

The Auditor-General
Audit Report No.4 2002-03
Audit Activity Report

Audit Activity Report: January to June 2002

Summary of Outcomes

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of Australia 2002

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Canberra ACT
19 August 2002

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 latter half of 2001–2002, to the Parliament. The report is titled *Audit Activity Report: January to June 2002*.

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

A handwritten signature in black ink, appearing to read 'P. J. Barrett'.

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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Abbreviations/Glossary

ABC	Australian Broadcasting Corporation
ACA	Audit and Control Assessment
AEC	Australian Electoral Commission
ANAO	Australian National Audit Office
ADF	Australian Defence Force
APS	Australian Public Service
ASPC	Australian Public Service Commission
Archives Act	Archives Act 1983
ATO	Australian Taxation Office
AusAID	Australian Agency for International Development
BAS	Business Activity Statement
CAC Act	Commonwealth Authorities and Companies Act
CASA	Civil Aviation Safety Authority
CSIRO	Commonwealth Scientific and Industrial Research Organisation
CSS	Commonwealth Superannuation Scheme
Customs	Australian Customs Service
Defence	Department of Defence
DEWR	Department of Employment and Workplace Relations
DEST	Department of Employment Science and Training
DIMIA	Department of Immigration and Multicultural and Indigenous Affairs
DMO	Defence Materiel Organisation
DVA	Department of Veterans' Affairs
FaCS	Department of Family and Community Services
Finance	Department of Finance and Administration
FMA Act	Financial Management and Accountability Act
FMIS	Financial Management Information Systems
GBE	Government Business Enterprise
GST	Goods and Services Tax

HIC	Health Insurance Commission
Health	Department of Health and Ageing
HR	Human resource
IESIP	Indigenous Education Strategic Initiatives Program
IP	Intellectual property
IT	Information technology
IPAA	Institute of Public Administration Australia
JCPAA	Joint Committee of Public Accounts and Audit
MAC	Management Advisory Committee
NHT	Natural Heritage Trust
NOIE	National Office for the Information Economy
PBS	Portfolio Budget Statement
PFI	Private Finance Initiatives
PHIR	Private Health Insurance Rebate
PS Act	Public Service Act
PSS	Public Sector Superannuation Scheme
RAP	Regional Assistance Program
RGH	Repatriation General Hospital
T&E	Test and Evaluation
Treasury	Department of Treasury
UN	United Nations

1. Introduction

This chapter discusses the role of the Australian National Audit Office (ANAO) and the integration of its audit themes and outputs to respond to the needs of Parliament and public sector bodies.

1.1 The role of the ANAO is to assist the Auditor-General to carry out his duties and responsibilities under the *Auditor-General Act 1997* and other relevant legislation. Ultimately, the ANAO seeks two outcomes:

- the independent assurance of Commonwealth public sector financial reporting, administration, control and accountability; and
- a more efficient Australian Commonwealth public sector implementing better practices in public administration.

1.2 The ANAO achieves these ends through the delivery of an integrated audit service that is designed to assist the Parliament in its work as well as Commonwealth bodies in the achievement of improved performance and accountability. The outputs delivered encompass a range of products and services that include performance audits, financial statement audits, business support process audits, protective security audits, benchmarking studies and better practice guides. To achieve its objectives, the ANAO also organises and participates in conferences, seminars and workshops aimed at disseminating better practice and lessons learnt from auditing activity.

1.3 This report is the eleventh in a series of reports tabled at six monthly intervals. It summarises audit and other related ANAO activities for the period January to June 2002. 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 the audit services provided by the ANAO from January to June 2002.

1.4 The ANAO's principal client is the Parliament. Within this context, Parliamentary Committees are the main focus for contact and liaison. The Joint Committee of Public Accounts and Audit (JCPAA), a statutory committee comprising members from both houses of Parliament, has particular responsibilities in relation to the ANAO. For example, the ANAO consults with

the JCPAA on the Parliament's audit priorities. The JCPAA 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 reports, a selection of which is subject to quarterly public hearings. On occasions, the Committee may decide to conduct a more broadly based inquiry into matters arising from an audit.

1.5 In June 2002, the JCPAA released *Report 389—Review of Auditor-General's Reports 2000–2001—Fourth Quarter* which detailed the outcome of the Committee's review of the following audit reports:

- Audit Report No.33, 2000–01, *Australian Defence Force Reserves*;
- Audit Report No.34, 2000–01, *Assessment of New Claims for Age Pension by Centrelink*;
- Audit Report No.35, 2000–01, *Family and Community Services' Oversight of Centrelink's Assessment of New Claims for Age Pension*; and
- Audit Report No.43, 2000–01, *Performance Information for Commonwealth Financial Assistance under the Natural Heritage Trust*.

1.6 The JCPAA review of Audit Report No.33, 2000–01, *Australian Defence Force Reserves*, focused on Reserve roles and tasks; resources and costs; and attraction and retention of personnel. The Committee agreed with the ANAO that Defence should annually establish and publish the full costs of each Reserve Service and sufficient information to determine the costs associated with maintaining Reserve forces. The Committee made three recommendations in relation to the Army Reserve structure; the development of financial and management systems to enable the full costing of the Reserve forces; and studies of separations from the reserve.

1.7 Audit Report No.34, 2000–01, *Assessment of New Claims for Age Pension by Centrelink*, and Audit Report No.35, 2000–01, *Family and Community Services' Oversight of Centrelink's Assessment of New Claims for Age Pension* were undertaken by ANAO in parallel. In Audit Report No.34, the ANAO assessed Centrelink's quality controls to ensure accuracy and correct decisions at the new claims stage. In Audit Report No.35, the ANAO examined aspects of the Department of Family and Community Services (FaCS)/Centrelink business arrangements designed to assist FaCS in its oversight of the assessment of new claims for the age pension by Centrelink. For 1999–2000, the agreed performance standard between the two agencies was 95 per cent 'correctly assessed' while for 2000–01, the standard was 95 per cent 'completely accurate'.

1.8 The Committee selected these two audit reports for review because it was concerned at the discrepancies between the error rates found by the ANAO and

Centrelink's reporting of its accuracy in its annual reports. Centrelink had reported an accuracy rate of 98 per cent for 1999–2000. The ANAO audit found that in 1999–2000, 52.1 per cent of new age pension assessments contained at least one actionable error while 95.6 per cent contained at least one administrative error¹.

1.9 The Committee stated that, although some age pension claims are complex, it was disturbed by the ANAO's findings. The Committee acknowledged that, faced with the audit findings, Centrelink had made improvements such as appointing an extra 130 complex assessment officers who were specially trained, and checking all claims processed by inexperienced staff. The Committee recommended that an independent validation strategy be developed by FaCS to assess Centrelink's performance.

1.10 Audit Report No.43, 2000–01, *Performance Information for Commonwealth Financial Assistance under the Natural Heritage Trust*, concluded that the performance information used to support the administration of Commonwealth financial assistance under the Natural Heritage Trust (NHT) had strong design features but significant management and reporting challenges. A key issue was the absence of a final core set of performance indicators. The report also noted that the absence of baseline data on environmental conditions in much of Australia had been a major constraint on measuring and reporting on changes and trends. The audit foreshadowed the potential value of the findings of the national land and water resources audit for future natural resource management and environment programs.

1.11 The Committee expressed the opinion that it was still difficult to assess the impact the NHT has had overall and progress made towards program goals such as the conservation, repair and sustainable use of Australia's natural environment. The Committee reiterated its opinion that there must be concern when large amounts of public funds are committed and programs are implemented before problems are adequately identified and performance information systems are in place.

1.12 ANAO audits that have been reviewed by the JCPAA and, at the time of the preparation of this report, have not been reported on by the Committee are:

- Audit Report No.3, 2001–02, *The Australian Taxation Office's Administration of Taxation Rulings*;
- Audit Report No.4, 2001–02, *Commonwealth Estate Property Sales*;

¹ An actionable error was non-compliance of a claims assessment against one or more of the eight major core audit test criteria. An actionable error in an Age Pension claims assessment, if detected within Centrelink, requires follow-up action, including the return of the claim to the Original Decision Maker for review. Administrative errors (such as failing to date stamp the form) were non-actionable core errors.

- Audit Report No.11, 2001–02, *Administration of the Federation Fund Program*; and
- Audit Report No.22, 2001–02, *Personnel Security-Management of Security Clearances*.

1.13 Of the audits completed in the period January to June 2002, the JCPAA has selected for review:

- Audit Report No.40, 2001–02, *Corporate Governance in the Australian Broadcasting Corporation*;
- Audit Report No.51, 2001–02, *Research Project Management* (Commonwealth Scientific and Industrial Research Organisation);
- Audit Report No.57, 2001–02, *Management Framework for Preventing Unlawful Entry into Australian Territory* (Department of Immigration and Multicultural and Indigenous Affairs); and
- Audit Report No.63, 2001–02, *Management of the DASFLEET Tied Contract*.

ANAO performance audit themes

1.14 The ANAO, when determining its audit program, takes into consideration the environment in which the Australian Public Service (APS) operates. Over recent years, a number of factors have significantly affected this environment, including a requirement for:

- a more responsive, contestable public service;
- greater collaboration between agencies/stakeholders/levels of government; and
- an increased focus on governance.

1.15 The APS, over the past decade, has been required to be more responsive to government and public needs to provide less costly, better directed and higher quality services. Also the APS is required to demonstrate that it can deliver government services as efficiently and effectively as the private and/or non-profit sectors. This is reflected in the increasing emphasis being placed on the contestability of services; the outsourcing of functions that can be undertaken more efficiently and effectively by the private sector; and ensuring a focus on outcomes and continuous improvement to achieve required results.

1.16 A consequence of public sector reform over recent years is that, today, nearly all of the results government strives to achieve require the collaborative efforts of two or more agencies/stakeholders/levels of government. Unfocussed and uncoordinated programs waste scarce resources, confuse and frustrate

recipients and limit overall program effectiveness. The development of effective working relationships with stakeholders is, therefore, an important element in a well functioning public sector corporate governance framework.

1.17 These factors are considered by the ANAO when determining audit coverage. As well, the ANAO has regard to the need to provide the Parliament with an assurance, over time, of public sector performance and financial reporting, administration, control and accountability. To this end, for 2001–02, the ANAO identified the following performance audit themes that underpinned its audit work program:

- corporate governance including human resource management, financial management, and performance information;
- procurement and contract management;
- information technology; and
- service delivery, including the impact of e-government.

