

The Auditor-General
Audit Report No.4 2000–2001
Audit Activity Report

Audit Activity Report: January to June 2000

Summary of Outcomes

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ISSN 1036-7632
ISBN 0 642 44255 X

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Canberra ACT
14 August 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 first half of 2000, to the Parliament. The report is titled *Audit Activity Report: January to June 2000—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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1. Introduction

1.1 The mission of the Australian National Audit Office (ANAO) is to add value to public sector performance and accountability. We achieve this through the delivery of an integrated audit service that is designed to assist the Parliament in its work, and Commonwealth bodies in the achievement of improved performance and accountability. This service comprises a number of products and services including performance audits, which incorporate audits of financial control and administration, financial statement audits, assurance control and assessment audits, protective security audits, better practice guides and benchmarking studies.

1.2 This report is the seventh in a series of reports tabled at six monthly intervals. It summarises the audit and other related activities of the ANAO for the period January to June 2000.

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 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 Parliament. ANAO audit reports and recommendations are designed to be practical, outcome oriented and client focused. As such, it is important that they are soundly based and 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. A survey has recently been completed 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 both houses of Parliament, has particular responsibilities in relation to the ANAO. Most importantly, the JCPAA advises the Auditor-General of the Parliament's audit priorities. In line with recent practice, the ANAO consulted with the JCPAA as part of the development of the performance audit program for 2000–01. 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. A recent initiative in this area has been the establishment of a Research and Development branch to provide technical advice on performance as well as financial statement audit matters to ANAO staff and the wider Australian Public Service (APS). In addition, work is underway to ensure that our audit knowledge of the APS is captured and shared in the most efficient and effective way possible throughout the ANAO as part of our continuing focus on providing an integrated audit service. Similarly, work is underway on workforce planning to ensure that the ANAO has sufficient staff with the requisite skills to provide an efficient and effective audit service now and in the future.

APS environment

1.7 The Government's broad objective is to focus the APS on its core activities, namely policy development, legislative implementation and the contracting and oversight of service delivery. There is now a greater orientation towards outcomes and outputs, and an accent on continuous improvement to achieve better performance in an environment of devolved authority and greater management flexibility. Many observations have been made in the Parliament of the need for commensurate accountability.

1.8 The current program of reforms to the public sector requires public servants to be more responsive and meet changing client needs; to be more efficient, effective and ethical; to be more flexible in responding to internal and external change; and to support national economic and other imperatives.

1.9 An effective corporate governance framework assists an organisation to identify and manage risks in a more systematic and effective manner, particularly in this period of significant change. A corporate governance framework, incorporating sound values, cost structures and risk management processes can provide a solid foundation on which agencies can build a cost effective, transparent and accountable public sector. Corporate governance should be the organisation's strategic response to risk and performance improvement. Indeed, a well integrated

corporate governance framework can markedly improve performance through sound risk management, which also recognises the positive aspects of dealing effectively with risk.

1.10 The considerable diminution of central agency controls and direction has also reinforced the need for good corporate governance in individual agencies and entities. Organisations are now responsible for much of their own oversight and need to develop and implement appropriate accountability and performance structures to assist them measure their achievement against strategic objectives. Reduced central oversight and coordination is problematical as agencies recognise that some interrelationships, such as 'shared outcomes', are indicative of the need for broader corporate governance arrangements across agencies.

1.11 The aim is now to deliver services which appear seamless to the recipient and overcome fragmentation and overlaps in government programs. In such arrangements, where there is joint responsibility for overseeing and implementing programs across a number of bodies, involving public and/or private sector organisations, a clear governance framework and accountability and reporting arrangements, which clearly define the roles and responsibilities of the various participants, is required. Increasingly, relevant governance arrangements will need to cross organisational boundaries to better align activities and reduce barriers to effective cooperation and coordination.

Financial management reform

1.12 A key element of the Government's reforms has been the Commonwealth's financial reform program which has involved the establishment of a revised financial management framework, accountabilities and supporting infrastructures necessary to support optimal performance within the new APS environment.

1.13 The 1999–2000 financial year saw key elements of this reform program introduced within the Commonwealth. The most significant of these was the adoption by the Commonwealth Government of an accrual budgeting framework. The basis of this framework is:

- accrual accounting, budgeting, management and reporting at an agency and Commonwealth level;
- budgeting, measurement and reporting against outputs (the goods and services produced by agencies for external users) and outcomes (the results the government/community wants to achieve from a policy) rather than program inputs; and
- parliamentary appropriations separately identified for the delivery of outputs, items administered by the agency on behalf of the Government, equity injections and/or borrowings from the budget.

1.14 Whilst agencies had been reporting on an accrual basis for a number of years, the 1999–2000 financial year was the first time that they were required to budget and manage on that basis. At the same time, the new framework resulted in additional financial management responsibilities being removed from central control and devolved to agencies.

1.15 Most notably, agency banking arrangements were introduced throughout the Commonwealth from 1 July 1999. Fundamental to this process was the requirement for agencies to open and manage bank accounts in respect to their departmental and administered appropriations. As a consequence, each agency, like any other business, is now responsible for cash and liquidity management. Similarly, centralised control over management of appropriations was also removed from 1 July 1999. Agencies are now entirely responsible for monitoring the level of payments against individual appropriation lines and preventing payments occurring in excess of appropriation levels.

1.16 In line with these changes, the focus of parliamentary accountability moved away from the management of cash inputs to the achievement of fully costed outputs and outcomes. This change has posed challenges for Parliament and the APS alike in developing a collective understanding of the new framework and meeting the expectations of parliamentary committees in respect of the nature and quantity of financial information provided under the new framework.

1.17 In addition to implementing accrual budgeting requirements, during 1999–2000 agencies were required to manage the impact of a number of other financial initiatives including the Goods and Services Tax (GST) and changes to the Commonwealth’s financial reporting timetables.

1.18 The GST is a key element of the Government’s tax reform package. A 10 per cent GST applies on the exchange of most goods and services, including many transactions entered into by public sector agencies. In preparing for the introduction of the GST from 1 July 2000, public sector entities, along with their private sector business counterparts, were required to examine and re-engineer financial processes and systems.

1.19 The Commonwealth Final Budget Outcome (FBO) reports on the actual financial results against the Commonwealth budget. The *Charter of Budget Honesty* requires that the FBO be tabled in Parliament by 30 September. The FBO will, for the first time, be prepared by the Department of Finance and Administration (DOFA) using accrual information submitted by individual government agencies. In order to meet this timetable for the preparation of the FBO, government agencies will be required to submit audit cleared accrual financial information to

DOFA up to two months earlier than in previous years. This condensed timeframe for financial reporting obligations has required significant re-engineering of financial statement preparation and auditing processes by agencies and the ANAO alike.

1.20 While the ANAO has noted steady improvements in annual financial reporting resulting from improvements in understanding of financial reporting requirements and the commitment of agencies to financial reporting generally, financial management processes, infrastructure and skills require further improvement if agencies are to deliver against expectations of less costly, better focused, more responsive and higher quality services in an environment of greater management flexibility and less centralised control.

1.21 In particular, the ANAO found that many agencies continue to face difficulties in finalising implementation of their financial management systems, that many systems do not have expected operational functionality and that management tools to deal with reporting challenges are currently limited. Robust financial management and other business systems are critical to deliver the information required for management decision making and to meet the increasingly demanding external reporting and accountability imperatives, at agency, Commonwealth and Budget levels. Further, the demands placed upon business systems and processes will increase as changes to the delivery mechanisms for government services, including the move towards the delivery of services over the internet, continue to be introduced.

1.22 While noting that agencies are continuing to develop their financial management teams to ensure they have the skills and capabilities to deliver against performance expectations, a major challenge for agencies will be to develop these skills and a commitment to financial management throughout the organisation. In the new APS environment, financial management can no longer be the sole responsibility of a corporate support area; it must be pervasive in all decision-making levels and processes.

1.23 This culture will become increasingly important as the Commonwealth maintains the financial reform program with its continuing focus on the contestability and cost effectiveness of service delivery. This includes the introduction of a full 'purchaser/provider' model, with the Government 'purchasing' outputs from provider agencies at benchmarked market prices. In order to succeed in this environment, agencies will need to understand and manage the cost structures of all outputs to ensure that they are delivered in a contestable and cost effective manner. Without robust financial and management systems and a depth of financial management skills throughout the organisation, agencies will have difficulty meeting these challenges.

Convergence of the public and private sectors

1.24 Strategies such as market testing, competitive tendering and contracting out are central to improved business performance and are leading to an increasing convergence between the public and private sectors. A convergence that represents a major challenge for public service managers to establish an appropriate balance between achieving cost effective outcomes, and accountability for the manner in which public sector resources are used.

1.25 External scrutiny (through, for example, the activities of Parliamentary Committees and Auditors-General) is an essential element in ensuring that public accountability is not eroded, by default, through this convergence. For example, with contracting out, just as it is incumbent upon public sector agencies to ensure they have a sound understanding of the commercial nature of any contract, private sector entities need to recognise that there are overlaying public accountability issues, not present in purely private sector transactions, that need to be addressed.

1.26 Both the JCPAA and the Senate Finance and Public Administration References Committee have questioned whether confidentiality provisions in contracts have been over used, thus restricting the ability of Parliament and its Committees to be properly informed of some contractual provisions for the delivery of key government services. An audit has been included in the Performance Audit Work Program for 2000–2001 to consider the use of confidentiality provisions in contracts by a number of agencies and assess the scope to improve current arrangements in the interests of both departmental administration and accountability.

Summary of recent audit coverage

1.27 Performance audit activity over the past six months has focused on policy development; legislative implementation; contract management; costing, coordination and consistency in program delivery; and risk management. On the whole, agencies continue to administer programs efficiently and effectively in a changing environment. Nevertheless, public sector managers must be constantly alert to the risks to good administration posed by the increasing convergence of the public and private sectors, and strive to achieve the appropriate balance between efficient and economic service delivery and effective, equitable and accountable service delivery.

1.28 Financial statement audit activity in the same period has indicated the importance of effective control structures as the use of commercial practices and transactions increases and more activities are outsourced

and responsibilities are devolved. However, staff skills and attitudes are equally important in ensuring key controls operate effectively, Commonwealth assets are safeguarded and prompt action is taken to remedy identified shortcomings.

1.29 Recommendations and lessons learned from ANAO audit reports and better practice guides are designed to assist agencies to improve both their accountability to Parliament and their service delivery to the public. Details of the specific audits are discussed below.

Report Outline

1.30 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 January 2000 and 30 June 2000. Appendix 2 lists the performance audits and preliminary studies in progress as at 30 June 2000. Appendix 3 lists presentations and papers given by the Auditor-General and ANAO staff during the period January to June 2000.

2. Performance Audits

This chapter provides a summary of the key issues arising from performance audits tabled between January and June 2000.

