supported by the development of a system of performance indicators to measure performance and by improved financial accountability arrangements aimed at identifying the full costs of providing housing assistance under the CSHA and making the use of funding more transparent. This performance based framework was not in place under previous CSHAs and was, in itself, a significant improvement on prior agreements.

However, there were problems with the quality and reliability of performance and financial information provided by the States which limited the usefulness of that information for measuring and/or assessing performance against required results. Consequently, this information requires considerable improvement before it can contribute in a more meaningful way to the analysis of whether CSHA program objectives have been met efficiently and effectively.

The ANAO made four recommendations aimed at improving the ability of FaCS to make adequate comparison of the performance of housing delivery in each jurisdiction in order to support sound strategic planning and effective decision making in the future. FaCS agreed with all of the recommendations. FaCS advised that areas identified as needing further development are being addressed in the current CSHA.

Audit Report No.18 1999–2000

Performance Audit

Electronic Service Delivery, including Internet Use, by Commonwealth Government Agencies

Cross Portfolio

The over-all audit objective was to determine Commonwealth agencies' preparedness to achieve the Government's goal of all appropriate services being Internet-deliverable by 2001. The audit sought to assess:

- the extent to which agencies considered that they would be able to achieve that goal;
- what type of services agencies were delivering or planning to deliver on the Internet; and
- whether agencies had identified barriers and possible solutions to that delivery.

The audit surveyed 66 Commonwealth agencies. The ANAO concluded that the majority of agencies were well positioned to meet the Government's commitment to deliver appropriate services on the Internet by 2001.

Overall, the survey indicated that:

- 82 per cent of responding agencies considered that they would meet the Government's commitment;
- most agencies had identified services considered appropriate for the Internet, although some had difficulty in doing so. This difficulty stemmed, in part, from guidelines not being developed on the best way to identify services appropriate for Internet delivery;
- there are significant impediments to Government agencies' increased use of the Internet, including legislation that currently mandates documents rather than allowing for electronic formats, IT skill shortages, data security and privacy; and
- services to be delivered through the Internet included client-service information and support, procurement, payments to suppliers, receipt of revenue, public relations and advertising, and general use of online service delivery.

Experience gained to date by agencies surveyed suggests that it is good practice for individual agencies to:

- review their legislation as soon as possible to identify any barriers to Internet or other electronic service delivery, for example-legislation mandating documents;
- identify and assess the costs and benefits of reliance on the Internet to deliver services. This is particularly relevant because the Government has given a commitment to continuing existing written, telephone, fax and counter services;
- have in place appropriate privacy and data security policies for their Internet sites;
- monitor and evaluate their service delivery via the Internet to allow for continuous improvement; take into account any associated legal liability for government, including, for example, liabilities arising from incorrect or misleading information published on an agency's Internet site; and
- ensure that increases in electronic interaction with supplier and business groups are accompanied by a commensurate reassessment of agency risks and control strategies.

The report made two recommendations. The first was addressed to all agencies recommending actions they can take in moving to electronic service delivery. The second was addressed to the Office of Government Online (OGO) recommending ways OGO could assist agencies. OGO agreed with this recommendation.

Audit Report No.19 1999–2000

Performance Audit

Aviation Safety Compliance

Civil Aviation Safety Authority

The audit objectives were to assess the efficiency and effectiveness of the management systems and procedures used by CASA to ensure compliance with regulatory controls by Air Operator's Certificate (AOC) holders operating passenger-carrying aircraft within the Regular Public Transport and charter industry sectors; and Certificate of Approval holders.

The focus of the audit was on compliance with the CASA's procedures for: issuing, re-issuing and varying certificates; the Aviation Safety Surveillance Program (ASSP); and enforcement of the regulations. The audit also examined the effectiveness of corporate governance activities in relation to planning, policy development, strategic analysis, training and quality assurance.

The ANAO concluded that CASA's regulatory regime for ensuring compliance by the aviation industry with Australia's aviation safety legislation has contributed towards Australia's highly regarded record in aviation safety. However, the potential exists for this regime to be improved and strengthened with consequential increased confidence of all stakeholders.

Overall, CASA has well documented procedures which, if properly implemented, would provide a reasonable ongoing degree of assurance that safety standards are being maintained by industry. However, the ANAO found shortfalls in adherence to these procedures, which need to be addressed so CASA's effectiveness and public assurance is improved and maintained.