1.18 The following discussion examines recent developments and issues in relation to governance and these themes.

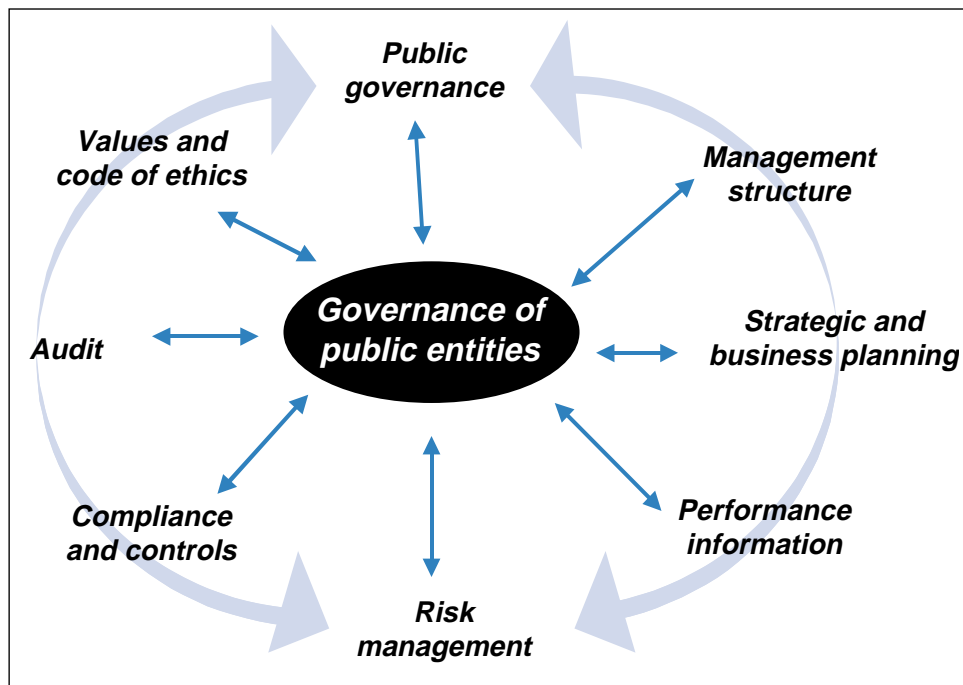
Corporate governance²

1.19 Corporate governance, in simple terms, relates to how an organisation is managed, its corporate and other structures, its culture, policies and strategies, and the ways in which it deals with its various stakeholders. The elements of corporate governance for public sector entities are detailed in figure 1 below.

² The ANAO has published the following papers which provide advice on governance issues:

- *Principles for Core Public Sector Corporate Governance*, Canberra, 1997;
- *Applying Principles and Practices of Corporate Governance in Budget Funded Agencies*. Canberra, 1997; and
- *Corporate Governance in Commonwealth Authorities and Companies—Principles and Better Practices*, Canberra. May 1999.

Figure 1
Elements of governance of public sector entities³



1.20 Arguably, Parliament and the public are more aware and concerned about the elements of corporate governance now than in the past because the external business environment has changed in recent years with a number of private enterprise organisations failing because of, among other things, a breakdown in corporate governance. In particular, Parliament and the public are concerned that breakdowns in ethics and audit independence have been major contributing factors in recent private enterprise collapses. As these two elements are common to public and private entities, this concern also relates to the public sector governance.

1.21 The statement below provides an informed opinion as to the importance of ethics and audit independence to corporate governance and the interdependence of other elements including accounting standards and risk management auditor independence.

One really has to have a hard look at accounting standards that permit manipulation and permit a victory of form over substance, and as global accounting standards are converging even if they are only present in the US, it is something that we need to be concerned about and engaged in. The second is the

³ Barrett, Pat, *Achieving Better Practice Corporate Governance in the Public Sector*, International Quality & Productivity Centre Seminar, 26 June 2002.

whole issue of independence of auditors and the third is the whole issue of corporate ethics. Because, at the end of the day, you can't legislate goodness, and important as accounting standards are, and as independent auditors are, corporate governance is really a state of mind and it is around the integrity of the company and its leadership, and I think Enron is going to provide appropriately a real refocus on this.⁴

1.22 Parliament has formally recognised the importance of audit independence through the JCPAA review of independent auditing by registered company auditors. In the ANAO's submission to the review, it supported the strengthening of the independence of private sector auditors. The ANAO adheres to general professional requirements, supplemented as necessary by additional accountability practices to cover the Auditor-General's special relationship with Parliament.

1.23 There is a range of measures that could be taken to strengthen the independence of auditors and provide greater public confidence in their performance and the role that they have in adding credibility to financial reports prepared by companies. These measures include:

- underlining the independence of auditors in statute;
- enhancing the role of audit committees in corporate governance;
- improving the disclosure of 'other services' provided by auditors and encouraging the profession to tighten guidelines in relation to these services; and
- encouraging the wider involvement of the profession in the setting of auditing standards.

1.24 An independent audit function is a necessary complement to agencies' establishment of a robust corporate governance framework that covers their strategic directions, operations and staff activities. The framework should include the structures and processes necessary for decision-making, ethical behaviour and controls that support effective accountability for performance outputs and outcomes⁵. Key components of corporate governance in both the private and public sectors are business planning, including human resource management; financial management; performance monitoring; accountability to stakeholders; and internal controls, including risk management. The framework requires clear identification and articulation of responsibility and accountability as well as a

⁴ Morgan, David, CEO of Westpac in a TV interview on the Business Sunday Program, Channel 9, 11 February 2002. Transcript from <<http://finance.ninemsn.com.au/businesssunday/interviews/story>>.

⁵ The Joint Committee of Public Accounts and Audit *Requirements for Annual Reports* (June 2002) mandate a statement of the main corporate governance practices in agency annual reports and provide advice on the information that should be included in the statement (Part 3, Section 12).

real understanding and appreciation of the various relationships between the organisation's stakeholders and those who are entrusted to manage resources and deliver required outputs and outcomes. From an APS perspective, appropriate governance arrangements are required to ensure agency transparency and accountability.

1.25 It should, however, be noted that the benefits of good governance go beyond just ensuring transparency and accountability for financial management and reporting. The adoption of the so-called Triple Bottom Line⁶ reporting by private and public organisations demonstrates the recognition that social and environmental responsibility are directly related to organisational performance. Similarly, good corporate governance promotes private and public organisational effectiveness. A report by the Chartered Accountants of Canada, for example, concluded that: 'The objective of good governance is to promote strong, viable and competitive'⁷ organisations, that is, governance and performance are directly linked.

1.26 The six audit themes earlier listed for 2001–02 relate to particular areas that can impact on corporate governance (and agency performance) and, as relevant, they were addressed in all audits undertaken by the ANAO in this period.

Human resource management

1.27 Appropriate human resource management, including workforce planning, is an important element of governance. Three particular developments impacting on the APS in relation to human resource management discussed below are the devolution of authority and responsibility, the increased mobility of the APS and the consequent loss of corporate knowledge.

Devolution of authority and responsibility

1.28 Prior to the introduction of the *Public Service Act 1999* (PS Act) the APS as a whole, largely, operated under the same administrative arrangements and regulations⁸. As well, the previous public service legislation detailed specific processes that agencies were required to adopt. Therefore, individual agencies had limited scope to develop human resource policies that met agency specific needs. However, with the implementation of the principles-based PS Act, within the bounds of the *Financial Management and Accountability (FMA) Act 1997* and

⁶ Elkington John, *Triple Bottom Line revolution—reporting for the third millennium*, Australian CPA, Vol. 60 No.10, November 1999.

⁷ Chartered Accountants of Canada, Joint Committee on Corporate Governance, *Beyond Compliance: Building a Governance culture*, final report, November 2001.

⁸ A more detailed discussion of employment under the PS Act can be found in the then Public Service Merit Protection Commission publication, *State of Service Report 2000–01*, October 2001.

Commonwealth Authorities and Companies (CAC) Act 1997, agencies can now tailor human resource policies to their particular needs. As well, agencies can develop suitable, complementary process arrangements to implement their new policies.

1.29 To highlight the importance of performance management and provide agencies with guidance, the Management Advisory Committee (MAC) undertook research and provided details of this in the publication: *Performance in the Australian Public Service* (August 2001). MAC found that the following three factors that influenced the success of performance management systems:

- alignment of the desired organisational outcomes and performance management systems;
- credibility—engaging and winning the support of staff; and
- integration of performance management and the corporate management of the organisation.

1.30 As well, the following six ‘environmental shapers’ of performance management should be considered by agencies when establishing appropriate performance management systems: Chief Executive Officer leadership, nature of the business, organisational history with performance management, maturity of systems, industrial climate and values.

1.31 Further advice on this issue can also be obtained in the Institute of Public Administration Australia (IPAA) publication, *Performance Management—a guide to good practice* (August 2001).

Staff mobility and the loss of corporate knowledge

1.32 Most APS agencies are required to deal with the related issues of increased staff mobility and the loss of corporate knowledge. Staff in the current workforce are much more likely to move between and out of the APS than in previous years. For example, in 2000–01, about 8 per cent of all on-going (‘permanent’) staff left the APS, compared with about 5 per cent in 1991–92⁹. While this level of separations is significant, overall staff mobility is much higher, as these figures do not include the significant number of staff who move between and within agencies. The increased mobility of the workforce presents agencies with the challenge of developing and implementing workforce planning policies and practices that appropriately enable them to anticipate and provide the required number and mix of staff in the future. It is, therefore, particularly important that agencies have reliable and supportive human resource information

⁹ Based on statistics from the then Public Service Merit Protection Commission, *State of the Service: Australian Public Service Statistical Bulletin 2000–01*, November 2001.

management and monitoring systems that enable them to predict future requirements, compare their expected staff profile with these requirements and implement strategies to meet deficiencies.

1.33 The challenge is to take advantage of the opportunities offered by devolution and tailor performance management to the needs of the agency while still maintaining transparency, accountability and adherence to APS values.

Financial management

1.34 Commonwealth government agencies are accountable for the financial management of about \$170 billion worth of resources annually¹⁰. This materiality alone provides a strong incentive for the Parliament, public and agencies to be interested in agency financial management and reporting. However, there have been a number of developments over the last few years that increase the importance of APS agencies being transparent when reporting their financial performance.

1.35 The most significant development was the current accrual budgeting and reporting arrangements that were introduced in 1999–2000. The arrangements are designed to inform Parliament and the public of the ‘real’ cost of agency outcomes and outputs, that is, the cost which includes indirect costs such as corporate overheads and depreciation. The JCPAA has undertaken the *Review of the Accrual Budget Documentation*¹¹ and expressed the desire that, among other things, agencies ensure that their financial information¹²:

- is consistent and that there is a ‘clear read’ between the Portfolio Budget Statements (PBS) and annual report;
- enables agency contributions to be determined for cross-portfolio outcomes;
- is continuous from year-to-year and timely; and
- has an appropriate level of detail and disaggregation for the outcomes.

1.36 As well, the desire for enhanced financial disclosure is now formally expressed in the *Requirements for Annual Reports*¹² that, besides mandating the inclusion of financial statements, require a discussion and analysis of the agency’s financial performance. Also, the implementation of accrual accounting and budgeting by APS agencies has increased the ability of agencies to provide Parliament and the public with appropriate financial information, as noted

¹⁰ 2002–03 Budget.

¹¹ JCPAA, *Report 388—Review of the Accrual Budget Documentation*, Canberra, June 2002. Sections 2.25, 2.35–2.49, Chapter 3, Chapter 4 respectively.

¹² *ibid* 5, Part 2, Section 11.

earlier. The current outcomes/outputs arrangements require agencies to identify their outputs and provide suitable price, quantity and quality information—information that was not available prior to the current arrangements. As well, accrual accounting, budgeting and financial statements make it possible for agencies to improve the transparency by providing comprehensive information on revenues generated and the full costs of its products and activities.