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 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 examined in performance audit reports tabled in the last six months included:

- policy development;
- legislative implementation;
- contract management; and
- costing, coordination and consistency in program delivery; and
- risk management.

Policy development

2.4 One of the key functions of the APS is the provision of policy advice to the government. ANAO performance audits do not comment on the appropriateness of government policy—that is a matter for Parliament and the electorate. However, the ANAO does examine the process of the provision of policy advice by agencies to government. One example is Audit Report No.42 *Magnetic Resonance Imaging Services*, (MRI) where the objective included an examination of the effectiveness and probity of policy development processes and implementation of the MRI policy measure by the Department of Health and Aged Care and the Health Insurance Commission. The audit found that the Department's approach to risk management in the development of the MRI policy measure was uneven; that there were no agreed procedures or arrangements for declarations of conflict of interest; and there was a

lack of adequate documentation. The over-arching lesson learned from the audit was that agencies responsible for policy advice should develop and implement a risk management strategy to maintain the integrity of sensitive information—in this way protecting the interests of all concerned.

Legislative implementation

2.5 Agencies have a core responsibility to implement the legislation that defines and governs their responsibilities and duties. This includes the progressive review and rewriting of their legislation to ensure that it is soundly based, clear and concise and will put into effect the Government's policy. Agencies' implementation of specific areas of their legislation was the subject of a number of audits tabled during the period.

2.6 Two audits of the Australian Taxation Office (ATO), Audit Reports No.31 *Administration of Tax Penalties* and No.46 *High Wealth Individuals Taskforce* examined specific areas of ATO's administration of tax law. The first found that the ATO lacked appropriate control structures to oversight the accountability, consistency and effectiveness of its penalty administration. The second audit considered that the management and operations of the High Wealth Individuals Taskforce was effective. The Taskforce had also contributed to the development of administrative and legislative proposals to address undesirable tax minimisation practices. During both audits, the ATO made immediate use of ANAO advice in specific areas and in several cases took steps to improve the effectiveness of its operations as issues were identified.

2.7 Under the *Financial Management and Accountability Act 1997*, Chief Executive Officers are responsible for the implementation of a fraud control plan and for reporting to the Portfolio Minister on fraud control within their agencies. Budget funded Commonwealth Authorities and Companies are also required to adhere to the Commonwealth's fraud control policy. Audit Report No.47 *Survey of Fraud Control Arrangements in APS Agencies* reported the results of a survey of 150 APS agencies that was designed to assess key aspects of their fraud control arrangements. The report provided an analysis of responses and included a number of suggestions for improvement in fraud control arrangements.

2.8 The Finance Minister's Orders under the *Financial Management and Accountability Act 1997* require audit committees of Commonwealth agencies to review audit reports involving matters of concern to their senior management and to advise the chief executive on action to be taken. Audit Report No.50 *Management Audit Branch—Follow-up audit* reviewed the Department of Defence's Management Audit Branch (MAB), which is responsible for internal audit in Defence. The audit found that MAB had implemented most of the recommendations of an earlier 1995 audit report, and it made four new recommendations relating to MAB operations and to the charter of Defence's audit committee.

Contract management

2.9 In Australia, with increasing emphasis across the APS on market testing and outsourcing, sound tendering procedures and good contract management are also 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 that 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 contractors' performance. The ANAO's audits in this area found that contracts were generally well managed but have drawn attention to areas of contracting requiring particular care, including monitoring progress and compliance with contracts and the management of contract payments. Measuring the quality of service delivery, training in contract management and contracts, to allow for the Auditor-General to have sufficient access to assist in the performance of the Auditor-General's functions, are also issues requiring attention.

2.10 Several reports tabled during this period focused on contract management. The first two dealt specifically with management of contracts for major construction projects. Audit Report No.34 *Construction of the National Museum of Australia and the Australian Institute of Aboriginal and Torres Strait Islander Studies* examined the project's compliance with Commonwealth Procurement Guidelines and the effectiveness of its project management.

2.11 The project is using a new method of contracting, project alliancing, that shares project risks and rewards between the project owner, in this case the Commonwealth, and the contractors. The audit noted that project alliancing offers potential benefits over traditional construction contracting methodology but raises new and different risks that have to be managed—in particular, determining the appropriate balance between maintaining the spirit of the alliance and protecting the Commonwealth's financial interests. The audit found that the project was generally well managed and noted that the report's recommendations have general applicability to other agencies considering the use of project alliancing methodology on their major construction projects.

2.12 The Defence Estate Organisation (DEO) arranges construction of facilities for the Australian Defence Force and the Department of Defence. It outlays some \$400 million a year on construction projects. Audit Report No.37 *Defence Estate Project Delivery* assessed the efficiency and

administrative effectiveness of DEO's Project Delivery function. The audit found that DEO's Project Delivery Branch was client-focused and generally performed well in meeting the needs of intended users. DEO had introduced a number of innovations that contributed to cost-effective management of its construction projects. However, the report found that financial management of projects could be improved and identified significant breakdowns in internal control over payment of Commonwealth funds. The Department of Defence is also considering the opportunities offered by the involvement of private sector finance in the acquisition of Defence infrastructure. As the parameters of risk are far different from those involved in traditional approaches to funding public infrastructure, such opportunities have to be carefully managed since they give rise to additional challenges and demands for public accountability and transparency.

2.13 In May 1998, the Government replaced the Commonwealth Employment Service, Employment Services Australia and most labour market programs with the Job Network. The first round of Job Network contracts were made with around 300 private, community and government provider organisations. Audit Report No.44 *Management of Job Network Contracts* assessed the efficiency and effectiveness of Department of Employment, Workplace Relations and Small Business' management of the first round of employment services contracts.

2.14 The audit examined issues such as value for money from the new arrangements; arrangements for monitoring the performance of providers; arrangements for monitoring compliance with contractual obligations, identification of Job Network Code of Conduct issues, and fraud control projects; contract management arrangements including contract variations; mechanisms in place to support effective contract management; and access security and privacy controls over the relevant IT systems used in the operation of the Job Network. The ANAO concluded that the Department had managed the first round in an effective and efficient manner, bearing in mind that the Job Network was a completely new structure for the delivery of employment services.

2.15 The Training and Youth Division of Department of Education, Training and Youth Affairs (DETYA) is responsible for the delivery of vocational education in schools, infrastructure funding for the post secondary education system, apprenticeships and traineeships, and skills development and transition support. Most of these activities and programs are delivered through third party providers using a range of contractual arrangements.

2.16 Audit Report No.51 *Program Management in the Training and Youth Division of the Department of Education, Training and Youth Affairs* focused on management frameworks at Divisional and program levels. It assessed whether risk management and business planning arrangements were in place; the extent of performance assessment and monitoring; and elements of contract management particularly compliance with program guidelines, provider performance monitoring and management of payments. The ANAO made three recommendations aimed at improving risk assessment and subsequent risk management; appropriate performance indicators; and monitoring arrangements.

Costing of program delivery

2.17 Knowing the cost of the delivery of programs is an essential element in controlling the cost and ensuring costs are minimised commensurate with effective program delivery. In other words, in ensuring government programs are providing value for money. A number of audits tabled in the period addressed the issue of costing.

2.18 Audit report No.43 *Planning and Monitoring for Cost Effective Service Delivery* examined the development of Centrelink's activity based costing system. The audit found that, when completed, the system should provide Centrelink with the capacity to reliably report to Government on output costings, and to improve the cost effectiveness of its operations.

2.19 Audit Report No.48 reported on a *Follow-up Audit of the Department of Education, Training and Youth Affairs International Services (DIS)*. In response to a recommendation of the JCPAA, the objective of the follow-up was to assess the effectiveness of the cost recovery operational model of DIS. The audit concluded that the DIS costing methodology had improved to the point where it could adequately determine the full costs of production.

2.20 One objective of the audit of *Management of Commonwealth Non-primary Industry Levies* outlined in Report No.32, was to identify areas of better administrative practice relating to financial management. Most of the levies collected by the seven entities examined in the audit were designed with the intention of recovering the costs associated with the levy activity. The audit found that while entities were generally able to identify levy program costs, a number were unable to capture administration costs associated with their levies. Those entities managing multiple levies faced considerable cost allocation problems devising transparent and efficient costing systems. The audit identified a number of areas where entities needed to review their financial management and control structures.

Coordination of program delivery

2.21 The shift to an outcomes approach to budgeting and performance management has increased recognition within the APS Public Service of the importance of cross-portfolio cooperation, particularly where there are shared outcomes. It has encouraged some agencies to identify common objectives and opportunities to work together effectively across portfolios. In many instances these agencies have existing alliances and networks that can be built on to ensure that shared outcomes are met and public monies used in the most efficient manner.

2.22 Such a networking approach, where agencies work in partnership with each other, enables a greater exchange of ideas and information and can contribute to each organisation achieving its outcomes more effectively. It can extend their strategic focus and facilitate management of emerging issues and potential risks. Greater networking and collaboration is necessary if the outcomes approach to budgeting and performance management is to be fully effective. This recognition encompasses both strategic and operational issues and is not dissimilar to approaches being pursued in the United Kingdom.¹ The ANAO conducted several audits in the last six months that focused on the importance of developing strategic cross-portfolio partnerships to achieve common outcomes.

2.23 Audit Report No.38 *Coastwatch* examined the agency responsible for the provision of Australia's civil, coastal and offshore surveillance and response services. Coastwatch serves a number of key client agencies including Australian Customs Service (ACS), Australian Federal Police, Australian Fisheries Management Authority, Australian Quarantine Inspection Service, Department of Immigration and Multicultural Affairs, Environment Australia and Great Barrier Reef Marine Park Authority. The audit found there was significant scope for Coastwatch to improve its administration and cost-effectiveness, in area such as formally specifying individual agencies' roles and responsibilities as the basis for effective coordination of operations, and the management of relationships between agencies.

2.24 Audit Report No.39 *Coordination of Export Development and Promotion Activities Across Commonwealth Agencies* examined the relevant activities of seven agencies that provide export development and promotion services. While the audit found a considerable amount of cross-agency coordination, much of this was informal and could not be relied upon in a systematic way to deliver the best outcome for exporters, potential exporters and government. The report identified opportunities for a better approach to export development and coordination, and for agencies to identify, measure and report on their export promotion activities.

2.25 The Commonwealth has a significant involvement in national emergency management arrangements through its roles in planning, coordination between agencies, operational response, financial support, education and training, public awareness and research activities. Many cooperative arrangements have been put in place between the Commonwealth and the States/Territories and through a mix of Commonwealth, State and local government activities. Audit Report No.41 *Commonwealth Emergency Management Arrangements* found there was no whole of government approach to Commonwealth emergency management. There was a demonstrable need for emergency management coordination within the Commonwealth to be more transparent and focused and for a comprehensive Commonwealth Emergency Management Strategic Plan to be agreed among all major operating agencies.