The Authority has experienced considerable turmoil with frequent top management turnover and accompanying related changes in strategic emphasis and policy direction since it was established in 1995. There is little doubt that CASA would benefit from a period of relative management stability to enable it to focus more consistently on its objectives and be fully effective in carrying out its functions.

The ANAO made 13 recommendations to improve CASA's regulation of aviation safety in Australia. CASA agreed with all 13 recommendations with one subject to qualification regarding the limited resources available. CASA has already commenced the process of implementing some of the recommendations.

Audit Report No.20 1999–2000

Performance Audit

Special Benefit

Centrelink

Department of Family and Community Services

The objective of the audit was to assess the extent to which new claims for Special Benefit had been determined in compliance with the *Social Security Act*, the Guide to the Act and other relevant guidelines; and whether Centrelink and FaCS had appropriate procedures to help ensure such compliance.

The ANAO concluded that there was a significant degree of non-compliance of Special Benefit new claim decisions with the Act, the Guide to the Act and other relevant guidelines. For example: 41.7% (+/- 7.6%) of new claims were incorrectly assessed, 22.1% (+/-6.7%) of new claims were not fully assessed, casting doubt on the final assessment decision and a high proportion of assessments failed to meet a range of other requirements under the Act and Guide to the Act. While the monetary effect of the incorrect assessments was relatively small, the level of assessment error was considerably higher than that identified by Centrelink through its internal checking mechanisms and reported to FaCS. The ANAO therefore considered that mechanisms to monitor and report the accuracy of the assessments were not sufficiently reliable leading to inaccurate reports of the extent of error in new claim assessments for Special Benefits. This has obvious implications for both policy and management decisions.

The ANAO made eight recommendations to Centrelink aimed at improving its management control over Special benefit assessment decisions. One further recommendation relating to reporting accuracy was made to both Centrelink and FaCS. The agencies agreed with all the recommendations.

Audit Report No.21 1999–2000

Financial Statement Audit

Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 1999

The Report summarised the final results of the audits of the financial statements of Commonwealth entities, forming the second Report this period on financial statement audits for the year ended 30 June 1999. It complemented Audit Report No.10 which covered significant issues relating to the control structures of major Commonwealth agencies that were detected from examinations of entity financial systems, controls and processes as part of these audits.

Part One of the Report discussed the overall final results of the audits of the financial statements. While progress had been made in the quality of financial statements reporting, entities still needed to improve to meet fully the requirements of accrual-based reporting, budgeting and accountability. During 1998–99, as Commonwealth entities focused on the implementation of information systems to support the accrual outputs and outcomes framework, the ANAO observed a decline in the quality and timeliness of financial information and related financial monitoring within these entities. The major causes stemmed from the lack of appropriately skilled staff and incomplete information systems which were not fully effective in part because they did not fully meet the requirements of the public sector environment. Part Two collated the results of the individual financial statement audits and any additional significant control issues, since Audit Report No.10.

Audit Report No.22 1999–2000

Performance Audit

Weather Services in the Bureau of Meteorology

Department of the Environment and Heritage

The objectives of the audit were to evaluate the performance of the Bureau of Meteorology (the Bureau) in terms of timeliness, cost and quality of weather services to meet the needs of clients; and assess how well the Bureau was placed in measuring its outputs/outcomes within the context of the Accrual Budgeting Framework. Following a request from the Minister for the Environment and Heritage, the audit objectives were expanded to include benchmarking the Sydney Regional Forecasting Centre (RFC) against other RFCs in Australia.

The ANAO concluded that, while clients were satisfied overall with Bureau services and the client focus of the Bureau had improved, accuracy remained an ongoing issue for attention. The Bureau had applied timeliness standards in some instances but performance monitoring against such standards was largely incomplete. Sectoral forecasts such as for aviation, marine and some rural and severe weather services, were difficult for the Bureau or the ANAO to comment on with any confidence because of gaps in performance verification and reporting.

The quality of the Bureau's observation network was generally comparable with that of other meteorological agencies such as in Canada. A priority for the Bureau was improving the links between costs and outputs. This link was important to demonstrate that the mix of elements in the observation network contributing to the Bureau's outputs (such as the accuracy and cost effectiveness of forecasts) was optimum. The Bureau's financial systems were not sufficiently developed for accrual accounting and reporting purposes and were not closely linked to the performance information system, which made it difficult to calculate the cost effectiveness of outputs and outcomes.