Performance information

1.37 Appropriate performance information is an essential element of the governance and operations of public and private enterprise organisations. As a consequence, over the last decade many of the developments in relation to performance information such as the *Balanced Scorecard*¹³ and *Triple Bottom Line*¹⁴ have been adopted, or adapted, by organisations. Within the APS, agencies have devoted considerable resources to developing outcome/output/performance information frameworks consistent with the Department of Finance and Administration (Finance) guidelines.

1.38 However, performance information in itself does not automatically transform governance and lead to stronger performance. Performance information is one element of integrated management arrangements and the performance information arrangements may have little impact on performance and/or governance if all the elements of governance are not in place, or appropriate leadership is absent. When considering issues related to performance information and its measurement and management, as appropriate, the ANAO emphasises the importance of clear objectives, risk management, corporate strategies, a strong controls environment and the measurement and review of outcomes and outputs.

1.39 As previously mentioned, within the current legislative framework, agencies have considerable scope to tailor their operations to produce their outcomes and outputs efficiently and effectively. Accordingly, many agencies have changed their organisational structures so that they better reflect the agency outputs that lead to subsequent outcomes. As well, agencies have considerable scope to develop outcome/output measurement and management frameworks that best meet their needs.

1.40 However, the extent to which PBS performance information promotes transparency and accountability has been a concern to Parliament and the public since the current outcome/output reporting arrangements were implemented

¹³ Kaplan, R.S & Norton, D.P. 1992, *The Balanced Scorecard—Measures That Drive Performance*, Harvard Business Review, January—February 1992.

¹⁴ *ibid* 6.

for the 1999–2000 PBS. The Senate Finance and Public Administration Legislation Committee expressed concern in relation to these issues in the second and third reports on *The Format of the Portfolio Budget Statements* (October 1999 and November 2000 respectively).

1.41 The JCPAA also recently expressed concerns in its *Review of the Accrual Budget Documentation*¹⁵, the chairman of the Committee stating that ‘Agency progress in providing performance information is patchy and some agencies had no targets against which to measure agency performance’¹⁶. The Committee made 11 recommendations in the report to improve the transparency and accountability of government agencies and the government’s accounts. Key recommendations include the requirements that outcome statements should have more detail and performance measures should be accompanied by a comparative standard.

1.42 The ANAO in Audit Report No.18, 2001–02, *Performance Information in Portfolio Budget Statements* also raised issues about performance measurement and, particularly, effectiveness indicators that did not actually measure outcome performance. Another important issue was data quality and whether the data had appropriate relevance, accuracy, timeliness, accessibility, interpretability and coherence¹⁷.

Procurement and contract management

1.43 Parliament has indicated its awareness of the importance of transparency and accountability when managing government contracts on many occasions. The JCPAA tabled a report *Contract Management in the Australian Public Service* in November 2000¹⁸ that addressed issues related to the accountability and transparency of government procurement and contract management practices. One issue covered was the inappropriate use of confidentiality provisions in contracts to reduce transparency. Subsequent to this, the Senate Finance and Public Administration References Committee report—*Commonwealth Contracts: A New Framework for Accountability*, which was tabled in the Senate on 26 September 2001, addressed similar issues and made similar recommendations. The government has responded to both of these reports and the associated Senate Order of June 2001, supporting, or supporting in principle, the thrust of the

¹⁵ *ibid* 11.

¹⁶ Mr Bob Charles MP, Chairman of the JCPAA, Press release, 19 June 2002.

¹⁷ These characteristics are discussed in more detail in *Managing data quality in a statistical agency* (Brackstone G, December 1999, Statistics Canada, Survey Methodology, Vol 25 no.2). As well, a discussion on this issue in the context of the PBS, is found in the *Better Practice Guide for Performance Information in Portfolio Budget Statements* (ANAO, May 2002).

¹⁸ JCPAA Report No.379, Canberra, 2 November 2000.

recommendations that are designed to promote transparent and accountable procurement and contract management procedures¹⁹.

1.44 Certain procedures to promote transparent and accountable procurement and contract management are defined in Senate Order of June 2001. The Order requires Ministers to table letters of advice that all FMA Act agencies for which they are responsible have listed current contracts of \$100 000 or more on the agency's Internet. The list must indicate, amongst other things, whether the contracts contained confidentiality provisions. In relation to this Order, the Auditor-General was asked to examine a number of contracts listed and indicate whether there had been any inappropriate use of the confidentiality provisions. The Auditor-General agreed to the request and the first review of the Senate Order was tabled in February 2002²⁰.

1.45 The legislative framework for APS procurement practices is established by the FMA Act that makes Chief Executives responsible for 'promoting efficient, effective and ethical use of Commonwealth resources'.²¹ The specific requirements are articulated in *Commonwealth Procurement Guidelines and Best Practice Guidance*.²² The core principle within this framework is value-for-money, clearly an important issue given that the APS spends about \$13 billion on goods and services annually. This principle is supported by a requirement that activities related to procurement, including contract management, should be undertaken in a transparent and accountable manner. The guidelines also require agencies to ensure that activities associated with procurement, including contract management, are undertaken efficiently, effectively, ethically and promote industry development.

1.46 Two important issues that relate to procurement and contract management are risk management and partnerships with the private sector. These issues are discussed below.

Risk management

1.47 There are significant risks that agencies must address in order to comply with the core principle and supporting principles in the Commonwealth

¹⁹ Government response to The Senate Finance and Public Administration References Committee report—*Commonwealth Contracts: A new Framework for Accountability*, June 2002—one recommendation was not agreed to because the government considered it was *already largely accommodated by existing measures*. Senate, 14 May 2002, *Whole of Government response to recommendations 1–5 in Report 379 of the JCPAA: Contract Management in the Australian Public Service*.

²⁰ Audit Report No.33, 2001–02, *Senate Order of 20 June 2001 (February 2002)*, February 2002.

²¹ FMA Act, Part 7, Section 44.

²² Department of Finance and Administration, *Commonwealth Procurement Guidelines and Best Practice Guidance*, February 2002.

Procurement Guidelines (value-for-money supported by: efficiency and effectiveness, accountability and transparency; ethics; and industry development). For example, if agencies over-emphasise the promotion of industry development, then they may not obtain the best value-for-money. Therefore, risk management is an essential element of procurement and contract management.

1.48 The risk management process, generally, should be based on the framework detailed in the Australian/New Zealand Standard for risk management (AS/NZS 4360:1999) and the associated guidelines for managing risk in outsourcing (HB 240:2000). That is, agencies should:

- establish the context;
- identify risks;
- analyse risks;
- evaluate risks;
- treat risks; and
- monitor, review and communicate risk information.

1.49 In relation to risk assessment and management for private finance initiatives (PFI), the *Commonwealth Policy Principles for the Use of Private Financing*²³ indicate that agencies should consider risk. This is because, the ‘analysis of risk is critical to value for money determination and is likely to be the deciding factor in many private financing proposals’²⁴, value for money being the core principle for procurement.

1.50 The Policy Principles provide advice on ‘beneficial’ risk transfer from the Commonwealth to the private sector partner that may make PFI initiatives viable. For example, asset ownership risks related to equipment suitability and maintenance could be passed onto the private sector. They also make the point that risk analyses should take a whole-of-government view and, especially, the risk that tax revenue may be lost through the use by the private sector of ‘tax effective arrangements’.

Partnerships with the private sector

1.51 Another essential element of procurement and contract management is the promotion of industry development through the outsourcing of functions that can be undertaken more efficiently by the private sector. This issue is highlighted in a speech by the Hon. Peter Slipper that specifically referred to

²³ Issued by the Hon. John Fahey, M.P., Minister for Finance and Administration, October 2001.

²⁴ *ibid* 22, section 29.

the promotion of industry development through ‘a greater engagement between the public and private sectors’²⁵. As governments find it difficult to provide funding for large projects, the use of PFI by the public sector to provide infrastructure, property, defence and information technology is becoming increasingly important in the current budgetary environment. At the State level, roads built and operated by private enterprise are an important example of the use of PFI²⁶.

1.52 The Commonwealth Policy Principles identify the three procurement principles referred to above and provide further advice on these principles in relation to PFI procurement activities as follows:

- value-for-money should be assessed on a whole-of-life basis;
- transparency should be maintained and, in particular, the use of private financing should not reduce the availability of information to parliament and other stakeholders; and
- accountability can not be reduced—even though the outputs are delivered through private enterprise, the agencies are not able to transfer accountability, retaining the responsibility for their delivery.

1.53 An important issue in relation to the transparency of PFI, and previously mentioned, is the use commercial-in-confidence clauses that may reduce transparency—the onus is now on those who wish to keep contractual information confidential to argue that confidentiality is warranted.

Information technology

1.54 The increasing power of information technology (IT) hardware, development of more ‘user-friendly’ software and the greater use of Internet by the public²⁷ have the potential to facilitate and improve communications between government agencies and the public. The government, therefore, committed through the ‘Online Strategy’, to deliver all appropriate government services online via the Internet by the end of 2001²⁸. IT has also impacted on information

²⁵ Hon. Peter Slipper, MP, Parliamentary Secretary to the Minister for Finance and Administration, speech, *Strategic Procurement Planning for Government*, 27 February 2002.

²⁶ The Department of Finance and Administration (Finance) has defined PFI in the Commonwealth Policy Principles for the use of Private Financing as the: *use of private sector capital to wholly or partially fund an asset—that would have otherwise been directly purchased by the government—which is used to deliver Commonwealth government outcomes*. Finance has also established a Private Financing Unit to provide expert advice released issues papers on the topic for comment.

²⁷ Over half of all Australian households are connected to the Internet: Address by the Hon. John Howard MP Opening of the World Congress on IT, 27 February 2002.

²⁸ Information on strategies, projects and activities associated with *Government Online* can be found at <www.govonline.gov.au>.

and knowledge management. The efficiency and effectiveness of the delivery of agency outputs can be improved through their improved ability store, access and use large volumes of IT-based information. Issues relevant to Government Online and information and knowledge management are discussed below under those headings.

Government online

1.55 A survey²⁹ of the use of IT and telecommunications for the provision of government services (eGovernment) in 23 countries indicates that APS agencies have taken up the challenge to use the facilities offered by IT and telecommunications. The survey found APS agencies had made significant gains during 2001 and that Australia was placed fourth in the overall eGovernment ranking of the countries surveyed. As well, within an international context, the survey identified a number of 'leading edge' practices that had been developed and implemented by APS agencies.

1.56 Consistent with the international survey referred to, the National Office for the Information Economy (NOIE)³⁰ found that the majority of APS government agencies had met the government's commitment to provide all appropriate services online by the end of 2001. The accessibility of these services has also been improved with the recent launch by Senator the Hon. Richard Alston (28 February 2002) of a single online entry point for government services www.australia.gov.au. As a consequence, the public can access 1665 services³¹ online (February 2002) without needing to know, specifically, which agency could provide the desired service.

1.57 To assist agencies, the ANAO has produced a better practice guide *Internet Delivery Decisions—A Government Program Manager's Guide to the Internet* (April 2001) that provides advice on how best to use the Internet to deliver government programs and services. While it does not answer all the questions in relation to Internet delivery of government programs, it will help agencies make suitable decisions and directs readers to other sources of information. Issues covered include:

- how to decide to use the Internet to deliver government programs and services;
- business cases and cost-benefit analysis for Internet use in government;
- designing and maintaining Internet sites for government programs;

²⁹ Accenture, *eGovernment Leadership—Realising the Vision*, April 2002.