Consistency in program delivery

2.26 The importance of maintaining consistency in the distribution of products and services delivered across national programs was raised in various audits tabled during this period. All three of the ATO audits discussed above raised consistency as an issue. Audit Report No.29 *The Administration of Veterans' Health Care* focused on the management of community health services for veterans over 70 years of age by Department of Veterans' Affairs (DVA). The ANAO found a broad degree of satisfaction with DVA provision of community health services amongst veterans. However, a key finding of the audit was the existence of wide regional variations in the take-up of community services, with the least well-served regions in rural areas, in particular, the more remote. In urban and metropolitan regions, veterans' use of DVA funded health services was generally higher in better-off areas than in the socio-economically more disadvantaged ones. The audit found that DVA did not analyse its expenditure data on a local regional basis, so differences in veterans' access to DVA funded health care could not be recognised at specific local regional levels.

¹ Blair, T. The Hon, Mar 1999, *Modernising Government*, CM4310, UK Parliament, London pp. 32–35 and United Kingdom National Audit Office 1999, *Modernising Government: The NAO Response*.

2.27 One of the objectives of Audit Report No.33 *Administration of Business Entry Program* was to assess whether the quality of decision making at onshore and offshore visa processing points was consistent with program objectives. In this respect, the audit identified weaknesses in the quality of some decision making that has led to visas being granted contrary to conditions outlined in the Migration Regulations. Inconsistencies in processing practices between processing centres have had a marked impact on the quality of decisions. This signifies the need to strengthen the quality of guidance provided to decision-makers and also highlights the need for sound quality assurance to ensure appropriate work practices are followed.

2.28 The objective of Audit Report No.36 *Home and Community Care (HACC)* was to form an opinion on administration of the program by the Department of Health and Aged Care. Amongst other things, the audit assessed the adequacy of measures to ensure equitable and consistent provision of HACC services between, and within, all states and territories. The ANAO found that administration of the HACC program was generally sound. Among its 12 key findings the audit noted major differences between states and territories in average funding per capita of the HACC target population. It also found that Health did not maintain information on the level of fees collected in each state and territory, and consequently was unable to monitor the consistency and equity of fees between states and territories.

Risk management

2.29 Risk management includes the identification, analysis and assessment of risks to an agency achieving its objectives and the design of control policies and procedures to manage those risks. Effective risk management requires the development of management and administrative processes and systems that support the analysis and control of organisational risks. The Turnbull Report² in the United Kingdom focussed on issues of internal control and risk management and drew attention to the need for all risks facing a company to be properly managed and not just those of a financial nature. In fact the Report recommended that directors should, at least annually, conduct a review of the effectiveness of the organisation's system of internal control and report to shareholders that they have done so. Such a review should cover all controls, including financial, operational and compliance controls and risk management.

² *Internal Control, Guidance for Directors on the Combined Code*, The Institute of Chartered Accountants in England and Wales, September 1999.

2.30 Risk management is commonly examined in all performance audits, but in the last six months, two audit reports have specifically examined the way agencies manage the implementation of business risks. Audit Report No.27 *Risk Management of Individual Taxpayer Refunds*, found that the Australian Taxation Office could achieve improvements in effectiveness and consistency by better integrating its risk management process for high risk and large refunds into its overall risk management framework for overall returns.

2.31 Audit Report No.45 *Commonwealth Foreign Exchange Risk Management Practices* concluded that foreign exchange risk in the four agencies audited was not effectively managed because they did not have systems and procedures to identify their exposures; assess their impact; and to take steps to cost-effectively manage the resultant risks. The audit saw merit in Commonwealth central agencies investigating and advising the Government as to whether a centralised provision of treasury functions for foreign exchange could improve management of the Commonwealth's substantial foreign exchange risks. The Government has since asked for a review to be undertaken to provide the Government with an analysis and recommended response to the ANAO's report.

3. Financial Statement Audits

This chapter summarises the financial audits and related activities conducted by the ANAO during the period January to June 2000.

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 and 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. The first report, *Audit Report No.52 Control Structures as Part of the Audits of Financial Statements of Major Commonwealth Agencies for the Period Ended 30 June 2000*, summarises issues regarding financial systems, controls and processes arising from the interim phase of the financial statement audits of major Commonwealth agencies for the year 1999–2000. A further report, drawing together the overall results of the financial statement audits of all Commonwealth agencies and entities will be prepared following finalisation of all financial statement audits.

Control structures

3.7 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*. As part of this shift, the audit of an agency's financial statements places greater emphasis on identifying significant business risks impacting on the agency and its financial operations, and an evaluation of the design and effectiveness of the control structures in place to mitigate those risks. This work is reported to agencies so that any major weaknesses affecting the control structure can be rectified quickly and subsequent improvement in performance and accountability can result.

3.8 The majority of the Commonwealth's financial activities are concentrated in taxation and excise revenue, welfare and benefit payments, other payment programs, defence and property assets and debt financing, with a relatively small number of Commonwealth agencies managing the vast majority of the Commonwealth's financial activities. These agencies, which operate the more significant and complex financial systems, are the subject of the majority of audit comments made in Audit Report No.52 *Control Structures as Part of the Audits of Financial Statements of Major Commonwealth Agencies for the Period Ended 30 June 2000*.

3.9 The importance of effective control structures is increasing significantly in the public sector. As the use of commercial practices and transactions increase, more activities are outsourced, and more responsibilities are devolved, management and operational risks also increase. Strong effective control is an integral part of effective risk management, which is at the core of good corporate governance.

3.10 The Report drew attention to areas of continuing concern where there exists scope for improvement in fundamental controls.

Information technology controls

3.11 The delivery of programs and services by the vast majority of agencies is supported significantly by information technology (IT). The Commonwealth has a considerable investment in IT to support program objectives. Accordingly, IT systems are integral to the completeness, accuracy and validity of financial statements. Many agencies are now outsourcing the management of their IT services. In addition, agencies have been implementing new IT financial management and human resource management systems. This has been done to support the ongoing financial management reform process, in particular, the introduction of full accrual accounting and reporting.

3.12 The ANAO's audits of IT identified deficiencies that pose risks to agencies achieving their objectives. The following areas continue to be of concern:

- management of system implementations;
- access and logical security controls; and
- program change controls.

Accounting system controls

3.13 The development of the Budget on an accrual basis and the associated increase in importance of the Commonwealth Financial Statements, to provide for the comparison of financial performance against budget expectations, coupled with monthly and quarterly financial reporting, requires sound financial management controls. This includes controls installed around accounting systems. As part of the ANAO's financial statement audit coverage, key controls including bank reconciliations, ledger reconciliations, authorisations, delegations and segregation of responsibilities are closely examined. As in past years, the ANAO noted that these control areas continue to cause difficulties for agencies. Effective financial controls facilitate the management of the risks of incomplete, inaccurate and invalid financial data. Key areas of concern are:

- bank reconciliations;
- ledger reconciliations; and
- segregation of responsibilities.

Asset control

3.14 Effective control over assets is critical to ensure they are safeguarded and their value reflected as accurately as possible in the financial statements. The general government sector of the Commonwealth manages approximately \$55 billion of non-financial assets. Having complete, accurate and reliable asset accounting records is one of the keys to implementing effective asset management.

3.15 As in past years, the specific issues identified were:

- acquisitions and disposals not recorded in a timely manner in asset registers; and
- asset registers not regularly reconciled to financial systems.

Financial management

3.16 The recent financial management and reporting reform process has supported the development of a performance culture in the public sector. In particular, the move to accrual based budgeting and the focus on outputs and outcomes has supported the development of sound performance management. The reforms include a focus on capital deployment as well as cash management. Return on capital requirements are receiving greater attention. Essentially, the government is requiring agencies to manage their respective departmental and administered balance sheets, and to manage those balance sheets from an agency business perspective.

3.17 A key requirement is to 'manage down' the unpredictability of major balance sheet items. Quite apart from an agency's own financial statements, major variances have the potential to impact both the Budget and the Commonwealth's financial statement. The monthly and quarterly reporting regimes are designed to assist agencies to manage better their financial positions in accordance with their budgets.

3.18 The audits identified scope for improvement in respect to:

- developing and acquiring the skills and capabilities needed for effective financial management;
- managing 'off balance sheet' exposures; and
- mechanisms used by agencies to ensure funds are expended in accordance with formal budgetary processes relating to appropriations.

Corporate governance

3.19 The results of the audits indicated there generally remains opportunities for improvements in corporate governance frameworks. This is highlighted by the number of significant matters, identified in the report, which need to be addressed. Of particular importance is the number of matters that remain outstanding. Audit committees have a key role to play by ensuring matters raised by the various assurance processes, including external audit, are given the appropriate priority for resolution and that management takes effective action.

3.20 In addition, management and audit committees need to identify, through agency respective risk management frameworks, all relevant risks, management tolerances, the assurance deliverables and the residual risks not covered by assurance activity. As part of this process, management needs to establish the balance of preventative and detective controls needed to properly manage the identified risks.

Related financial statement activities

3.21 The ANAO undertakes a number of activities aimed at assisting Commonwealth agencies and entities to meet financial reporting responsibilities. During the period covered by this Report, the ANAO has:

- provided seminars, for Commonwealth officers in Sydney, Melbourne and Canberra, covering developments in financial reporting requirements;
 - published 1999–2000 editions of Better Practice Guides supporting the preparation of 30 June 2000 financial statements by Commonwealth agencies and authorities; and
 - developed and issued a new ANAO publication *Opinions*, which provides Commonwealth agencies and authorities with regular information on developments in financial reporting and disclosure requirements as well as details of performance audits and better practice guides produced by the ANAO.
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Canberra, A.C.T.
14 August 2000



P.J. Barrett
Auditor-General

Appendices

Appendix 1

Audit Reports tabled in the period 1 January 2000 to 30 June 2000

Audit Report No.25 1999–2000

Performance Audit

Commonwealth Electricity Procurement

Cross-Portfolio

The objective of this audit was to form an opinion on the adequacy of, and to identify best practice in, Commonwealth agencies' electricity procurement systems and procedures. This involved examining the procurement of electricity, through contracts, in the now deregulated National Electricity Market (NEM). All portfolios were briefly examined and detailed case studies were conducted.

The ANAO found that electricity procurement systems and procedures used by the case study agencies have been effective and efficient (in terms of the savings achieved compared to the cost of negotiating and managing contracts) and consistent with the majority of the Guideline's requirements. In addition, the ANAO found that there has been a high level of participation by Commonwealth agencies in the NEM between 1996 and 1999, as opportunities have become available, and the negotiation by Commonwealth agencies of lower electricity prices has resulted in significant savings in the cost of electricity.