In relation to the Severe Weather Services, the Bureau had no formal risk management plan but resource allocations were generally made to areas and activities of highest significance to severe weather warning. The Bureau's performance in forecasting cyclones and fire weather had improved over time and, in the case of cyclones, was comparable with other leading agencies such as in the USA. Thunderstorm forecasting was more problematic. Achievement of performance improvement by the Bureau was not assisted by weaknesses in the consistency and quality of performance measurement in the Bureau. In relation to the Sydney hailstorm in April 1999, there was no evidence to suggest that the NSW RFC had inadequate equipment or staff resources compared to those in other regions. The main challenge evident from the Sydney hailstorm was the appropriate allocation of expert severe weather staff to forecasting duties outside of the severe weather seasonal roster.

The Bureau agreed to the recommendations, some with qualifications.

Audit Report No.23 1999–2000

Performance Audit

The Management of Tax Debt Collection

Australian Taxation Office

The objectives of the audit were to improve the accountability to Parliament and the Government of the ATO by the provision of up-dated advice on the ATO's implementation of a previous Report on tax debt collection (1996) and on the recommendations of the then Joint Committee of Public Accounts (JCPA) arising from its consideration of the Report. As well, the audit aimed to improve the efficiency, effectiveness and equity of debt collection by the ATO.

The ANAO found that the ATO has implemented, or begun to implement, most of the recommendations from the 1996 ANAO audit of ATO's tax debt collection and of the subsequent review of the audit by the then JCPA. Due to the changes in structure and to the impact of taxation reform, some of the recommendations from 1996 have been superseded in their application to current tax debt collection arrangements. The ATO has improved efficiency, effectiveness and equity of tax debt collection in the three years since our last Report. The ATO has achieved these improvements at the same time that its resourcing of the receivables management function decreased by 20 per cent.

The ANAO made 10 recommendations for improved administration in several areas including: the publication of more useful performance information; outsourcing the collection of some debt; adopting a whole-of-debtor approach to high level debtors with complex arrangements; making better use of the full range of available databases; improving quality assurance systems along similar lines to those of financial institutions in the private sector; and adopting better methods to address the compliance problems of persistent tax debtors. ANAO identified scope for the collection of additional revenue of about \$120 million. The ATO agreed with all 10 of the Report's recommendations.

Audit Report No.24 1999–2000

Performance Audit

Commonwealth Management and Regulation of Plasma Fractionation

Department of Health and Aged Care

The Commonwealth Government, through the Department of Health and Aged Care (DHAC), funds the domestic production of plasma derived products which are provided to the Australian community free of charge. In 1998–99, the Commonwealth paid out \$109.5 million for therapeutic products derived from domestic plasma. The Department is also responsible for regulation of the industry which is undertaken by the Therapeutic Goods Administration (TGA) within DHAC.

In May 1994, the Commonwealth sold CSL Limited (CSL) by means of a 100 per cent public float. On 23 December 1993, ahead of the sale, CSL and the Commonwealth signed the Plasma Fractionation Agreement (PFA). The PFA is the contract governing the supply and funding of plasma derived products produced by CSL.

ANAO's audit objectives were to assess the administrative and financial effectiveness of DHAC's contract management of the PFA; assess whether the TGA's implementation of post sale regulatory arrangements adequately protects the community's interests; and assess the extent to which agencies have implemented the recommendations made in Audit Report No.14 1995–96 concerning plasma products funding and regulation of plasma products manufactured under the PFA.

ANAO considers that there is significant scope for improvement in DHAC's contract management practices in relation to the PFA. Marked deficiencies were found in the Department's payment control system for \$400 million in Commonwealth payments under PFA; its planning and conduct of commercial negotiations with CSL over price adjustments; and its management of the Commonwealth's exposures under product liability indemnities provided to the company for AIDS and Hepatitis.

ANAO identified that TGA's regulation of plasma fractionation could be improved by giving greater emphasis to ensuring timely resolution of significant non-conformities with the regulatory requirements under the *Therapeutic Goods Administration Act 1989*. TGA advised ANAO in September 1999 that it has incorporated the need for regular unannounced audits of CSL in its audit scheduling program.

ANAO made three recommendations aimed at achieving improvements in the following areas: implementation of departmental audit follow up procedures; contracting for consultants; early planning in preparation for the expiry of the PFA; ensuring expert advice is sought before entering into any contract negotiations; and clarification of the reporting arrangements for incidents, such as test kit failures, to ensure the Australian Red Cross Blood Service simultaneously notifies them to both CSL and TGA. DHAC agreed to all recommendations.