³⁰ *Government Online Survey Round 4 Results*, March 2002.

³¹ Speech, Senator the Hon. Richard Alston, 28 February 2002.

- costing Internet service delivery in government;
- monitoring and evaluating Internet-delivered government programs and services;
- Internet systems security and authentication for government programs;
- legal considerations for government Internet service delivery;
- privacy issues, the internet and the government manager; and
- how to make government sites more accessible.

1.58 In relation to the advancement of the Government Online program, while Commonwealth agencies have increased the breadth of services covered, the abovementioned international survey also found that agencies have not developed services that involved direct electronic communication between users and agencies at the same rate. Therefore, agencies should now focus on this area.

Information and knowledge management

1.59 The APS is, to a degree, knowledge-based and needs to train new and existing staff to redress the loss of corporate knowledge through staff turnover and retirement and provide services in an increasingly complex environment. Information and knowledge management, that is, 'getting the right knowledge to the right people at the right time to serve the right objectives'³², is promoted by the appropriate use of IT, which provides agencies with the means to develop expert systems that can improve decision-making. However, the use of IT to aid information and knowledge management brings with it risks that should be addressed. Issues relevant to knowledge management and some of the risks are discussed under the headings:

- expert systems;
- privacy and security;
- intellectual property; and
- record keeping.

Expert systems

1.60 Expert systems, that is, systems based on the application of heuristics or 'rules of thumb', are an element of knowledge management that is becoming increasingly important in the public sector because of a number of factors, including the:

³² Stephens D, *Knowledge management in the APS: a stocktake and a prospectus*, IPAA Conference November 2000.

- increasing volume and complexity of information that must be analysed by the APS. This makes it difficult for APS staff to understand the data and make decisions using traditional approaches such as the review of data tabulations;
- increasing power and availability of IT and telecommunications systems that give government agencies the means to collate and analyse a large amount of information with relative ease; and
- reduced manual resources available to handle the volume of information required with an appropriate level of accuracy.

1.61 Expert systems provide agencies with the capacity to draw together, in decision rules, the collective experience of individual officers. This allows less experienced staff and the agency to benefit from this experience. At the agency level, the definition of the decision rules is also an element of knowledge management and counters the loss of corporate knowledge. For the reasons detailed above, there are a number of functions undertaken by APS agencies that are likely to benefit from the use of expert systems including revenue collection, debt management and fraud control.

Privacy and security

1.62 The increasing use of IT-based records that hold personal and/or confidential information makes it possible, if suitable controls are not in place, for agency staff to inappropriately access and use of this information. As well as increasing this risk, the use of the Internet to provide online services also enables external access if suitable security arrangements are not in place—particularly, there is a risk that external ‘hackers’ may corrupt and/or disseminate confidential information.

1.63 All information provided by the public to Commonwealth agencies is covered by the *Privacy Act 1988*. This Act, for example, requires agencies to advise those providing information of the reason for the collection of the information, how it will be used, if it is disclosed and to whom. It is of concern that a review by the Office of the Federal Privacy Commissioner found that almost a third of the government websites did not display a privacy statement³³. A better practice is for agency Internet websites to incorporate and prominently display a Privacy Statement describing what information is collected, its purpose, how the information is used, if it is disclosed and to whom.

³³ Office of the Federal Privacy Commissioner, *Privacy Compliance Audit: Commonwealth Government Websites*, August 2001.

Intellectual property (IP)

1.64 IP, that is, the ‘rights granted by law in relation to the fruits of human creative activity’³⁴, is part of the larger corporate knowledge framework and, in this context, issues relevant to information and knowledge management raised previously in this chapter such as security are also relevant to IP.

1.65 IP, such as trademarks, copyright and IT related products, have a monetary value and are tangible agency assets. Therefore, it is a better practice to ensure that IP is managed in the same way as physical assets. The management framework for IP should include strategic planning and risk management and cover issues such as inventories, valuations, audits and disposal. Risk management associated with IT related IP, for example, should address the risk that agency employees may make unauthorised copies of software. In relation to IP and particularly IT related IP, advice on issues such as purchasing, licensing, valuation, auditing and sale can be found in *The Commonwealth IT IP Guidelines*³⁵.

Record keeping

1.66 Record keeping is important aspect of knowledge management and an essential element of an agency’s corporate governance and accountability framework. However, as was noted in a recent ANAO audit³⁶, the standard of record keeping has been a recurring issue for Commonwealth organisations over recent years. For example, the level of documentation available for review may not provides sufficient evidence to support administrative actions and decision-making processes³⁷.

1.67 Outsourcing increases the risk that agencies (and the ANAO) will not have adequate access to contractors’ records unless the issue is specifically addressed in the contract between the agency and the contractor to ensure that accountability and archival obligations are met. The Senate Order of 20 June 2001, among other things, places the onus on agencies to demonstrate that the confidentiality provisions in contracts are warranted and these reasons should be formally recorded.

1.68 The increasing trend for policy and administrative decisions to be communicated electronically and an emphasis on the timely management of the ‘political’ dimensions of policy increases the risk that records will not be preserved. However, IT and electronic communications also provide agencies

³⁴ Department of Communications, *The Commonwealth IT IP Guidelines*, 2000, section 4.1.

³⁵ Department of Communications, *The Commonwealth IT IP Guidelines*, 2000.

³⁶ Audit Report No.45, *Recordkeeping*, May 2002.

³⁷ *Recordkeeping in Commonwealth Agencies—An Audit Perspective*, Presentation by Pat Barrett, Auditor-General for Australia, to the National Archives of Australia Advisory Council, Canberra, 11 August 2000.

with opportunities to improve their record keeping. Therefore, some organisations are beginning to make a transition to a new approach to record keeping, the transition being assisted by recent developments in the record keeping profession in Australia and internationally. In the Commonwealth, the National Archives of Australia has developed its e-permanence record keeping standards, the policies, standards, and guidelines having been published on the Internet by National Archives in March 2000 to guide record keeping in Commonwealth organisations.³⁸

1.69 The basic thrust is that, in accordance with professional standards, record keeping should be managed systematically by Commonwealth organisations and not allowed to 'just happen'. An approach that treats record keeping as a continuum requires that records be managed from system design through record creation, maintenance and use, to disposal and archiving. The National Archives has released an extensive range of record keeping standards, policies, and tools on the National Archive's web-site to support their guidelines.

Service delivery

1.70 A major imperative during the past decade has been to establish a more responsive public service that is able to provide less costly, better-directed and higher quality services to citizens. This is being achieved in a number of ways including whole-of-government partnership arrangements and public/private sector partnerships.

1.71 Supporting improvements in service delivery is the focus on outcomes rather than processes and the associated outcome/output measurement and management arrangements discussed in the previous section that provide an incentive, and the means, for agencies to improve services and demonstrate this through their performance indicators. Agencies are required to measure their effectiveness and the price, quantity and quality of their outputs. Improved transparency through the measurement and reporting of these characteristics in relation to service delivery provides an incentive to improve service delivery. As well, the outcomes/outputs measurement and management arrangements provide the information by which APS performance can be compared with that of the private and/or non-profit sectors.

1.72 The government online initiative discussed previously has significantly improved service delivery by making it possible for the public to access a full range of services without needing to know, specifically, which agency would provide the desired service. In particular, there has been international

³⁸ <www.naa.gov.au> under the e-permanence logo.

recognition³⁹ that the creation of a common business entry point⁴⁰ makes it easier for businesses to comply with government requirements. Supporting this is the work undertaken by agencies to make the sites more 'user-friendly' once accessed.

1.73 The government has indicated to the APS that it expects agencies to take a whole-of-government approach that, besides improving the efficiency and effectiveness of government operations, should improve service delivery. The government online initiatives are an example of the implementation of whole-of-government policies in relation to service delivery. Shared service delivery is another means that agencies can use to achieve a whole-of-government approach to improve service delivery. An example of this is Centrelink, which provides a 'one-stop shop', for the delivery of a variety of social service related benefits.

Report outline

1.74 Audit findings from performance audits and financial statement audits are summarised in the following chapters. Appendix 1 provides a short summary of each of the reports tabled between 1 January 2002 and 30 June 2002. Complete copies of all audit reports are available at <http://www.anao.gov.au>. Appendix 2 provides an outline for the Better Practice Guides completed in the period 1 January to 30 June 2002. Appendix 3 lists the performance audit and other audit services being undertaken as at 30 June 2002. Appendix 4 lists presentations and papers given by the Auditor-General and ANAO staff during the period 1 January 2002 and 30 June 2002.

³⁹ *ibid* 29, p. 15.

⁴⁰ <www.business.gov.au>.

2. Performance Audit Themes

The key issues arising from performance audits tabled between 1 January 2002 and 30 June 2002 are summarised in this chapter. These are arranged on the basis of the ANAO's performance audit themes for 2001–02 that are listed below. In this chapter, these themes are used to discuss specific aspects of public administration observed in the last six months.

2.1 The objective of ANAO performance audits is to improve agencies' administration and accountability by providing to the Parliament, the Executive, boards, management and the community with independent evaluation and assurance on the economy, efficiency and administrative effectiveness of the management of Commonwealth public sector entities by:

- undertaking in a cost-effective manner a program of audits designed to evaluate the performance, economy, and efficiency of the activities of Commonwealth public sector entities;
- identifying good practices and recommending ways of improving the economy, efficiency and effectiveness of the administration of Commonwealth public sector entities;
- encouraging and assisting entities to remedy shortcomings and poor practices by improving systems and controls; and
- identifying and promulgating good management principles, practices and ethical behaviour that are applicable to the wider public sector.

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 in relation to persons employed under the *Members of Parliament (Staff) Act 1984*. Performance audits of wholly owned GBEs and persons employed under the *Members of Parliament (Staff) Act* may, however, be undertaken by the Auditor-General where requested by the responsible Minister, the Minister for Finance or the Joint Committee of Public Accounts and Audit (JCPAA).

2.3 The ANAO undertakes an on-going planning approach to ensure that its outputs are effectively integrated and continue to meet the needs of Parliament, the government and public sector entities. The ANAO reviews its planned approach annually as part of its budget preparation and brings the results together in the Audit Work Program. The Audit Work Program is developed against the background of the Australian Public Service (APS) environment, including the business risks that are likely to impact on the APS during the period under review. These risks are taken into account when themes to be

addressed in the annual performance audit work program are identified. The themes for 2001–02 were:

- corporate governance including human resource management, financial management and performance information;
- procurement and contract management;
- information technology; and
- service delivery.

2.4 In reports tabled in the last six months, the ANAO made 170 recommendations aimed at improving the efficiency, administrative effectiveness and accountability of public sector service delivery. Agencies agreed with 153 of the recommendations, 14 with qualification, and disagreed with three.

Corporate governance

Human resource (HR) management

2.5 The production of outputs in the APS is dependent on good performance management and workforce planning. Therefore, agencies should have strategies in place to identify and provide these skills, otherwise services may not be delivered efficiently and effectively. In the six months to June 2002, the ANAO tabled three reports that focused on critical human resource governance issues that agencies should address. They include:

- workforce planning;
- performance management; and
- learning and development.