The ANAO made four recommendations addressing agency participation in the NEM and systems and procedures that would assist in maximising value for money. The recommendations addressed procurement preparation, collaborative procurement and more efficient Commonwealth-wide information acquisition and distribution through the Australian Greenhouse Office. All of the recommendations were agreed to by the agencies subject to the audit, except for one recommendation, which was agreed in principle.

Audit Report No.26 1999–2000

Performance Audit

Army Individual Readiness Notice

Department of Defence

The Chief of Army's Army Individual Readiness Notice (AIRN) requires all Army members to maintain personal readiness sufficient to enable them to serve, within a period of 30 days, in any part of the Army that requires their skills. To be assessed as 'individually ready' a member must meet or exceed the minimum standard set for each individual readiness component. Members who are permanently unable to achieve the standards are liable to be discharged.

The objective of the audit was to assess the efficiency and administrative effectiveness of AIRN and to identify possible areas for improvement. The audit found that there was scope for improving the effectiveness of AIRN by including additional components of individual readiness and establishing operational or deployable levels of individual readiness for all components. With the exception of dental and medical fitness, the ANAO could find no relationship between the minimum standards set for AIRN components and the achievement of a deployable standard in 30 days.

Army records indicated that, at September 1999, only 74 per cent of full time members and 34 per cent of part time members to whom AIRN applied met the minimum standards required by AIRN. But, given the previous comments, it was not clear that these figures were a reliable indicator of individual readiness to deploy on operations in a period of 30 days.

Administration of AIRN could be more efficient. It is time-consuming for Army units to enter data on each member's AIRN achievement into the reporting system. The reports available from it lack timeliness and need to be manually adjusted to provide an accurate record of individual readiness.

The ANAO made eight recommendations aimed at improving the efficiency and administrative effectiveness of the Army Individual Readiness Notice. Defence agreed, or agreed in principle, to six of the recommendations and disagreed with two.

Audit Report No.27 1999–2000*Performance Audit***Risk Management of Individual Taxpayer Refunds****Australian Taxation Office**

The objective of the performance audit was to assess the effectiveness and consistency of risk management processes undertaken by the ATO in administering individual taxpayer refunds.

The focus of the audit was on those refunds that met specific ATO criteria of risk. The ATO has defined two risk categories that require intervention, namely high risk and large refunds. Audit investigation centred on the Individuals Non Business (INB) line's risk management and compliance with procedures dealing with those two categories of individual taxpayer refunds.

The ANAO found that there is scope for improvement in high risk and large refund exception handling processes. There have been inconsistencies in the way that these refund exceptions have been investigated. Neither the high risk nor large refund exception categories have been subject to regular risk assessment to determine the validity of their criteria.

The ATO could achieve improvements in effectiveness and consistency by better integrating its risk management process for high risk and large refunds into the overall risk management framework for individual returns. Analysis of the results would then enable the INB line to establish whether processes for handling high risk and large refunds are fully effective.

INB were examining their returns processing procedures, including refunds, during the time of the audit. Recent initiatives, such as the consolidation of high risk refund processing into two sites and new procedures for large refunds, should lead to more effective practice in terms of consistent application of investigative procedures and input into ongoing risk assessment.

The ANAO made five recommendations aimed at improving the ATO's administration of key aspects of individual taxpayer refunds. The ATO agreed with all recommendations.

Audit Report No.28 1999–2000

Audit Activity Report: July to December 1999

Summary of Outcomes

The report summarised the audit and other related activities of the ANAO in the period July to December 1999. Key themes to emerge from the ANAO's performance audit activity in the period were: corporate governance, risk management, performance monitoring, legal and administrative policy compliance and contract management. The Report also summarised the outcomes of two reports arising from the ANAO's financial statement audits: one that identified issues regarding financial systems, controls and processes and a second that drew together the overall results of all Commonwealth entities, including the Commonwealth of Australia consolidated financial statements.

Audit Report No.29 1999–2000

Performance Audit

The Administration of Veterans' Health Care

Department of Veterans' Affairs

The audit objective was to form an opinion on DVA's administration of its activities to maintain and enhance the health and independence of older veterans and war widows in their homes and in the community.

The audit found that there is a broad degree of satisfaction with the DVA provision of community health services within veterans' communities. However, there are wide regional variations in the take-up of community health services through DVA arrangements. These services include general practitioner services, dental and optical services, community nursing, physiotherapy and podiatry. Variations could be the result of a number of factors and there would be considerable benefit in DVA assessing the relative importance of these factors in order to inform strategies to facilitate veterans' access to services.

Although DVA advised that it has made extensive efforts to address the needs of veterans in rural and remote areas, DVA should explore what can be done to remedy these differences as they affect veterans living in non-remote rural areas and urban and metropolitan areas as well.

The change process, for new community nursing arrangements in 1998, given its magnitude, was managed well although at the time of audit it was too early to evaluate the outcomes of the changes. On the other hand, the Health Care Plans introduced by the Department to assist in the management of complex cases had not been as universally or comprehensively adopted as the Department envisaged.

DVA has appropriate administrative mechanisms in place for planning and implementing its veterans' health care arrangements. The audit did, however, recognise some areas where DVA could enhance its performance in the areas of accountability and performance information. In particular, the Performance Budget Statements should provide, instead of a single indicator for health as a whole, indicators for major health areas such as hospitals, pharmaceuticals and community and allied health.

The ANAO made four recommendations aimed at minimising regional differences in DVA funded health care expenditure. The recommendations focused on the importance of veterans' access to health services and the development of appropriate accountability and performance measurements. DVA agreed with all the recommendations.

Audit Report No.30 1999–2000

Performance Audit

Examination of Federation Cultural and Heritage Projects Program

Cross-portfolio

The objectives of the examination were to assess the:

- extent to which the administration of the FCHP program complied with better practice in the assessment of applications, especially in relation to the transparency and rigour of the decision-making process;
- equity of the geographic spread of grants to States and electorates; and
- process for the announcement of the results of grant applications.

The examination found that the assessment process conducted by the Federation Task Group (FTG) and the National Council for the Centenary of Federation (NCCOF) generally complied with the ANAO Better Practice Guide for the Administration of Grants. However, there was no evidence that a needs analysis had been conducted at a State or regional level or between the need for cultural or heritage projects prior to the introduction of the program.

Decisions on successful applications were made by the Ministers who documented the reasons for their decisions some two months after the decisions were made. However, this time delay is not conducive to good administrative practice or confidence in the process. All approved projects were eligible under the program guidelines. Ministers had previously declined to release publicly their reasons for selecting projects for funding but did so after the audit report was tabled.

The pattern of approvals for the number and value of grants approved reflected the proportion of electorates held by the major political parties and independents in the House of Representatives and the pattern of applications. On the other hand, there were some statistical anomalies of approved projects by State. However, any analysis of the distribution of grants to electorates or States cannot by itself clearly indicate one way or another that there is, or is not, any party political bias. Any apparent weighting could be the result of greater assessed need in terms of the selection criteria in electorates held by a particular side of politics and/or the quality of applications.

Of the projects announced during the October 1998 election, the majority were in Coalition held electorates. The difference between the percentage

of approved projects announced in Coalition and Labor held electorates was, statistically, significantly different to the national percentage of approved projects announced prior to the election. However, their announcement during the lead up to the October 1998 election was not a breach of the caretaker convention.

If Ministers are to control the announcement process, it would seem important that it is done in such a way that there is no perception that the timing of announcements is being used for political purposes. The timing of the announcement of some, but not all, of the successful projects in the lead up to the October 1998 election led to a deal of speculation and criticism that could have been avoided.

Audit Report No.31 1999–2000

Performance Audit

Administration of Tax Penalties

Australian Taxation Office

The objective of the audit was to review the ATO's administration of penalties, with particular emphasis on its corporate governance framework and issues relating to consistency, effectiveness and accountability of penalty administration. The audit reviewed the administration of Late Lodgement and Tax Shortfall penalties over the Individuals Non Business, Small Business and Large Business and International lines, within the context of the ATO Compliance Model and having regard to principles set out in the Taxpayers' Charter.

The audit found there is scope for improvement in the ATO's administration of the penalty regime. Although penalties are an important enforcement strategy featured in the ATO Compliance Model, the ATO lacks appropriate control structures to oversight the accountability, consistency and effectiveness of its penalty administration. ATO management is unable to provide assurance to the Commissioner that penalties are being applied consistently and in accordance with the legislation.

Penalties are not included in the ATO's governance reporting process, nor are they mentioned in its corporate, business or risk management plans. The ATO has not undertaken research to determine the extent to which penalties are effective as a compliance tool. Overall, given the importance of penalties as part of the ATO's enforcement strategies, the management of penalties warrants a higher and more visible profile in the ATO. There would be merit in the administration of penalties being made more clearly accountable in the ATO corporate governance framework.

The ANAO considers that the ATO could analyse its penalty data to identify trends, aspects of non-compliance, and administrative performance, to improve and refine its penalty regime as a means of improving taxpayer compliance.

Other opportunities for improvement include appropriate staff training; aligning the penalty administration with the Taxpayers' Charter and ATO Compliance Model; implementing on-line decision support tools; enhancing quality assurance and information technology; and providing better information to the public. Improvements in these areas would lead to a more effective penalty administration and should result in

enhanced consistency, effectiveness and accountability of that administration.

The ANAO made five recommendations aimed at improving ATO administration of penalties. The ATO agreed with all recommendations.

Audit Report No.32 1999–2000

Performance Audit

Management of Commonwealth Non-primary Industry Levies

Cross-portfolio

Industry levies fund the provision of many public services and a range of activities undertaken by regulatory bodies. The fifteen levies examined in the audit raised some \$485 million in revenue in 1998–99, accounting for almost half of total Commonwealth levy revenue. The seven entities covered by the audit were the Australian Prudential Regulation Authority (APRA); Australian Communications Authority (ACA); Australian Maritime Safety Authority (AMSA); Coal Mining Industry (Long Service Leave Funding) Corporation; Department of Transport and Regional Services (DTRS); Private Health Insurance Administration Council (PHIAC); and the Private Health Insurance Ombudsman (PHIO).

The objectives of the audit were to assess: the coverage, revenue and expenses of non-primary industry levies; the effectiveness of selected entities' financial management of non-primary industry levies; and areas of better administrative practice relating to the financial management of non-primary industry levies. The audit conclusions identified agencies' better practice and scope for improvement in the following areas: collection practice, identification of levy payers, assessment of levy payers, banking and receipting, debt recovery, record keeping, risk management, review and evaluation, cost recovery, accountability.

The report made seven recommendations which were agreed by all relevant agencies.

Audit Report No.33 1999–2000

Performance Audit

Administration of Business Entry Program

Department of Immigration and Multicultural Affairs

The objective of the performance audit was to assess the administrative effectiveness of DIMA's business entry program against the background of the Business and Temporary Entry program objective, with particular regard to whether:

- the existing performance management mechanisms and compliance monitoring strategies support the achievement of program outcomes and outputs;
- the quality of decision-making;
- business processes facilitate prompt visa decision-making consistent with program objectives; and
- decision-making support mechanisms promote robust and timely decision-making.