Appendix 2

Performance audits and preliminary studies in progress at 31 December 1999

<i>Agency</i>	<i>Audit title</i>
Australian Customs Service	Coastwatch
Agriculture, Fisheries and Forestry—Australia	Management of Primary Industry Levies
Australian Quarantine and Inspection Service	AQIS Cost Recovery Systems
Australian Taxation Office	Administration of Penalties Risk Management of Individual Taxpayer Refunds High Wealth Individuals Taskforce ATO's Use of AUSTRAC Data
Aboriginal and Torres Strait Islander Commission	Indigenous Land Corporation
Centrelink	Staffing & Funding Arrangements in Centrelink—Audit 1
Department of Communication, Information Technology and the Arts	Construction of the New National Museum
Department of Defence	Army Individual Readiness – tabled 14 January 2000 ADF Personnel Retention Management Defence Estate Management RAAF Equipment Availability—Tactical Fighter Aircraft Command System Projects in Defence
Department of Education, Training and Youth Affairs	DETYA International Services Follow Up Elements of Vocational Education and Training
Department of Employment, Workplace Relations and Small Business	Management of Contracts with Employment Service Providers
Department of Health and Aged Care	Follow up Audit of Drug Evaluation by the TGA Fraud Control in Department of Health and Aged Care Home and Community Care Program
Department of Immigration and Multicultural Affairs	Administration of Business Migration Programs
Department of Industry, Science and Resources	Fraud Control in Department of Industry, Science and Resources Service Delivery of Business Assistance Programs
Department of Transport and Regional Services	Administration of Commonwealth Road Funding
Department of Veterans' Affairs	DVA Administration of Veterans' Health Care

Agency	Audit title
Cross-agency	<p>Commonwealth Electricity Procurement – tabled 5 January 2000</p> <p>Commonwealth Management of Non-Primary Industry</p> <p>Levies</p> <p>Federation & Cultural Heritage Projects Program</p> <p>Coordination of Export Development and Promotion</p> <p>Commonwealth Assistance to the Agri-Food Industry</p> <p>Implementation of Whole of Government IT Infrastructure</p> <p>Outsourcing</p> <p>Magnetic Resonance Imaging</p> <p>Certified Agreements in the APS</p> <p>Survey of Fraud Control Arrangements in the APS</p> <p>Emergency Management</p> <p>Commonwealth Foreign Exchange Risk Management Practices</p> <p>Environmental Management of Commonwealth Land Follow Up</p> <p>Second Tranche Sale of Telstra</p> <p>Common Use/Endorsed Suppliers Management Arrangements</p> <p>IT Financial Statement and Controls Audit in Centrelink, HIC and DVA</p>

Appendix 3

Speeches given by the Auditor-General and ANAO staff during the period July to December 1999

Mr P.J. Barrett AM

'Leadership in a Changing Environment'

Presentation to Department of Employment, Training and Industrial Relations Biennial Risk Management Conference

Brisbane, 27–29 July 1999

Mr I. McPhee

'Corporate Governance Principles for CAC Bodies'

Commentary for seminar presented by the Institute of Public Administration Australia (ACT Division), The Australian Society of CPAs and the Australian National Audit Office

Canberra, 30 July 1999

Mr P.J. Barrett AM

'Public Boards Governing Corporately'

Presentation to Health Insurance Commission Senior Management Group

Canberra, 12 August 1999

Dr P. Nicoll

'Issues Surrounding Effectiveness Evaluation—A Performance Audit of Aged Care Planning In Australia'

Presentation to Fourth Tokyo International Audit Forum—Board of Audit, Japan

Tokyo, Japan, 9 September 1999

Mr P.J. Barrett AM

'Wither Accountability—The Wisdom of Solomon'

Presentation to Defence and Strategic Studies Course—Australian Defence College

Canberra, 13 September 1999

Mr P.J. Barrett AM

'Corporate Governance—Managing Risk, Delivering Performance'

Presentation to IIR Conference: Ensuring Accountability and Ethics with
Corporate Governance in the Public Sector

Canberra, 13–14 September 1999

Ms A. Thurley

'Data—valuable resource or hazardous waste'

Presentation to Data Management Conference

Melbourne, 12–13 October 1999

Ms A. Thurley

'Privacy Issues'

Presentation to Meeting of APS Privacy Coordinators

Canberra, 10 November 1999

Series Titles

Titles published during the financial year 1999–2000

Audit Report No.1 Performance Audit
Implementing Purchaser/Provider Arrangements between Department of Health and Aged Care and Centrelink
Department of Health and Aged Care
Centrelink