2.6 Audit Report No.56, *Workforce Planning in the Department of Immigration and Multicultural and Indigenous Affairs*, examined workforce planning systems in the Department of Immigration and Multicultural and Indigenous Affairs (DIMIA) to determine whether the systems effectively support HR management practices.

2.7 Two important issues, workforce planning systems and management in a devolved environment, arose during the audit. The audit found that existing workforce planning systems within the department had generally provided low levels of support for HR management. As well, the department had allowed workforce planning to occur, largely, at the discretion of program and regional managers without an appropriate strategic workforce plan to provide a guiding

framework so that HR activities throughout the agency were aligned and coordinated with departmental outcomes and outputs. The ANAO made six recommendations aimed at assisting the department in the development of its new Investing in People strategy and DIMIA agreed to all of the recommendations.

2.8 Audit Report No.61, *Managing People for Business Outcomes*, was a cross agency study that benchmarked nine elements of the people management for operational areas. These elements were organisational development; workforce planning; recruitment and selection; performance management; learning and development; reward and recognition; workplace diversity; employee relations; and occupational health and safety. For each of these elements ('practice areas'), the study assessed their quality, HR integration, effectiveness and efficiency and business contribution.

2.9 The study highlighted the particular importance of three practice areas: organisational development, workforce planning and performance management, with workforce planning being the area that required the greatest attention. The study also found that there was considerable scope for agencies to improve the integration of business and people planning activities and this should be a priority area for agencies. The report included better practice principles but did not make any recommendations.

2.10 Audit Report No.64, *Management of Learning and Development in the APS*, focussed on staff learning and development in agencies. The objective of the audit was to identify the key management factors that assist agencies to obtain value-for-money in their learning and development related activities.

2.11 The audit found that learning and development strategies and plans should be aligned with corporate goals and supported by meaningful performance indicators that are integrated with other aspects of HR management. While agencies sought to achieve these objectives, they were unable to demonstrate the efficiency and effectiveness of their investment in learning and development and its contribution to organisational effectiveness.

2.12 The Australian Public Service Commission (ASPC)⁴¹ has an important role in APS learning and development, supporting the delivery of the training programs. The ANAO indicated there is scope for the ASPC to take a more catalytic role. The report identified a number of better practice principles to assist agencies. Three recommendations were developed to help improve the role and impact of the ASPC. They were agreed to by the ASPC.

⁴¹ Previously known as the Public Service Merit Protection Commission.

Financial management

2.13 There is a requirement, and general expectation, that the APS will manage efficiently and transparently the \$170 billion in funds received annually to produce outputs. Therefore, ANAO audit activity has addressed financial governance arrangements so that Parliament and other stakeholders are provided with a suitable assurance.

2.14 The ANAO has tabled nine audits over the last six months that have addressed financial management issues. These audits fall into the following two broad categories:

- management of agency funds; and
- management of administered expenses and revenues.

Management of agency funds

2.15 Six audits addressed aspects of management of agency funds. Specific issues addressed ranged from internal financial budgeting and financial practices through to adequacy of guidelines on the elements of financial administration. As well, the ANAO tabled an audit that provided an overview of the finance function of APS agencies and benchmarked their performance against that of an international group of organisations.

2.16 The focus for Audit Report No.34, *Management of Travel—Use of Taxis*, was the adequacy of accountability arrangements associated with the management of travel and, in particular, the use of taxis in six Commonwealth organisations. The audit found that each agency examined had a sound overall framework for administering the use of, and payment for, taxi services. Nevertheless, each agency would benefit from further development of policies and procedures and enhanced controls that promote greater adherence to existing policies and procedures. Adequate controls were generally in place to monitor the use of credit cards and reimbursements associated with the payment of taxi services. However, agency controls over the use of Cabcharge vouchers were generally weaker than those in place for credit cards and cost reimbursements. The agencies involved in the audit agreed with the two recommendations made by the ANAO.

2.17 Audit Report No.41, *Transactional Banking Practices in Selected Agencies*, examined the implementation of the new arrangements for transactional banking introduced from 1 July 1999. A issue to emerge in the audit was that, while all the agencies audited were able to make payments and take receipts from the implementation date, the Department of Finance and Administration (Finance) had not recognised that the Commonwealth would lose interest payments because it is the standard practice for commercial banks to clear low value payments the day before settlement. This risk did not arise under the

arrangements for same-day value operated by the Reserve Bank of Australia. Changes to the commercial banks' settlement arrangements, which came into effect in mid January 2002, now permit them to provide same-day settlement through the Bulk Electronic Clearance System. Finance had modified the core requirements to improve the clarification that same-day value represents best practice for Commonwealth payments. These changes should eliminate these interest losses to the Commonwealth.

2.18 As well, rather than the Budget neutral approach envisaged for the new banking arrangements there had been a substantial net transfer of benefits under the cash management incentive scheme to the agencies estimated at \$151 million since 1999–2000. In the two audited agencies that outsourced banking services, costs had risen in comparison to the costs incurred prior to 1 July 1999, when the Reserve Bank of Australia was the sole service provider. All agencies agreed to the four recommendations made by the ANAO, except one agency that qualified its agreement to two of the recommendations.

2.19 Two audits examined issues related to agency budgeting that are applicable across the APS. Audit Report No.52, *Internal Budgeting*, was a cross agency review of the efficiency and effectiveness of internal budget processes developed following the implementation of the accruals-based, outputs and outcomes framework in 1999–2000. The audit also assessed whether the organisations had revised their approaches to internal budgeting to reflect the introduction of the new accruals-based, outcomes and outputs framework.

2.20 The audit found that, while most of the organisations audited had sound and well-established processes for the development of internal budgets, there were a number of shortcomings in the ongoing management of these internal budgets. Particular areas requiring attention were the: recruitment and development of personnel with budgeting and decision-making skills; assessment of financial information needs; clarity of budget management responsibilities; involvement and support provided by senior management; and adequacy of financial management information systems. The audit made five recommendations directed at the APS in general to improve financial management and budgetary frameworks and these were agreed.

2.21 The general issue of the allocation of expenses through the use of appropriate costing approaches is an issue of relevance to all APS agencies as the effectiveness of accrual-based budgeting is dependent, to a degree, on the appropriate allocation of costs. Audit Report No.60, *Costing of Operational Activities and Services Follow-up Audit*, examined costing arrangements in Centrelink. This audit was a follow-up to Audit Report No.43, 1999–2000, *Planning and Monitoring for Cost Effective Service Delivery—Staffing and Funding Arrangements* and Centrelink activities designed to implement a comprehensive costing system.

2.22 The ANAO found that Centrelink was implementing a comprehensive costing system. This included the establishment of an activity-based costing methodology to determine the costs of operational activities and services. Given that Centrelink had adequately addressed the issues raised by Audit Report No.43 in relation to costing issues, the ANAO did not make any recommendations.

2.23 Audit Report No.50, *A Preliminary Examination into the Allocation of Grant Funding for the Co-Location of National General Practice Organisations*, was a preliminary examination in which the primary focus was whether or not due process was followed in the then Department of Health and Aged Care (Health) in making the decision to transfer \$5 million between outcomes to fund the co-location of General Practice Organisations. The preliminary examination also considered: the procedures adopted by Health in developing the funding proposal; the advisory role played by the Finance and specific advice provided by both departments to their Ministers; and the disclosure of the related budget measure.

2.24 The ANAO found that the Minister for Health and Aged Care had sought the agreement of the Minister for Finance and Administration to transfer funds between portfolio outcomes in order to support an initiative relating to the construction of 'GP House'. The transfer of funds between outcomes was effected through the Additional Estimates bills and supported by disclosure in the related *Portfolio Additional Estimates Statements 2001-02*.

2.25 In viewing this proposal, Ministers and agencies were required to have regard to Cabinet endorsed guidelines concerning, amongst other things, transfers between outcomes and the funding of new policy proposals. Ministers viewed this proposal as a transfer of funds between outcomes. The ANAO expressed the view that there was some uncertainty in the guidelines between whether initiatives of the kind proposed by the Minister for Health and Aged Care should have been treated as a reallocation of administered expenses between outcomes or as a new policy measure.

2.26 Despite the departmental views, the ANAO considered that it was not unreasonable to conclude that the issue as to whether this funding transfer conformed to the guidelines was not clear cut. In the ANAO's view, there was some uncertainty about the application of budgetary guidance in this instance. Accordingly, the ANAO suggested that Finance should consider reviewing the relevant budgetary guidance and, as necessary, provide advice to Cabinet on how to clarify current guidance. The audit did not make any specific recommendations.

2.27 Audit Report No.53, *Goods and Services Tax (GST) Administration by Commonwealth Organisations*, examined whether agencies had adequate control

frameworks and processes associated with GST obligations and transactions. The audit also sought to identify better practices developed by agencies in relation to GST administration.

2.28 While Commonwealth entities are not liable to pay the GST, it is the Parliament's intention that the Commonwealth and Commonwealth entities should be notionally liable to pay GST and be notionally entitled to the associated input tax credits. Accordingly, the Finance Minister's (A New Tax System) Directions requires each organisation, subject to the *Financial Management and Accountability Act 1997* (FMA Act) and the *Commonwealth Authorities and Companies Act 1997* (CAC Act), to manage its affairs as though it is subject to the GST.

2.29 The ANAO found that during the GST implementation phase, most of the audited organisations had established a control framework that continued to effectively support most GST transactions and Business Activity Statement (BAS) reporting. Nevertheless, the ANAO found that at least three organisations needed to make immediate improvements to their internal control frameworks, with less pressing improvements required in the remaining three organisations subject to audit. For the organisations included in the audit, between three and 17 per cent of the GST transactions examined had errors. Areas for improvement included: risk assessment; ownership and accountability; training and procedures; and the use of technical specialists and continuous improvement tools.

2.30 The report highlighted several better practices observed during the audit. The ANAO made eight recommendations relevant to the APS in general. All organisations involved in the audit responded positively to the recommendations.

Management of administered expenses and revenues

2.31 Audit Report No.35, *Australian Taxation Office Progress in Addressing the Cash Economy*, examined issues related to the management and administration of revenue collection. Specifically, the audit focused on the ATO's progress in addressing the cash economy, including its monitoring and reporting of outcomes. The audit focused on the ATO's implementation of its Cash Economy Task Force recommendations in the light of the tax reform that has taken place over the last two years.

2.32 The ANAO found that ATO strategies to address the cash economy were consistent with those for comparable countries and they offer a wide-ranging approach to dealing with the cash economy. Current operational plans were consistent with the strategic directions recommended by the task force. As well, the ANAO found that most of the task force recommendations had been implemented, either in full or in part. However, ATO could improve its approach

to industry partnerships; the use of cash economy intelligence; and communication and education strategies related to the cash economy. In particular, the ANAO considered that the recommendation on the strategic use of cash transaction data to identify high-risk cash transactions should be fully implemented as the success of this approach had been demonstrated. The ATO has advised that this issue is now being addressed. The ANAO made five recommendations and the ATO agreed with all the recommendations.

Performance information

2.33 Performance information, its measurement and management, are key elements in the production of outputs. Through the current accrual-based outcome/outputs arrangements, agencies have considerable scope to tailor their operations so that their outcomes and outputs are produced efficiently and effectively. However, as is evident from the following 14 audits that address performance management and measurement issues, a recurring theme is that agencies should have integrated governance and management arrangements.