The audit focussed on the administration of the Business Skills Class and the Temporary Business Entry (Long Stay) entry option which includes the Sponsorship and Independent Executive categories.

The ANAO found that the Business Skills (permanent) and the Temporary Business Entry (Long Stay) visa classes are well regarded by their business and other stakeholders who consider that these are producing positive outcomes of benefit to Australia. Both these visa classes have been effective in facilitating the entry to Australia of business entrants.

Periodic surveys undertaken by DIMA indicate that Business Skills migrants deliver economic benefits to Australia through business investment, employment creation and export earnings. However, validation of self-reported data does not provide adequate assurance on the extent of achievement of Business Skills Class outcomes. As well, strengthening the framework for monitoring compliance with visa conditions will increase the level of confidence that business settlers are genuine in their intention to establish businesses in Australia.

For the Temporary Business Entry (Long Stay), the ANAO concluded that the performance management mechanisms and compliance monitoring strategies were not adequate to enable DIMA to monitor the program outcomes and outputs. The implementation of structured monitoring and reporting for Temporary Business Entry (Long Stay) would provide more informative data on program performance, the development of policy options and increased accountability for program outcomes.

While most visa decision-making was sound, this was often not the case for decision-making relating to Temporary Business Entry (Long Stay) Independent Executive category. As a consequence of failure to follow decision-making guidelines applicants have been granted visas contrary to conditions outlined in the Migration Regulations. To achieve compliance with regulations DIMA should ensure that processing and decision-making practices are supported by appropriate guidelines, taking a more risk managed approach and strengthening quality assurance processes.

The ANAO also found that business processes, particularly conducted offshore, were not adequate to facilitate prompt decision making.

The ANAO made seven recommendations which were agreed by DIMA.

Audit Report No.34 1999–2000

Performance Audit

Construction of the National Museum of Australia and the Australian Institute of Aboriginal and Torres Strait Islander Studies

Department of Communications, Information Technology and the Arts

In late 1996, the Government announced its commitment to establish new facilities for the National Museum of Australia and the Australian Institute of Aboriginal and Torres Strait Islander Studies on Acton Peninsula in Canberra. The project, administered by the Department of Communications, Information Technology and the Arts (DCITA), has been allocated a budget totalling \$155.4 million and has a scheduled opening date of 12 March 2001. Having regard to the concerns expressed by the Parliamentary Standing Committee on Public Works about the cost of the project, costing of the design brief and submissions and use of project alliancing method of construction contracting, the ANAO examined the project.

The objectives of the audit were to examine the project's compliance with the Commonwealth Procurement Guidelines for the procurement of public works and effectiveness of the project's management. The report found that the appointment of the commercial alliance partners substantially complied with the Commonwealth Procurement Guidelines. The appointment of probity advisers and auditors and the development of probity guidelines added value to the process. The ANAO considers that appropriate financial incentives are in place to encourage 'best for project' behaviour from DCITA and the commercial alliance partners.

Generally, DCITA had managed the project well to date having regard for its magnitude, lack of experience with the relatively new project alliancing approach and the tight timetable. However there was little room for any further slippage or cost increases. Ongoing close monitoring of construction progress is essential to ensure that timely, remedial action is taken.

The four recommendations contained in the report were agreed by DCITA and they have general application to other agencies considering the use of project alliancing.

Audit Report No.35 1999–2000

Performance Audit

Retention of Military Personnel

Australian Defence Force

The objective of the audit was to review the management of personnel retention within the Australian Defence Force (ADF) with a view to evaluating the measures Defence has in place to monitor and control the flow of trained personnel from the three Services.

The audit found that Defence was making considerable efforts to ensure that conditions of service for members do not become a factor in members' decisions to separate from the military. Defence agencies responsible for posting people to new positions and locations were attempting to meet the needs of most personnel where those needs did not conflict with the effectiveness of the ADF.

Nevertheless, responsibility for retention was not clearly defined and no-one appeared to be accountable for poor retention rates in particular areas of the ADF. Action to reduce significantly the flow of members from the ADF would save resources lost in the training that had been given to experienced members who leave and in the resources that need to be applied to train their replacements. Expenditure on retention can be more cost-effective than expenditure on recruitment and training.

The audit report recommended action directed to:

- assessing personnel replacement costs to help guide decisions on resources to be applied to career management and personnel retention;
- establishing a management framework that details retention policies and assigns responsibility for personnel retention;
- promoting the services and assistance available to ADF members and their families;
- developing a system for gaining a good understanding of the factors that motivate members to remain in the ADF; and
- making recruitment more effective in gaining long-term members of the ADF and in retaining recruits for cost-effective periods.

The ANAO made nine recommendations designed to assist Defence in managing military personnel retention and improving retention rates. Defence agreed to the recommendations, with qualifications in respect of one.

Audit Report No.36 1999–2000

Performance Audit

Home and Community Care

Department of Health and Aged Care

The audit's objective was to form an opinion on Health's administration of the HACC program, in particular, to assess:

- the adequacy of the measures the department has taken to ensure equitable and consistent provision of HACC services between, and within, all states and territories;
- the effectiveness of its coordination of HACC services with other support services for the frail aged and other people with disabilities;
- the adequacy of the measures it has taken to ensure that the impact of HACC expenditure is maximised, consistent with HACC objectives;
- whether the department has well-devised administrative systems that minimise the administrative burden on states and territories and facilitate delivery of HACC services; and
- the adequacy of the measures the department has taken to ensure that HACC performance information provides management with reliable assurance that program and management objectives are being achieved.

The ANAO's over-all conclusion was that Health's administration of HACC was generally sound, particularly in establishing a national framework for the states and territories to administer the program on a day-to-day basis. Nevertheless, the ANAO identified a number of areas for improvement. Effective coordination of the planning of HACC services with that of other community services for the frail aged and other people with disabilities was identified as the major area requiring further attention.

Health, in conjunction with the states and territories, has reasonable measures in place designed to achieve the equitable funding and consistent provision of HACC services and is working to effect needed improvements.

Furthermore the Department has developed satisfactory mechanisms to coordinate Commonwealth HACC activities with state and territory HACC activities. However, more effective coordination is needed between the planning of HACC services and the planning of other related community care services. Priority should be given to closer coordination with the planning of Community Care Packages.

The audit also found that Health is not well placed to monitor adequately the impact of HACC expenditure for those states and territories still under the previous agreements. The new agreements require the states and territories to specify by region the HACC funds required and the service outputs to be produced from those funds. The states and territories are also required to report their results, which will enable Health to monitor achievements and compare the performances of regions and states.

The previous agreements require Commonwealth and state or territory approval for each project, which results in a high level of administrative overlap and duplication. On the other hand, the new HACC agreements will reduce administrative duplication between the Commonwealth and the states and territories, with Commonwealth approval required now only in relation to planning and funding at a regional level. Health's administrative resources for HACC have been reduced in anticipation of streamlined administration flowing from the new HACC agreements. Health's HACC administration costs are estimated to be less than 0.5 per cent of the total program cost to the Commonwealth.

Processing of acquittals under the previous agreements has not been timely. The acquittal process under the new agreements will be much simpler, which should facilitate the acquittals process and its timeliness. Health has included, in its Program Budget Statements, quantity, efficiency and equity performance measures for HACC, but no quality measures.

The ANAO has offered several suggestions for improvement to Health's performance indicators. Health and the states and territories are introducing a HACC Minimum Data Set, which will provide more useful performance information for management at all levels.

Audit Report No.37 1999–2000

Performance Audit

Defence Estate Project Delivery

Department of Defence

The Defence Estate Organisation (DEO) arranges construction of facilities for the Australian Defence Force and the Department of Defence, with an annual outlay of \$400 million on construction projects. The objective of the audit was to assess the efficiency and administrative effectiveness of DEO's Project Delivery function, with a view to highlighting effective practice and, where appropriate, making practical recommendations to enhance facilities project management. The scope of the audit extended from approval of projects to completion of the post-occupancy evaluation, with particular reference to two major projects that were nearing completion—the facilities required for the increased Army Presence in the North (APIN) and the Russell Hill Redevelopment.

The report found that the Project Delivery Branch is client-focused and generally performing well in meeting the needs of intended users. To achieve this, the Project Delivery Branch made a considerable effort to identify users' needs and to meet them efficiently and effectively. DEO has been effective in involving the users of the proposed facilities at an early stage in each of the projects examined, thereby increasing the likelihood that user needs are satisfied.

DEO introduced a number of innovations that contributed to cost-effective management of its construction projects. The innovations include: development and use of a suite of standard contracts; selection of the most appropriate project delivery methods; judicious use of consultant expertise; use of consultant cost planners and managers; and a strategic approach to design philosophy.

Financial management, however, should be improved. The audit disclosed significant breakdowns in internal controls over payment of Commonwealth funds. DEO used a variety of methods to accelerate expenditure to ensure that spending targets were met, even when such early expenditure was not in the Commonwealth's interest. These transactions reflect poor practice, being contrary to the Chief Executive's Instructions and inconsistent with proper management of Commonwealth funds.

The ANAO made eight recommendations aimed at improving the efficiency and administrative effectiveness of Defence Estate Project Delivery. Defence agreed to the recommendations.

Audit Report No.38 1999–2000

Performance Audit

Coastwatch

Australian Customs Service

The objective of the audit was to examine Coastwatch's administration of the Australian civil coastal and offshore surveillance and response service. In particular, the audit focused on Coastwatch's: coordination with its clients and external service providers; surveillance and response operations; and aspects of its corporate governance arrangements bearing on performance and associated accountability. The audit also aimed to identify elements of better practice in relation to civil surveillance and response services as a basis for further improvement.

Coastwatch operates in a difficult and demanding environment. The successful delivery of Coastwatch services over a large, coastal and off-shore maritime area is particularly dependent on the effective coordination between it and its key client agencies, sound intelligence and risk management procedures for the tasking of Coastwatch assets, clear lines of reporting, and effective support systems for management of operations.

Over the last 10 years Coastwatch has worked at steadily improving the effectiveness of the Australian surveillance and response service. The additional funding and successful implementation of the Prime Minister's Coastal Surveillance Task Force recommendations also provide Coastwatch with an opportunity to strengthen its capabilities, particularly in relation to proactive gathering and analysis of intelligence for greater effectiveness.

Notwithstanding recent initiatives, the ANAO found significant scope still remains for Coastwatch to improve its administration and therefore its cost-effectiveness. That said, the ANAO recognises that, in some areas, recommended improvements are heavily dependent upon the full cooperation of Coastwatch's key client agencies which has not always been forthcoming in the past.