Audit Report No.2 Financial Control and Administration Audit
Use of Financial Information in Management Reports

Audit Report No.3 Performance Audit
Electronic Travel Authority
Department of Immigration and Multicultural Affairs

Audit Report No.4 Performance Audit
Fraud Control Arrangements in Education, Employment, Training and Youth Affairs

Audit Report No.5 Performance Audit
IP Australia—Productivity and Client Service
IP Australia

Audit Report No.6 Audit Activity Report
Audit Activity Report January–June 1999
—*Summary of Outcomes*

Audit Report No.7 Financial Control and Administration Audit
Operation of the Classification System for Protecting Sensitive Information

Audit Report No.8 Performance Audit
Managing Data Privacy in Centrelink
Centrelink

Audit Report No.9 Performance Audit
Managing Pest and Disease Emergencies
Agriculture, Fisheries and Forestry—Australia

Audit Report No.10 Financial Statement Audit
Control Structures as Part of Audits of Financial Statements of Major Commonwealth Agencies for the Period Ended 30 June 1999

Audit Report No.11 Performance Audit
Financial Aspects of the Conversion to Digital Broadcasting
Australian Broadcasting Corporation
Special Broadcasting Service Corporation

Audit Report No.12 Financial Control and Administration Audit
Management of Contracted Business Support Processes

Audit Report No.13 Performance Audit
Management of Major Equipment Acquisition Projects
Department of Defence

Audit Report No.14 Performance Audit
Commonwealth Debt Management

Audit Report No.15 Performance Audit
Management of Australian Development Scholarships Scheme
Australian Agency for International Development (AusAID)

Audit Report No.16 Performance Audit
Superannuation Guarantee
Australian Taxation Office

Audit Report No.17 Performance Audit
Commonwealth/State Housing Agreement
Department of Family and Community Services

Audit Report No.18 Performance Audit
Electronic Service Delivery, including Internet Use, by Commonwealth Government Agencies

Audit Report No.19 Performance Audit
Aviation Safety Compliance
Civil Aviation Safety Authority

Audit Report No.20 Performance Audit
Special Benefits
Department of Family and Community Services
Centrelink

Audit Report No.21 Financial Statement Audit
Audits of the Financial Statements of Commonwealth Government Agencies for the Period Ended 30 June 1999.

Audit Report No.22 Performance Audit
Weather Services in the Bureau of Meteorology
Department of the Environment and Heritage

Audit Report No.23 Performance Audit
The Management of Tax Debt Collection
Australian Taxation Office

Audit Report No.24 Performance Audit
Commonwealth Management and Regulation of Plasma Fractionation
Department of Health and Aged Care

Audit Report No.25 Performance Audit
Commonwealth Electricity Procurement
Australian Greenhouse Office
Commonwealth Scientific and Industrial Research Organisation
Department of Defence
Department of Finance and Administration

Audit Report No.26 Performance Audit
Army Individual Readiness

Better Practice Guides

Administration of Grants	May 1997
AMODEL Illustrative Financial Statements 1999	Jul 1999
Asset Management	Jun 1996
Asset Management Handbook	Jun 1996
Audit Committees	Jul 1997
Building a Better Financial Management Framework	Nov 1999
Building a Better Financial Management Support	Nov 1999
Business Continuity Management	Jan 2000
Cash Management	Mar 1999
Commonwealth Agency Energy Management	Jun 1999
Controlling Performance and Outcomes	Dec 1997
Core Public Sector Corporate Governance (includes Applying Principles and Practice of Corporate Governance in Budget Funded Agencies)	Jun 1997
Corporate Governance in Commonwealth Authorities and Companies—Principles and Better Practices	Jun 1999
Life-cycle Costing (in Audit Report No.43 1997–98)	May 1998
Management of Accounts Receivable	Dec 1997
Management of Corporate Sponsorship	Apr 1997
Management of Occupational Stress in Commonwealth Agencies	Dec 1998
Managing APS Staff Reductions —supplementary Better Practice Principles in Audit Report No.49 1998–99	Jun 1996 Jun 1999
Managing Parliamentary Workflow	Jun 1999
New Directions in Internal Audit	Jul 1998
Paying Accounts	Nov 1996
Performance Information Principles	Nov 1996
Protective Security Principles (in Audit Report No.21 1997–98)	Dec 1997
Public Sector Travel	Dec 1997
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Telephone Call Centres	Dec 1996
Telephone Call Centres Handbook	Dec 1996