2.34 A significant issue arising in Audit Report No.38, *Management of Australian Defence Force Deployments to East Timor*, was the importance of matching operational arrangements with strategic requirements. The audit assessed the Department of Defence's planning and management of the Australian Defence Force (ADF) deployments to East Timor and sought to identify areas that could be improved in future deployments.

2.35 The audit found that, because of the short time available, ADF personnel and units had capability deficiencies when they were deployed to East Timor. Despite this, ADF personnel performed their task to high professional standards. However, financial planning and arrangements for funding the operation were delayed by lack of relevant expertise, uncertainty about responsibilities and inadequate costing systems. The operational transition from an Australian coalition force to a United Nations (UN) peacekeeping force was well planned and effective. In contrast, reaching agreement with the UN on the Australian personnel and equipment contribution to the UN force, and reimbursement for that contribution, was protracted.

2.36 When the East Timor crisis developed, ADF's logistic structures did not provide suitable support for the military deployments. New logistic structures were created but they led to uncertainty about responsibilities and authority for decisions, doubts about the reliability of the logistic system and duplication of effort. Logistic structures have since been improved but delays had persisted in relation to meeting demands and maintenance work. The Department of Defence had undertaken numerous reviews of the East Timor deployments. The audit report identifies lessons learnt from the deployments.

2.37 The importance of aligning charter requirements, corporate goals, divisional goals and supporting performance information emerged in Audit Report No.40, *Corporate Governance in the Australian Broadcasting Corporation (ABC)*. The audit examined whether ABC programming adequately reflected the ABC's Charter. The focus of the audit was on Board and management governance arrangements that enable the ABC to demonstrate how efficiently and effectively it is achieving its Charter obligations and other related statutory requirements.

2.38 The audit did not find any evidence to indicate that the ABC does not comply with its Charter requirements. Nevertheless, there was significant scope for the ABC to improve its strategic planning and measurement so that it can demonstrate how well it is performing against its Charter requirements. The ABC Corporate Plan 2001–04 was a significant improvement on previous corporate plans and internal control and accountability arrangements were strengthened as part of the planning framework. As well, a new internal budget setting process had been more closely aligned with the objectives and strategies in the Corporate Plan. However, for the new planning and reporting framework to be fully effective work is required to collect and integrate performance information, including audience research data, that is aligned with the new Corporate Plan. The audit made 14 recommendations and the ABC agreed with all of them, with a qualification in two instances.

2.39 Audit Report No.42, *Integrity of the Electoral Roll*, reported on the accuracy, completeness, validity and security of the electoral roll; and how well the Australian Electoral Commission (AEC) had ensured the integrity of the electoral roll. The ANAO found that, overall, the Australian electoral roll had a high integrity, could be relied on for electoral purposes, was managed effectively. In particular, the AEC has mechanisms in place to provide assurance that the names and addresses on the electoral roll are legitimate and valid; and that people who are eligible to vote are registered properly. Data matching by the ANAO of the names and dates of birth of individuals on the roll indicated that over 96 per cent were accurate.

2.40 However, there were areas of AEC management of the roll that can be improved. For example, while it is unlikely that the electoral roll will ever include all eligible voters, there is scope for the AEC to improve the completeness of the roll, identify the areas of significant levels of non-enrolment and develop more effective strategies to encourage enrolments in under-represented groups. In particular, the AEC can better target and expand the data sources currently used to update the roll; strengthen strategic relationships with key stakeholders; and better identify and manage risks to the integrity of the roll.

2.41 The ANAO made 12 recommendations designed to improve the accuracy, completeness, validity and security of the electoral roll and the AEC agreed to all of the recommendations.

2.42 Audit Report No.43, *Indigenous Education Strategies*, assessed whether the Department of Employment, Science and Training (DEST) had efficiently and effectively managed the development and implementation of the Indigenous Education Strategic Initiatives Program (IESIP) agreements for 2001–04. The audit found that the then Department of Education, Training and Youth Affairs developed plans for the efficient and effective implementation of IESIP agreements for 2001–04. However, these plans were not implemented within the proposed time frame. Finalising the agreements took much longer than the department anticipated, with many of the agreements with larger providers not being completed until June 2001. This also reduced the efficiency and effectiveness of the implementation of the IESIP. There is scope to improve the efficiency and effectiveness of future IESIP agreement negotiation processes through a more comprehensive risk assessment and preparatory consultations with providers that include discussions on the terms and conditions of agreements, including target setting.

2.43 The ANAO made six recommendations that were principally directed at improving future negotiations of agreements with providers, the planning and assessment of special initiatives and the outcomes of monitoring meetings. DEST agreed to all six recommendations

2.44 Audit Report No.44, *Australian Defence Force Fuel Management*, involved an assessment of the efficiency and effectiveness of the ADF's management of fuel and lubricants. The audit focused on major aspects of the fuel supply chain, in particular, the strategic management of fuel, for example, the coordination of fuel requirements and stockholding policy. The audit also reviewed fuel procurement practices, storage and handling issues. Although directed principally towards fuels used for operational purposes, the audit also considered issues associated with the ADF's requirement for oils and lubricants.

2.45 The ANAO found that the strategic management of the fuel supply chain is fragmented and insufficiently coordinated. There was significant scope for Defence to improve its liaison and consultation with external agencies about the petroleum industry environment. As well, Defence did not have a fuel procurement price risk management policy and more needs to be done to effectively identify, analyse and manage these risks. The ANAO made eight recommendations directed towards improving the ADF's management of its fuel and lubricants. Defence agreed, or agreed in principle, to all recommendations.

2.46 Audit Report No.47, *Administration of the 30 Per Cent Private Health Insurance Rebate*, highlighted the need for agencies that work together to produce a joint output to have a common set of performance information that can provide a basis for the management of operations. The ANAO found that Health, the Health Insurance Commission (HIC) and ATO worked together effectively in the implementation phase of the Private Health Insurance Rebate (PHIR) to meet the government's tight timeframe. The agencies had a clear and common understanding of their respective roles and responsibilities and, while the Department of Treasury and ATO adopted an appropriate approach to determine the initial budget estimates, the subsequent introduction of Lifetime Health Cover resulted in initial estimates being well below the actual expenditure.

2.47 However, Health did not obtain adequate performance information on HIC's and ATO's administration of the PHIR for the first two and a half years of the scheme—this problem has now been addressed. As well, since HIC did not comply with sections of the *Private Health Insurance Incentives Act 1998* until two and a half years after the implementation date of the Act that required HIC to provide ATO with the necessary data, it was not possible to conduct adequate data matching checks to identify people who may already have claimed the rebate. The ANAO made six recommendations in relation to: the performance information framework and exchange of data between agencies; and HIC's administration of Premium Reduction Scheme registration procedures and financial controls. As relevant, the agencies agreed with all recommendations, although Health qualified its agreement to one of the recommendations.

2.48 Audit Report No.49, *The Management of Commonwealth National Parks and Reserves*, reported on the adequacy of National Parks planning, management and reporting systems. The audit found that Parks Australia's planning mechanisms provide a good foundation for an efficient and effective planning system and management plans have improved over time. However, the performance information, targets and priority setting, at the agency and individual park level can be improved. While systems for the control and accountability of contracts are sound, improved financial monitoring and internal reporting of expenditure on contracts could minimise future breaches of delegations and overspending, as well as assisting in end-of-year reconciliations.

2.49 Improved performance reporting could assist stakeholders to make more informed judgements on Parks Australia's performance and, in particular, compliance with the recommendations of the House of Representatives Environment Committee Report, *Managing Australia's World Heritage*. The ANAO made 12 recommendations aimed at improving the management and accountability of Commonwealth national parks and reserves. Parks Australia has agreed with the recommendations, one with qualification.

2.50 Audit Report No.54, *Drug Detection in Air and Containerised Sea Cargo and Small Craft* assessed the administrative effectiveness of the Australian Customs Service (Customs) drug detection strategies for air and containerised sea cargo and small craft activity. The audit found that, overall, the administrative effectiveness of Customs' drug detection strategies for air, containerised sea cargo and small craft was sound, particularly in terms of its intelligence structures and systems, law enforcement cooperation, governance arrangements and response capabilities. Customs' drug detection capabilities will increase considerably with the planned implementation of container x-ray technology in Sydney, Melbourne and Brisbane later this year. The Small Craft Targeting and Report Strategy had also refocussed Customs' strategies to further assessing the risks associated with small craft. Customs had standard systems and processes for screening and risk assessing air and sea cargo, which are being implemented by regions. However, the ANAO also found that Customs could improve its drug detection capabilities by:

- undertaking a benchmarking exercise to determine the optimum number of cargo reports that should be processed by each region;
- reviewing its level of targeting in comparison to overall volumes received, to ensure it adequately reflects the effective application of its risk management strategies for detecting illicit drugs;
- fully implementing risk management at the operational level; and
- developing performance measures that indicate the effectiveness and impact of its drug detection initiatives.

2.51 Audit Report No.55, *Administration of Tobacco Excise*, assessed ATO's administration of tobacco excise, with a particular focus on tobacco excise governance arrangements; the assessment of intelligence capabilities relevant to the detection and prevention of trade in illicit Australian-grown tobacco; and tobacco-related field services' compliance and investigations activities.

2.52 The audit found that the ATO had arrangements in place for the effective administration of the tobacco excise. However, the ATO could improve its administration of tobacco excise in a number of areas by:

- articulating clearly appropriate strategies and measures aimed at achieving its objectives;
- developing partnerships with appropriate stakeholders to develop more informed risk assessments;
- establishing a tobacco intelligence capability to support tobacco related strategies, operational and tactical levels of decision-making;

- establishing suitable liaison arrangements with the appropriate authorities; and
- improving aspects of its internal and external relationship management, including sharing of information and intelligence within the ATO.

2.53 The ANAO made eight recommendations to strengthen key areas in tobacco excise administration. The ATO agreed to the recommendations, two with qualification.

2.54 The primary message emerging from Audit Report No.57, *Management Framework for Preventing Unlawful Entry into Australian Territory*, was the importance of an effective and integrated management, planning and reporting framework. The audit focussed on the administrative effectiveness of the governance framework used by DIMIA and its role in the prevention and detection of unlawful entry.

2.55 The ANAO found that the department's management of offshore measures to prevent unlawful entry could be enhanced by a more systematic and documented governance structure. Without such a structure, the department placed too much emphasis on the ability of individuals to respond effectively to particular situations based on their skills and experience. The ANAO considered improvements in the department's governance structure could be addressed through a more effective and integrated management, planning and reporting framework, which includes developing:

- a departmental risk management strategy that includes the risk associated with the prevention of unlawful entry;
- operational level plans that are clearly aligned with higher level plans and provide a reliable basis on which to facilitate internal monitoring and reporting;
- a strategic intelligence capability to support policy development, organisational planning, resource allocation and the identification of key risks and priority areas for examination; and
- effective performance monitoring and reporting mechanisms.

2.56 The audit made four recommendations relating to the integration of management of measures to prevent unlawful entry; the strategic intelligence capability and the performance information framework. DIMIA agreed with all four recommendations.