The ANAO made 15 recommendations aimed at improving Coastwatch's administration. The ACS/Coastwatch agreed with the ANAO's recommendations (some with qualification) and is actively taking measures to improve its administration.

The Joint Committee of Public Accounts and Audit is to review the operations of Coastwatch following issues raised in this report.

Audit Report No.39 1999–2000

Performance Audit

Coordination of Export Development and Promotion Activities Across Commonwealth Agencies

Cross-Portfolio

The audit objective was to assess the extent to which export development and promotion activities across Commonwealth agencies are managed in a coordinated manner to maximise their effectiveness and transparency, and to minimise duplication. Particular attention was given to:

- Austrade's role in coordinating and advising on the development of export programs across Commonwealth agencies; and
- the design, delivery and evaluation of programs consistent with the "Mortimer Review" design criteria agreed by Government.

The audit addressed services provided directly by, or through, Commonwealth agencies while focussing on export promotion activities such as trade shows, trade missions and in-market support, and on the provision of information and/or advice to assist enterprises to export. The audit did not cover high-level systemic activities to expand market access, such as multilateral and government-to-government bilateral negotiations; export insurance and guarantees; the export of an agency's own goods; and inward investment.

The audit examination addressed the relevant activities of seven key agencies, with the relevant activities of 18 other Commonwealth providers of export development and promotion assistance identified by conducting a survey of Commonwealth agencies.

The ANAO found that there is a considerable amount of coordination across Commonwealth agencies, both at a whole of government level and on an agency-to-agency basis. The various whole of government coordination mechanisms are well defined and clearly set out and provide a framework for effective coordination. While there are numerous agency-to-agency coordination mechanisms, many are informal and thus cannot be relied upon in a systematic way to deliver the best outcome for exporters, potential exporters and government. While there was little evidence of the duplication of activities by Commonwealth agencies, weaknesses in coordination present the risk of this occurring.

Austrade has taken some steps towards implementing its formal coordination role but overall progress has been limited. Austrade should

give priority to implementing its strategy for coordination for better results. In addition, there are a number of key areas that should be addressed by Austrade and other Commonwealth export and development and promotion agencies as part of the implementation process as follows:

- addressing any real or perceived tensions that arise between its role of providing advice to Commonwealth agencies on developing export programs and its potential role of helping those agencies deliver their export assistance programs;
- agencies identifying and reporting to Austrade the nature and extent of significant export assistance, to support effective coordination;
- addressing concerns that the roles and responsibilities of agencies are not always clear;
- developing a common set of high-level performance indicators; and
- developing appropriate cost recovery guidelines.

There was little evidence within agencies that Mortimer program design principles were actively considered when new export development and promotion activities were developed or existing activities were reviewed.

The seven agencies audited have either agreed with the recommendations or agreed with qualification.

Audit Report No.40 1999–2000

Performance Audit

Tactical Fighter Operations

Department of Defence

The audit objectives were to:

- assess whether the resources used to provide the F/A–18 tactical fighter force operational capability are managed cost-effectively; and
- identify areas for improvement in the coordination, planning and practices employed in administration of tactical fighter operations (TFOs).

Managing TFOs is a substantial and complex task. Apart from ongoing operations, there has been some substantial capital work in recent years such as the project to re-life the *Hornet* engines to maintain tactical fighter capability. The ANAO considered that the overall management framework of TFOs would benefit from formal longer-term military preparedness goals for the Tactical Fighter Group (TFG), integration of cost data and greater awareness of the cost of resources used to produce this Defence output.

The ANAO Report recommended a number of measures aimed at enhancing the cost-effectiveness of Defence's management of TFOs by:

- determining a realistic level of military capability to be provided by TFG as a longer-term planning objective and matching the levels of resources provided to TFG to meet that level of capability;
- establishing suitable goals for the implementation of aircraft and airfield battle repair capabilities;
- formulating and implementing a comprehensive workforce plan for TFG with clearly defined management responsibilities as part of a systematic endeavour to gain and retain sufficient numbers of fast-jet pilots;
- identifying and controlling the major cost-drivers in TFOs' logistic expenditure and putting in place a holistic framework for management of TFOs' logistic support, including personnel; and
- putting in place a well functioning Integrated Avionics System Support Facility (IASSF) and planning contingency measures to minimise the risks to the *Hornet* Upgrade Program and the continuing development of the *Hornets'* operational flight programs should IASSF be unable to support them.

The ANAO made 11 recommendations designed to improve TFOs' management. Defence responded positively, agreeing to all recommendations, two with qualifications.

Audit Report No.41 1999–2000

Performance Audit

Commonwealth Emergency Management Arrangements

Department of Defence

The foremost goal of ‘emergency management’ is the protection of life and property—a State responsibility under the Commonwealth Constitution. The Commonwealth has significant involvement in national emergency management arrangements through its roles in planning, coordination between agencies, operational response, financial support, education and training, public awareness and research activities. Emergency Management Australia (EMA), located within the Defence portfolio, is the Commonwealth’s dedicated emergency management agency. State governments may call upon the Commonwealth government for assistance where their resources prove inadequate to respond to a major disaster. A number of other Commonwealth agencies are involved in different emergency management activities.

The objectives of the performance audit were to identify the Commonwealth’s current emergency management arrangements, to provide assurance to Parliament concerning the adequacy of the arrangements and to highlight areas for improvement. A large part of the coverage of the report consequently comprises examination of strategic and coordination issues.

The report highlighted that there is currently no whole-of-government approach to Commonwealth emergency management. However, in a survey of the emergency management community, Commonwealth agencies were found to be meeting the needs of the community. Coordination of Commonwealth emergency management could be more effective if interdepartmental coordination arrangements were made more transparent and better directed and particularly if there was a closer relationship between the Defence portfolio and EMA. This would also assist in ensuring that there are agreed Commonwealth positions conveyed to the National Emergency Management Committee. The ANAO considers that there is a demonstrable need for emergency management coordination within the Commonwealth to be more focussed and for a comprehensive Commonwealth Emergency Management Strategic Plan to be agreed among all major operating agencies.

The ANAO made 15 recommendations directed towards improving the Commonwealth’s emergency management arrangements. Agencies agreed to all recommendations.

Audit Report No.42 1999–2000

Performance Audit

Magnetic Resonance Imaging Services— effectiveness and probity of the policy development processes and implementation

Department of Health and Aged Care, Health Insurance Commission

The objective of the audit, which was undertaken at the request of the Minister for Health, was to examine and report on the effectiveness and probity of the processes involved in:

- the development and announcement of the proposal to improve access to Magnetic Resonance Imaging (MRI) services announced in the 1998 Budget, including negotiation with the diagnostic imaging profession; and
- the registration of 'eligible providers' and 'eligible equipment' to enable the payment of claims for MRI services on the Medicare Benefits Schedule in relation to these services, and related administrative and monitoring arrangements.

The audit found the Department's approach to risk management in the development of the MRI policy measure was uneven. High level risks relating to the linkage of the proposed measure to the processes for the Commonwealth Budget, funding options and MRI cost containment were, in the main, identified and managed. However, in other aspects of the development of the measure, insufficient consideration was given to risk identification and management for the policy development process and the measure itself, particularly in regard to the decision to include machines ordered by Budget night. As a result there were exposures on both these fronts, which could have been better managed.

Negotiating new policy measures with professional and other organisations presents significant challenges in managing budget sensitive matters, particularly where those involved may gain knowledge or insight which could benefit them financially. The ANAO concluded that the Department's management of the probity arrangements surrounding the negotiations for the MRI measure was not adequate for the circumstances. The arrangements in place lacked structure and clarity. Specifically, the Department did not seek to agree with members of the Task Force what confidentiality arrangements would apply to certain information and procedures. Similarly, there were no agreed procedures or arrangements for declarations of any conflict of interest. As a result, the Department did not achieve a shared understanding of, and commitment to, what was to be treated in confidence and what could reasonably be discussed more openly.

There was a lack of adequate documentation by the Department of the negotiations with the College. There was also a lack of adequate documentation in relation to the development of some elements of the policy on MRI, specifically about the merits, risks and alternative options in relation to the inclusion of machines on order. Such documentation is generally accepted as a key element of sound administration and accountability. Official records were not taken or maintained of some significant briefings of, and decisions by, the Minister. As a consequence, there is limited departmental documentation on the development of the key elements of the MRI supply measure. Such documentation also would have assisted in better informing senior departmental management of the progress with the development of the policy proposal in view of their functional and operational responsibilities. Notwithstanding this inadequacy, the Department met the formal requirements of the Budget processes and acted with proper authority to progress development of the measure.

The policy measure itself provided for benefits to be paid for MRI services by registered providers on eligible machines in place, or ordered, before Budget night. The Department's processes for developing the proposal to include machines on order before Budget night in the Budget measure, and in providing advice to the Minister on this matter, could have usefully involved greater consideration and attention to all relevant options; more consideration of attendant benefits and risks for delivering the key supply measure; and provision of information relevant to the Minister's assessment of departmental advice. This conclusion applies both to advice at Budget time and to subsequent advice concerning emerging problems with respect to machines on order. The report recognised the Department was under considerable pressure with tight timetables at this time, as well as a need to ensure the full cooperation and agreement of the profession.

There were 33 machines ordered in the four working days between 7 and 12 May (Budget night) 1998. One of the key concerns arising in relation to this audit was whether there was a leak of Budget information which led to this pre-Budget rush of orders. There was a meeting on 6 May 1998 between the Minister and College representatives. Those who attended the meeting had different recollections of what was discussed by whom. No substantive conclusion about inappropriate disclosure of budget sensitive information could be expected on the basis of the contradictory evidence. However, the ANAO considers that, on the balance of probabilities, the evidence does at least suggest that negotiation and consultation with the College representatives and open

debate on supply control issues created an environment where some participants may have deduced, or become aware, that the Commonwealth was giving consideration to the inclusion of machines on order in a Budget measure. Nevertheless, the audit was not able to conclude whether, or to what extent, the actual surge in orders was based on reliable information, or informed or partly informed speculation.

Registration of MRI equipment generally resulted in applications being accepted as eligible. Monitoring and auditing arrangements undertaken by the Department and the HIC with respect to the registration of equipment did not effectively focus on the risks emerging in relation to unexpectedly large numbers of machines registered for eligibility. It was only as a result of an anonymous complaint to the HIC that MRI applications were examined in greater detail than simply the registration checks on the information in the statutory declaration and contract.

Whilst recognising the broad scope and complexity of the investigation undertaken by the HIC in response to the complaint it received, the investigation could have been more effectively managed through more disciplined and systematic project management procedures.

One aspect of probity arrangements addressed in this audit was the HIC's procedures for managing perceived conflict of interest of Board members with regard to the investigation. The ANAO found that the HIC had arrangements in place to address such conflicts. However, they did not work appropriately on all occasions in relation to the potential conflict of interest of the Chairman. Notwithstanding this limitation, there is no evidence that the course of the investigation was influenced improperly.

The ANAO sought to establish some lessons learned from the experiences of the MRI policy development and implementation, drawing on audit evidence and relevant practice. These are set out in the report.

Audit Report No.43 1999–2000

Performance Audit

Planning and Monitoring for Cost Effective Service Delivery—Staffing and Funding Arrangements in Centrelink

Centrelink

The overall objective of the audit was to determine whether Centrelink's planning, monitoring and costing arrangements provide a sound basis to underpin its delivery of quality, cost effective customer services.

The ANAO considered that Centrelink's strategic and financial planning processes are sound, essentially reflecting better practice. Centrelink has reported in its 1998–99 Annual Report that it is meeting the financial goals set out in its plans while maintaining service delivery standards. The ANAO considers that this success to date has relied to a large extent on the judgement of experienced managers within Centrelink using performance and financial information available at the corporate level. Against this background, the ANAO identified a range of issues affecting the reliability and analysis of the management information at the service delivery outlet level, and impacting on Centrelink's ability to effectively monitor and cost its service delivery.

In particular, the ANAO concluded that Centrelink would be able to achieve its goals more efficiently and effectively by developing and using reliable, comparative information to allocate resources to, and monitor the performance of, its business units at the Area and Customer Service Centre level. This would provide added assurance to stakeholders that Centrelink has adequate management information to support the planning and monitoring of its 300 Customer Service Centres.

The ANAO made three recommendations relating to:

- guidelines on methodology and costings to assist Area managers for use in the allocation of resources to the customer service outlets for which they have responsibility;
- improving the access, compatibility and reliability of data in order to analyse the performance of its customer service outlets, monitor the implementation of productivity improvement projects and identify better practice; and
- implementation and maintenance of a comprehensive costing system with the functionality of an Activity Based Costing approach to provide the basis for planning productivity improvements and account for expenditures of purchaser funds.

Centrelink agreed with the audit recommendations.

Audit Report No.44 1999–2000

Performance Audit

Management of Job Network Contracts

Department of Employment, Workplace Relations and Small Business

The objective of the audit was to examine the efficiency and effectiveness of DEWRSB's management of the first round of employment services contracts. A key part of this examination was to assess the level of confidence that the Department had that the program was meeting government objectives based on performance and management information.

The ANAO concluded that the Department managed the first round of Job Network contracts in an efficient and effective manner, bearing in mind that the Job Network is a completely new structure for the delivery of employment services. Nevertheless, the ANAO considered that the Department can improve its management of contracts in certain areas.

Communication with provider representatives and Centrelink on strategic, higher level issues is one area where improvements can be made. These groups had not been brought together on a regular basis to consider proposed changes to the management of the Job Network, nor how to approach significant issues confronting the Job Network.

The ANAO concluded that the contract management arrangements and guidance material put in place by the Department during the first stage of the Job Network were satisfactory. However, the efficiency and effectiveness of the process for monitoring the compliance of providers with the contract would be improved through directing resources towards 'higher risk' providers or sites, as part of an effective risk management approach. The monitoring process would also be strengthened by producing written summaries of monitoring visits, and through establishing a quality assurance system for monitoring visits.

Given the important role that the State and District Offices play in the day-to-day management of Job Network contracts, the ANAO concluded that there should be a framework for resource planning for Job Network functions in those offices that reflects the Department's overall priorities. Resource allocation data is required for the activities undertaken by State and District Office staff to aid development of more efficient contract management approaches.

The ANAO concluded that the Intensive Assistance referral process is sound. Referral mechanisms for Job Search Training (JST) were, however, not working satisfactorily. It has been very difficult for Job Network

members to maintain a viable level of Job Search Training commencements from referrals based on a mail out using Integrated Employment System (IES) data. The mail out referral process that has been introduced has exacerbated administrative difficulties and created inefficiencies for providers rather than reducing them. The Department should consider a wide range of possible solutions to this problem and do so in an open and consultative manner with both Centrelink and provider representatives.

The Department has a generally sound framework for Job Network systems security. However, the reliability and consistency of the IES security framework would be improved through better documentation of security controls and tighter monitoring of changes to user access. The ANAO also proposed a preventative mechanism be implemented to focus on identifying inappropriate access to data that may be considered private or commercially sensitive.

The ANAO concluded that the Department's performance information framework was satisfactory. An appropriate range of indicators has been established, and in most cases the performance information reasonably links the objectives and strategies in the business plan.

The ANAO noted that there are a number of difficulties in comparing employment services assistance under the Job Network with that provided under previous arrangements. Nevertheless, comparisons that the ANAO was able to make during the audit indicated that, in broad terms, the Job Network affords better value for money than previous employment assistance arrangements. Job Search Training provides similar employment outcomes to an earlier comparable program, but at a much reduced cost per outcome. Intensive Assistance is providing similar employment outcomes at a comparable cost per outcome to previous arrangements, but is targeting clients from more disadvantaged groups. The Department planned to undertake a full evaluation of the effectiveness of the Job Network in improving the employment prospects of job seekers on a sustainable basis, the results of which are expected to be available in December 2001.

The ANAO made 10 recommendations aimed at improving the efficiency and effectiveness of the management of Job Network contracts. DEWRSB agreed with these recommendations.

Audit Report No.45 1999–2000

Performance Audit

Commonwealth Foreign Exchange Risk Management Practices

Cross-Portfolio

The Commonwealth has significant foreign exchange risk exposures including \$A8.4 billion of foreign currency transactions with the Reserve Bank of Australia in 1998–99. Under the Financial Management and Accountability Act and its associated Regulations, all agencies are required to assess and, where possible, manage foreign exchange risk. The objectives of the audit were to:

- identify the Commonwealth's foreign exchange exposures in four agencies that have substantial payment exposures;
- assess the efficiency and cost-effectiveness of these agencies' risk management; and
- identify any improvement opportunities and associated potential financial savings.

The audit report drew a distinction between agency responsibility for managing foreign exchange risk and budget funding of exchange rate movements. The ANAO concluded that foreign exchange risk was not effectively and prudently managed by the audited agencies because they did not have systems and procedures to: identify their exposures; analyse the extent of these exposures; assess their impact; and take steps to cost-effectively manage the resultant risks. Better practice in financial risk management is to centralise risk management and dealing activities as this can: minimise the exposure management task; deliver economies of scale in obtaining commercial cover for exposures; and ensure an appropriate internal control framework for exposure management. On a whole-of-government basis, there is therefore merit in Commonwealth central agencies investigating and advising the Government as to whether a centralised provision of treasury functions for foreign exchange could improve management of the Commonwealth's substantial foreign exchange risks. Nevertheless, any move by the Commonwealth to adopt a centralised risk management model and dealing activities would not absolve individual agencies from their responsibility for managing the underlying business transactions and associated risks.

The report made 16 recommendations to address the whole-of-government and agency-specific issues identified by the audit. The audit

recommendations recognise that prudent management of foreign exchange exposures can increase the Commonwealth's purchasing power as well as limit their negative effects. In the main, agencies either agreed or agreed with qualifications to the recommendations.

The Government has since asked for a review to be undertaken to provide the Government with an analysis and recommended response to the report.

Audit Report No.46 1999–2000

Performance Audit

High Wealth Individuals Taskforce

Australian Taxation Office

The objective of the audit was to examine and report on the management and operations of the ATO's HWI taskforce. In doing so, the audit reviewed the ATO's own evaluation of the taskforce, and assessed whether, and to what extent, the taskforce delivered the outcomes specified by the Government.

The focus of the audit was on providing assurance to the Parliament on the work that is being undertaken by a high profile taskforce. To gain this assurance, the ANAO examined the management structures, reporting arrangements, operational methods, and performance monitoring and review practices of the taskforce.

The management and operations of the taskforce are considered effective. The ANAO also concluded that the taskforce:

- manages the investigation of the tax affairs of HWIs in accordance with the ATO's risk management principles;
- is achieving the revenue targets set by government;
- has contributed to the development of administrative and legislative proposals to address undesirable tax minimisation practices; and
- could improve its reporting of taskforce outcomes.

The ANAO made three recommendations aimed at improving the public reporting of the outcomes of the HWI taskforce's work and continuance of its effective operations within the context of a sound risk management framework. The ATO agreed to all of the recommendations.

Audit Report No.47 1999–2000

Performance Audit

Survey of Fraud Control Arrangements in APS Agencies

Cross-Portfolio

The overall objective of the survey was to assess key aspects of fraud control arrangements in place across the APS against Commonwealth Law Enforcement Board (CLEB) guidelines. This assessment aimed to provide assurance to Parliament that agencies had a suitable framework in place to assist in effectively preventing and dealing with fraud and to indicate to APS agencies any areas for improvement identified in the survey.

The ANAO concluded that the majority of APS agencies responding to the survey had a framework in place that contained key elements for effectively preventing and dealing with fraud in line with Commonwealth Policy.

The position of agencies responding is illustrated as follows:

- 70 per cent of agencies had specific fraud control policy in place;
- at least 70 per cent of agencies either had their own code of ethics/conduct or relied on the APS-wide code;
- 64 per cent of agencies had undertaken fraud risk assessments over the last two years;
- 72 per cent of agencies had developed a fraud control plan; and
- more than 90 percent of agencies had undertaken fraud awareness-raising activities.

A particular issue that the survey results highlighted was that about one third of agencies had not undertaken a recent risk assessment to identify the existing risks and those emerging as a result of the changing environment and methods of service delivery. As well, 24 agencies had not established fraud control plans or strategies to treat fraud risks.

Only 30 agencies had established formal policies and procedures to ensure that consultants, suppliers and other third-party providers were aware of, and complied with, agency fraud control policy.

The level of fraud reported for 1998–99 by agencies responding to the survey was \$146 million. This figure must be seen as only the minimum level of fraud because varying definitions of fraud are used across the APS, making the actual level of fraud being perpetrated difficult to measure.

The report did not made any recommendations but agencies should take into account suggestions for improvement in the report so that their fraud control arrangements meet policy guidelines and are in line with the principles of sound corporate governance.

Audit Report No.48 1999–2000

Follow-up audit

DETYA International Services

Department of Education, Training and Youth Affairs

The objective of the follow-up audit was to review the effectiveness of the DETYA International Services (DIS) cost recovery operational model. The initial audit of DIS was undertaken in 1997–98.