2.57 Audit Report No.58, *Defence Property Management* reported on the efficiency of Defence property management and probity and compliance issues. The audit found that Defence staff responsible for property management were responsive to Defence clients' property needs. However, property management

was largely reactive, whereas a proactive approach would be more effective. A more structured approach would accord with the Commonwealth Property Principles, which require assessment of the long-term yield, public interest considerations and disclosure of the costs of property use.

2.58 The audit made five recommendations in relation to property ownership costs, staff guidance, performance information and benchmarking. Defence agreed or agreed in principle with all the recommendations.

2.59 ComSuper is responsible for the administration of superannuation benefits to members of the Commonwealth Superannuation Scheme (CSS) and Public Sector Superannuation Scheme (PSS). Audit Report No.65, *Management of Commonwealth Superannuation Benefits to Members*, reports on the administrative effectiveness of ComSuper in providing benefits. In particular, the audit assessed the effectiveness of ComSuper's performance in regard to the establishment of new purchaser/provider arrangements; the integrity of the ComSuper databases for the payment of CSS and PSS benefits; and the accuracy and effectiveness of benefit processing and payment for resignation, retirement and retrenchment.

2.60 The ANAO found that the administrative action taken by ComSuper had provided a sound basis for the management of the delivery of superannuation benefits. However, late or inaccurate employer data had an adverse impact on many ComSuper functions. The changes to the Commonwealth employment framework and payroll system in recent years had also had significant impact on ComSuper operations. The ANAO made six recommendations to strengthen the administration of Commonwealth superannuation benefits. ComSuper agreed with all recommendations.

Procurement and contract management

2.61 The procurement of goods and services is an important function for many APS agencies. The sums of money involved are frequently large and there is a risk that the core principle of procurement⁴², value-for-money, will not be obtained if the procurement exercise, including contract management, is not undertaken effectively. The ANAO completed eight audits in the previous six months that focussed on this core principle. Specific issues addressed included the:

- accountability and transparency;
- strategic management of the procurement function;
- the inappropriate use of confidentiality provisions in contracts to reduce transparency;

⁴² *ibid* 26, section 1.

- tender assessment and contract management; and
- dispute resolution in relation to contracts.

2.62 Audit Report No.30, *Test and Evaluation of Major Defence Equipment Acquisitions* assessed Defence's management of its test and evaluation (T&E) of major capital equipment acquisitions. Defence T&E policy aims to promote a unified approach to T&E to guarantee effective and efficient use of all T&E resources and to avoid unnecessary duplication of effort. However, there was little evidence of effective corporate initiatives to promote that approach and individual Defence groups had formulated their own practices and training. Accordingly, the ANAO recommended that the policy should be reviewed to articulate how the 'unified approach' should be implemented—at a minimum, references to those responsible for the policy should be updated. As well, Defence could benefit by establishing an office responsible for independent oversight of, and common standards for, operational T&E, which is conducted in the final stage of acquiring major equipment before acceptance into service. The audit also found that, although the policy requires T&E resources to be costed to assist in management and funding of T&E, the cost of T&E was unknown.

2.63 The ANAO made five recommendations to improve Defence's management of T&E and ensure its T&E personnel receive adequate training. Defence disagreed with two recommendations, agreed with two and two parts of a three-part recommendation.

2.64 Audit Report No.33, *Senate Order of 20 June 2001 (February 2002)*, was a cross agency audit that focused on the transparency of APS procurement and contractual procedures and the inappropriate use of confidentiality provisions in contracts. The Senate Order of 20 June 2001, required all FMA agencies to list contracts over \$100 000 on the Internet. FMA agencies should indicate, amongst other things, whether the contracts contained clauses requiring the parties to maintain the confidentiality of any of their provisions. In response to the Senate order, the ANAO conducted an examination of a number of contracts with confidentiality provisions to determine any inappropriate use of confidentiality provisions. The ANAO also sought to determine if agencies' Internet listings of contracts were complete and how agencies determined which contracts should contain confidential provisions and if the process was appropriate.

2.65 The ANAO found that all the audited agencies had listed contracts on the Internet in accordance with the requirements of the Senate Order of 20 June 2001. In addition, each agency had taken positive and appropriate action to revise their policies and procedures, including their standard Request for Tender and contract documentation, so that they reflected the new contracting environment. As well, agencies had placed a contract listing on the Internet

except for a few that were working towards placing their list of contracts on the Internet. The audit report did not make any specific recommendations.

2.66 Audit Report No.36, *Benchmarking the Implementation and Production Costs of Financial Management Information Systems (FMIS)*, focused on the importance of using whole-of-life costs to determine value-for-money. During the study the ANAO assessed FMIS implementation production costs and timeframes. The study also collected data on resource support, size, volume and the use of FMIS information.

2.67 The study indicated that that some agencies could have achieved better outcomes if they had more appropriate procurement, implementation and FMIS management practices. As well, some agencies had unnecessarily high whole-of-life costs for their FMIS and, particularly, high ongoing annual FMIS costs because the systems installed were not the most suitable of those available for the organisation. Other issues raised in relation to procurement exercises were the importance of appropriate product selection and evaluation criteria; realistic project time frames; and involvement of senior management. The study did not make any recommendations directed at specific agencies. The audit, however, identified opportunities for agencies to improve their FMIS selection, implementation and management procedures.

2.68 Audit Report No.37, *Purchase of Hospital Services from State Governments*, was a follow-up of the department's implementation of ANAO recommendations in Audit Report No.40, 1997–98, *Purchase of Hospital Services from State Governments*. The audit examined the Department of Veterans' Affairs (DVA) administration of the purchase of hospital services from State governments. The ANAO found that, overall, DVA had either implemented or made satisfactory progress in implementing all but one of the recommendations of the earlier audit. The recommendations in the report focused on, among other things, the development of appropriate agreements between the department and service providers, incentives for service providers to meet agreement conditions, value-for-money and the adequacy of performance information. DVA agreed with the recommendation that was designed to facilitate ease of comprehension and understanding of obligations the service providers.

2.69 Audit Report No.46, *Management of an IT Outsourcing Contract*, assessed DVA's management of its IT outsourcing contract and the outcomes of its approach to the contract. The audit considered DVA's planning to meet its strategic IT needs through the contract, the provisions of the contract, contract administration and management of the impacts of the outsourced services on DVA's business.

2.70 The audit found that DVA's management of the contract allowed it to continue to provide services to the veteran and defence communities with a high level of customer satisfaction. However, the audit identified strategic and operational issues that should be addressed. The alignment between DVA's IT strategic planning and the contract could be improved and the contract did not clearly define the services or service levels. DVA agreed with the recommendations, one in principle.

2.71 Audit Report No.48, *Regional Assistance Program (RAP)*, addressed program and contract management issues in relation to RAP. Among other things, the audit examined the allocation of RAP funding (through contracts to community-based projects) by the Department of Transport and Regional Services and the management and monitoring of RAP contracts. In relation to contract management issues, the audit found that the department's administration of RAP was generally efficient and effective and the department had a sound governance framework. Funding for RAP community-based projects was allocated in accordance with policy guidelines. The contract management framework was underpinned by appropriate guidelines and procedures. However, the audit raised the important governance issue that fair and transparent contracting requires those tendering to be aware of the relative importance of project selection criteria and provided with feedback if they are unsuccessful with their tender. The audit made six recommendations, five were agreed to and one was agreed with qualification.

2.72 The Australian Agency for International Development (AusAID) manages commercial contracts that deliver Australia's overseas aid program. Audit Report No.59, *AusAID Contract Management*, examined a range of issues associated with procurement and contract management, including whether AusAID had: sound supporting structures for contract management; effectively managed risks; contracts that clearly define deliverables; appropriate arrangements to manage contractor performance; strategies that appropriately assess and allocate risk between AusAID and contractors; and contracts that deliver the desired aid outcomes.

2.73 The audit found that many aspects of AusAID's aid contract management were sound and well managed. However, there were some inconsistencies in contract management and weaknesses in the supporting process and practices, for example, in relation to minimum standards and contracting responsibilities that, generally, are not set. The audit also raised the issue that it was in the interests of both the service provider and receiver to have a balanced level of reporting by contractors as excessive reporting could have a negative impact on the cost and quality of projects. AusAID agreed with each of the 10 ANAO recommendations.

2.74 The seven audits referred to above addressed procurement and contract management issues. Audit Report No.63, *Management of the DASFLEET Tied Contract*, differed from these, focussing on issues relevant to commercial disputes and the successful resolution of these disputes. Specifically, the objectives of the audit were to assess the administrative and financial effectiveness of Finance's management of the Commonwealth's exposure under the DASFLEET tied contract and the effectiveness of Finance's monitoring of the provider's performance against the contract conditions. The audit also reviewed the action taken by Finance in response to a recommendation of ANAO Report No.25, 1998–99, which examined the 1997 sale of DASFLEET.

2.75 The audit found that Finance was not in a position to be able to effectively monitor performance under the contract or manage the Commonwealth's exposure under the contract because, almost immediately after its commencement, serious issues arose in relation to the operation of the contract and the completion statements for the sale agreement. As a result, there was a commercial dispute between the parties in relation to the tied contract and the sale agreement for DASFLEET. However, the dispute settlement process negotiated by Finance in relation to the DASFLEET sale agreement and the DASFLEET tied contract resulted in significantly lower outlays by the Commonwealth than had been initially sought by the other party or would have been payable if the arbitrator's interim award had been implemented. As Finance implemented the lessons learnt in relation to the resolution of the dispute in the negotiation of the amended tied contract with another provider, the audit report did not include any recommendations.

Information technology

2.76 While it is important that the APS makes the most of the opportunities offered by IT to improve the efficiency and effectiveness of its operations, it is equally important that technology does not result in reduced accountability and transparency. Records provide the evidence, for example, by which agencies can demonstrate to Parliament the reasons for decisions and compliance with legislation. However, electronic communications are increasingly being used within the APS and there is a risk that record keeping activities associated with such communications do not comply with the *Archives Act 1983* (Archives Act).

2.77 The ANAO undertook one audit that focussed on this issue. Audit Report No.45, *Recordkeeping*, assessed whether record keeping policies, systems and processes were consistent with the requirements of the Archives Act, relevant government policies and accepted standards and principles. The audit addressed both electronic and traditional records.

2.78 The ANAO found that a critical factor was the need for record keeping to be integrated with information management. In relation to records of electronic transactions, organisations need to be able to provide Parliament with an assurance that all significant records are being kept in accordance with Archives Act requirements. While record keeping controls existed for paper-based files, in practice, they were not applied as effectively as they should have been. Outside of the formal record keeping systems, the agencies audited had significant core business systems that did not fully meet their record keeping needs. Also, the methods used by the agencies to capture and manage electronic records did not meet record keeping requirements.

2.79 The audit report made six recommendations that are relevant to all Commonwealth organisations in relation to: the assessment of record keeping needs; corporate record keeping policy and infrastructure; and controls over record capture, classification, tracking, disposal, and preservation. The organisations audited responded positively to the audit, agreeing with the above recommendations.

Service delivery

2.80 An important element of operations in the APS is the provision of information in relation to the services offered and, where more than one agency is involved in service delivery, advice on the roles of each relevant agency. This emerged as an issue in Audit Report No.39, *Management of the Provision of Information to Job Seekers*. Employment services for unemployed and job seekers are primarily delivered through the Department of Employment and Workplace Relations (DEWR) and Centrelink, with DEWR developing the employment service programs and Centrelink providing these services. Job seekers seeking to access employment services programs require accurate and timely information that informs them of their rights, including income support, the range of services available to them and their obligations resulting from the government's mutual obligation policy.