The ANAO concluded that since the original performance audit the effectiveness of the DIS costing methodology has improved to the point where International Services can adequately determine the full costs of production. In particular:

- estimation of project costs still relies on the broad Department of Finance and Administration (DoFA) costing percentages but now includes an allowance to cover the specific costs of DIS management and administrative staff. While DIS could be using more sophisticated project estimates costing—based on actual costs from accrual accounts—this issue is not considered to be of major concern as:
 - DIS staffing is planned to reduce to a very low level (potentially 1.5 ASL) and a more sophisticated project costing arrangement would be unlikely to be cost effective at this level of operation; and
 - in a micro sense, full accrued costs and project revenue are matched in financial statements prepared for management, thereby providing a broad measure of the appropriateness of the DoFA formula;
- internal management financial statements are prepared for DIS on an accrual basis; and cover the full range of accrued cost elements;
- DIS is using full accrual financial information to inform business decision-making;
- a time recording system has been implemented that allows the separation of the costs of community service obligations and departmental related functions from commercial activities; and
- coded ledger accounts have been established that allow the separation of non-salary costs between the various activities of DIS.

The report did not make any recommendations.

Audit Report No.49 1999–2000

Performance Audit

Indigenous Land Corporation—operations and performance

Aboriginal and Torres Strait Islander Commission

The objective of the audit was to form an opinion on the adequacy of the Indigenous Land Corporation's (ILC's) operations and performance in:

- assisting Aboriginal persons and Torres Strait Islanders to acquire land; and
- assisting Aboriginal persons and Torres Strait Islanders to manage indigenous-held land;

so as to provide economic, environmental, social or cultural benefits for Aboriginal persons and Torres Strait Islanders.

The audit covered the ILC's operations from its establishment in June 1995 to December 1999.

The audit concluded that the ILC has developed appropriate procedures to implement the national and regional planning framework for land acquisition and management. However, the procedures for land acquisition were more effective than for land management. For both land acquisition and land management, inconsistencies in practices between ILC's three divisions provided less than adequate assurance that approved procedures were followed in all instances.

As regards performance—taking into account the complex legislative and operational environment in which the ILC is working—the ANAO considered that the ILC had made significant progress in assisting Aboriginal persons and Torres Strait Islanders to acquire land. The ILC was assisting indigenous persons to manage indigenous-held land, although progress had been slower in this latter task. The ILC did not assess the benefits provided to Aboriginal persons and Torres Strait Islanders as a result of its activities, as required by the ILC Act. The ANAO recognises the difficulty of determining adequate performance information, but suggested that this task might be made more manageable if the ILC were able to identify credible intermediate outcomes over the next year or so that might be more readily measurable.

A major unresolved issue is determining responsibility for training indigenous persons as directors of corporations established to manage the land, and in land management itself. In particular, the ILC should establish a policy in respect of such training and the boundaries thereto.

Resolving this issue was likely to involve such other government agencies as the Department of Employment, Workplace Relations and Small Business, the Department of Education, Training and Youth Affairs, the Aboriginal and Torres Strait Islander Commission and the Australian National Training Authority.

Audit Report No.50 1999–2000

Performance Audit

Management Audit—Follow-up

Department of Defence

The objective of this follow-up audit was to assess whether Defence had taken appropriate action on recommendations made in the ANAO's 1995 audit report on Management Audit Branch (MAB), which is responsible for internal audit in Defence, and to assess whether the internal audit function in Defence could be improved.

The follow-up audit found that most of the recommendations in the ANAO's 1995 report have been implemented to some degree. There was also evidence that MAB has endeavoured to make improvements to its services. The follow-up audit prompted action on some of the 1995 recommendations where implementation had been slow. MAB should complete their implementation where still relevant, and give particular attention to enhancing identified procedures to make the branch more efficient and effective and to achieve a better outcome from its work.

The quality of the working papers and reports indicates that MAB has staff with the appropriate ability and knowledge to develop a good product but the application of this ability is not consistent across MAB's Directorates. There would be benefits from introducing independent quality assurance for MAB's work, preparing a plan for each audit and requiring timely responses from auditees to draft audit reports.

It would be beneficial for MAB, and for Defence as a whole, if Defence's audit committee, known as the Defence Audit and Program Evaluation Committee (DAPEC), took more interest in reviewing both internal and external audit reports as part of its corporate governance responsibilities. MAB could assist DAPEC by preparing performance indicators of its audit work for monitoring and review.

DAPEC members should be encouraged to attend all DAPEC meetings, to review the full range of audit reports and to promote its work as a valued part of Defence's corporate governance. The recent appointment of a second independent member as chair of DAPEC is a positive development, consistent with better practice.

The ANAO made four new recommendations. These related to MAB and DAPEC. Defence agreed with the recommendations, one in principle.

Audit Report No.51 1999–2000

Performance Audit

Program Management in Training and Youth Division

Department of Education, Training and Youth Affairs (DETYA)

The objective of the audit was to examine program management in the Training and Youth Division (TYD) of DETYA. In broad terms, the audit focused on the management frameworks at both Divisional and program level. Three of the Division's programs were selected for more detailed review as follows:

- Workplace English Language and Literacy;
- Literacy and Numeracy; and
- Support for New Apprentices.

The ANAO concluded that overall management of programs in TYD is effective bearing in mind the complex operating environment including, in particular, the creation and development of new markets for the administration of the Support for New Apprenticeships and Literacy and Numeracy programs. Against this background, the ANAO identified a range of business planning and monitoring systems at both the Divisional and program management levels in which improvements should be made. These included the need to:

- strengthen links between its risk assessment approach, business planning processes and performance assessment framework, and
- improve monitoring of both individual provider and overall program performance because of weaknesses in the capability and reliability of management information systems and in the effectiveness of DETYA's quality assurance system for the Support for New Apprenticeships program.

The ANAO made three recommendations aimed at improving:

- risk assessment and subsequent management so that treatment strategies are implemented in a timely fashion;
- appropriate performance indicators to allow a better assessment of the contribution of business activities to outputs; and
- monitoring arrangements by clearly defining and documenting the roles and responsibilities of the various monitoring groups so that there is no unnecessary duplication.

The Department's response was positive. All recommendations were agreed and DETYA had begun to address the issues raised during the course of the audit fieldwork.

Audit Report No.52 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 2000

The Report summarised major issues in relation to financial systems, controls and processes from examinations of major Commonwealth agencies arising from the interim phase of their financial statements for the financial year 1999–2000. 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*. 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.

Key control structures examined were:

- information technology controls;
- accounting system controls;
- asset controls;
- financial management; and
- corporate governance.

The most significant common issues highlighted in the Report were:

- weaknesses in bank and ledger reconciliations and segregation of responsibilities;
- difficulties in maintaining and reconciling asset registers;
- scope for improvement in developing and acquiring the skills and capabilities needed for effective financial management;

- better managing off balance sheet exposures; and
- improving the mechanisms used by agencies to ensure funds are expended in accordance with formal budgetary processes relating to appropriations.

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.

Appendix 2

Performance audits and preliminary studies in progress as at 30 June 2000

Agency	Audit title
Agriculture, Fisheries and Australia Forestry	Commonwealth Fisheries Management Follow-up Management of Primary Industries Levies AQIS Cost-recovery
Australian Taxation Office	Fraud Prevention and Control in the ATO Administration of the Taxpayer Audit Program Administration of the ATO's Rulings Program ATO's Use of AUSTRAC Data
Department of Defence	ADF Reserve Force Defence Facilities Operations Command Systems Projects in Defence Management of Defence Cooperation Program Defence Fraud Control Amphibious Transport Ships
Department of Education, Training and Youth Affairs	Administration of Elements of Vocational Education and Training—Compliance Testing Administration of Elements of Vocational Education and Training—Process Mapping
Department of Family and Community Services	Administration of Family Relationships Services Age Pensions—Administration and Compliance Customer Service Officer Skilling
Department of Finance and Administration	Management of Commonwealth Superannuation Benefits to Members Sale of Second Tranche of Telstra Commonwealth Estate Property Sales
Department of Foreign Affairs and Trade	Administration of Consular Services, including implementation of Senate Inquiry recommendations
Department of Health and Aged Care	Selected Aspects of Corporate Governance in Health Management of Fraud Control in Payment Agencies Drug Evaluation by the TGA—Follow-up National Cervical Cancer Screening Program
Department of Immigration and Multicultural Affairs	Management of Adult Migrant English Program Contracts
Department of Industry, Science and Resources	Service Delivery of Business Assistance Programs Management of Fraud Control in Payment Agencies—DISR
Department of Transport and Regional Services	Administration of Waterfront Redundancy Payments Administration of Commonwealth Road Funding
Department of the Treasury	Prudential Supervision of Deposit Taking Institutions

Department of Veterans' Affairs	Decision Making in War Veterans' Compensation Cases
Cross-agency	Commonwealth Assistance to the Agrifood Industry Certified Agreements in the APS Administration of the Natural Heritage Trust Passenger Movement Charge Follow-up Implementation of the Whole-of-Government Information Technology Infrastructure Consolidation and Outsourcing Agencies monitoring of the performance of GBEs Environmental Management of Commonwealth Land Follow-up Work for the Dole Youth Allowance Follow-up Information Technology Audits Commonwealth Property Management

Appendix 3

Presentations and papers given by the Auditor-General and ANAO staff during the period January to June 2000

Ms A. Thurley

Risk Management

(informal presentation)

Australian National Training Authority

Canberra, 21 February 2000

Mr P.J. Barrett AM

Business Continuity Management

Opening remarks at launch of Better Practice Guide

Canberra, 23 February 2000

Ms A. Thurley

Fraud—it costs us money

Fraud Conference

Sydney, 29 February 2000

Mr P.J. Barrett AM

Implementation of Public Sector Reforms—Where you sit is what you see

Address to the Senior Women in Management (SWIM) 2000 Group

Canberra, 10 March 2000

Mr I. McPhee

New Responsibilities for Officers of Commonwealth Authorities and Companies

Presentation to the National Institute for Governance

Canberra, 15 March 2000

Mr P.J. Barrett AM

Developing an Effective Approach to Public Auditing

Occasional Paper

April 2000

Mr P.J. Barrett AM

Reference to Robert Black's (Auditor General for Scotland) Report on

Supporting Democratic Scrutiny by Public Audit

Public Management and Policy

9 May 2000

Mr P.J. Barrett AM

Governing Corporately—Working Cooperatively, Creating a more Efficient and Effective Public Service in the 21st Century

Presentation to Medibank Private Executive Seminar Breakfast

Perth, 16 May 2000

Mr P.J. Barrett AM

Wanted : Private Sector Insight

Article for the Journal of CPA. Australia, Vol.70, No.4

May 2000

Mr A Greaves

Audit Office guides to better management

Article for the Journal of CPA. Australia, Vol.70, No.4

May 2000

Mr P.J. Barrett AM

Taking Out Corporate Governance Insurance on Risk

Presentation to the Association of Risk and Insurance Managers of Australasia—South Australia Chapter at the Risk Odyssey 2001

Conference

Adelaide, 24–25 May 2000

Mr P.J. Barrett AM

Balancing Accountability and Efficiency in a More Competitive Public Sector Environment

Presentation to Government in Excellence Summit *Reinventing*

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