2.81 The audit examined the administrative effectiveness of DEWR's management of the provision of information to job seekers with the focus on what and how the information was provided and how DEWR could be assured that the information was delivered effectively.

2.82 The ANAO found that DEWR's management of the provision of employment services' information to job seekers was generally effective. However, while DEWR is developing feedback mechanisms that will help to improve the provision of information to job seekers, because Centrelink focuses on achieving Key Performance Indicators, it did not fully use research data.

The audit highlighted issues relating to the currency of jobs listed on JobSearch, the computer-based system that links job seekers to the national vacancy database. Also, some job seekers were confused about the respective roles of Job Network and Centrelink in job search assistance. The ANAO made three recommendations in relation to research, information provided to job seekers and raising their awareness to their rights. As applicable, DEWR and Centrelink agreed to all the recommendations.

3. Financial Statement Audits

Financial audits and other financial audit activities conducted by the ANAO during the period January to June 2002 are summarised in this chapter.

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 Act 2001* prescribe the need for entities to prepare financial statements and arrange for their audit.

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

3.3 The audit opinion on the financial statements adds credibility to the financial statements. It is not an absolute guarantee of their veracity or reliability and 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 progressively to executive management of each entity and directly to the responsible Minister at the completion of the audit.

3.5 The audit report on the financial statements, which contains the audit opinion, is included 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 provides Parliament with reports that summarise the outcomes for all financial statement audits. The first report, Audit Report No.67, 2001–02, *Control Structures as Part of the Audit of Financial Statements of Major Commonwealth Agencies for the Period ended 30 June 2002*, summarises issues relating to internal control structures, financial systems, controls and processes arising from the interim phase of the financial statement audits of major Commonwealth entities for 2001–02. Examinations of such issues are designed to assess the reliance that can be placed on control structures, systems, specific controls and processes to produce complete, accurate and valid information for financial reporting purposes.

3.7 A second report will be issued following the completion of the financial statement audits of entities in December 2002. The ANAO will also report, at that time, on the operational and financial management issues arising out of the audits and their relationship to internal control structures. Together these reports will summarise the results of the audits of financial statements of all Commonwealth entities for 2001–02.

Internal control environment

3.8 As part of the financial statement audit process, the ANAO assesses whether an entity's internal control environment includes measures that contribute to sound corporate governance. The measures should mitigate identified risks and reflect the specific requirements of each entity. For financial reporting purposes, they will normally include:

- a current corporate plan, business risk assessment and operational plans;
- sound business practices;
- a senior executive group and audit committee which meets regularly;
- clearly specified systems of authorisation, recording and procedures;
- financial and accounting skills commensurate with responsibilities;
- a timely financial reporting regime; and
- an effective internal audit function.

3.9 In the previous year, it was noted that improvements were still required. All entities generally acknowledged that enhancements were necessary in areas such as:

- building risk awareness and better management into operational processes;
- achieving consistency in systems of authorisation;
- enhancing the quality of financial reporting; and
- integrating financial and non-financial data as part of the development of credible performance measurement frameworks.

3.10 The ANAO's audit observations indicate that progress has been achieved across all entities in these areas. However, in nearly all cases, further progress and refinement are required. This is particularly the case in respect of risk awareness, assessment and management and the quality and presentation of monthly financial reporting.

3.11 In addition, the corporate failures that have occurred in Australia and overseas in the past year have heightened the focus on sound corporate

governance, including the role of audit committees, the capability of internal audit functions and the reliability of financial statement reporting. This increased focus has provided an opportunity for a number of entities to renew their corporate governance arrangements, particularly in respect of:

- strengthening their audit committees, the focus on risk management including business resumption planning, information technology (IT) and physical security, and better practice financial management and reporting;
- improving the capacity of internal audit functions to deliver a blend of compliance, business risk and performance audit services;
- continuing the injection of risk awareness and management into operational processes and progress on the adoption of sound business practices;
- promoting a greater awareness of the potential for fraud; and
- achieving improved reconciliation processes and understanding of, and compliance with, chief executive's instructions.

3.12 These are areas where most entities would benefit in terms of ensuring the adequacy of their existing corporate governance arrangements. The ANAO will look to monitor and report improvements over the coming year.

Information systems

3.13 The use of IT within government entities has become increasingly significant, particularly following the greater dependence on the internet and organisational intranets, with a range of government services now provided directly to the public online. As a result, there is increasing dependence on information and the IT systems that support these services, as well as increasing vulnerabilities and threats that have to be effectively managed.

3.14 Areas noted in the prior year where control improvements were required in relation to information systems included:

- security controls to restrict access to authorised personnel and reduce the possibility that unauthorised access can be gained to confidential information or that unauthorised changes can be made to programs or data; and
- business continuity planning to ensure the continuous operation of significant business processes.

3.15 Overall, the results of audit testing indicates that most entities have improved controls over their IT processing. The ANAO found that entities, generally, have well controlled processes for the: planning of their IT

environment; development and delivery of IT solutions; operation of their IT systems; and organisation and monitoring of IT processes. However, for a number of entities, continuing control weaknesses were identified in IT system security and business resumption planning. The ANAO continues to emphasise the importance of these controls in order to reduce unauthorised access to systems and information, and risks relating to continuity of operations.

3.16 The focus for most entities in the coming year will be the continued improvement of processes that assist in the alignment of the IT corporate governance framework with business objectives. The areas where opportunities exist for most entities to continue to improve their IT processes include:

- the integration of IT into the corporate planning process by linking IT planning with strategic and risk management planning;
- continuing to refine IT project management policies and procedures for the implementation of IT solutions and associated approval processes for system changes to ensure that they are timely and relevant;
- improving performance management and capacity to incorporate IT as an integral component of organisational monitoring;
- developing and refining business resumption plans to ensure key business operations required to support critical business activities are not interrupted; and
- revising and refining security strategies and policies so that they promote the development of adequate security processes and ensure adequate monitoring and review of IT system security and activity.

3.17 The ANAO will focus its attention on the above areas in the next financial year.

Controls over financial systems and processes

3.18 In recent years, the ANAO has highlighted the need for significant improvement in reconciliation processes for bank accounts, payroll processing, appropriations, other revenues, interface systems and asset registers. Reconciliations are integral to ensuring the information in financial systems is complete, accurate and valid. In 2000–01, most entities recognised the need to complete these reconciliations but did not consistently ensure that all reconciliations were prepared and reviewed in a complete and timely manner. This year, the ANAO observed that, for the most part, entities improved their consistent application of reconciliation procedures, with only a small number of entities continuing to experience inconsistencies.

3.19 Nevertheless, some entities continue to experience difficulty with a small number of control processes specific to their operations covering, for example, cash and receipting processes, timely completion and review of reconciliations, segregation of duties, inappropriate delegations, monitoring of grant and funding agreements, reconciliation of program payments and reconciliation of the asset register to the financial management information system (FMIS). In addition, a persistent issue that continues to occur in a number of entities relates to the need to reconcile payroll and leave costs recorded in human resource management information systems with balances recorded in the FMIS. The ANAO continues to reinforce the importance of this reconciliation process, given the significance of personnel costs to entities and the potential impact for errors in financial reporting.

3.20 A monthly checklist, detailing all reconciliations to be completed, including completion and review responsibilities, is a reliable mechanism that is used by some entities to ensure a disciplined approach to end of month processing and reporting. Other entities would benefit by adopting this approach.

3.21 These are some of the areas that the ANAO will review to assess improvements over the coming year.

Key findings

3.22 The ANAO rates its findings according to a risk scale. Audit findings which pose a significant business, or financial risk, to the entity and which must be addressed as a matter of urgency, are rated as 'A'. Findings that pose a moderate business or financial risk are rated as 'B'. Findings that are procedural in nature, or reflect relatively minor administrative shortcomings, are rated as 'C'.

3.23 Overall, the results of audit activity over the past year (including both interim and final audit work) indicate that there has been considerable improvement in the quality of control procedures over business and accounting processes. This is demonstrated by:

- the number of entities with 'A' category audit findings across all entities reducing from eight in 2000–01 to four in 2001–02;
- the total number of 'B' category audit findings across all entities reducing from 236 in 2000–01 to 133 in 2001–02;
- 18 of the 25 entities reporting an improvement in the number of 'A' and 'B' category audit findings compared to the previous year. Only five entities had a poorer performance and two entities remained at the same level; and
- the number of entities with no category 'A' or 'B' audit findings rising from nil to three.

3.24 The four agencies with a total of 18 'A' category ratings are as follows:

- Department of Defence having 13 of these 'A' findings, an increase of three over the previous year;
- Australian Taxation Office (ATO) having three 'A' findings, an increase of two over 2000–2001;
- Department of the Environment and Heritage and the Health Insurance Commission each having one, the same number as last year.

3.25 The Departments of Family and Community Services, Health and Ageing and the Treasury no longer have 'A' category audit findings.

Prospective issues to be addressed

3.26 The results of the interim audit to date indicate that most entities have achieved a position where the fundamental processes relating to financial statement reporting are more or less substantially in place. This represents efforts over a three to four year period by Chief Executive Officers, Chief Financial Officers and their accounting teams to implement the substantial changes associated with the government's reform agenda. This has been a significant achievement given the size and complexity of operations of most entities. However, it is clear that a small number of entities are yet to reach this level and still face considerable challenges in this regard, particularly the Department of Defence and the ATO.

3.27 The challenge for entities is to further embed sound financial management practices into their operations so that the following benefits can be realised:

- improved the understanding of accrual accounting, budgeting and reporting across entities so that there is greater appreciation of the financial issues relating to core operating activities;
- improved the timeliness and consistency of financial reporting so that the executive and operating areas have increased access to more relevant, including trend based information;
- improved the analysis of costs and overheads which support large core operational activities; and
- improved decision support by implementing improved performance measurement processes and analysis in key operating areas by better linking financial and non-financial information.

3.28 These initiatives need to be achieved in a way that is cost effective and targeted at priority areas that have significant costs and operating issues. Taking such steps will enable entities to achieve a more efficient deployment of capital

and resources. As well, it will contribute to corporate governance improving the understanding in the entities of financial risk and related management issues.

3.29 A related issue that still requires further attention is the management of IT security issues. In today's Australian Public Service, the scale of IT operations is significant. Secure IT systems are therefore the fundamental building block for ensuring data integrity, which is a pre-requisite for reliable financial reporting. Measurement tools, particularly data metrics, are underused as a means of monitoring movements in risk. Analysis of data metrics provides an important reference point for the validation of IT systems. Areas where this analysis will be of value include:

- virus occurrence and detection;
- unauthorised access and denial of services;
- password management and violation reporting;
- privileged access, procedures and monitoring; and
- security and audit trail logging, reporting and monitoring.

3.30 The rationale for this is that risk management practices should demonstrate a coherent analysis of IT systems security issues balanced and prioritised against a defensible risk acceptance positions as part of overall risk management.

Canberra ACT
19 August 2002



P. J. Barrett
Auditor-General

Appendices

Appendix 1

Audit Reports tabled in the period 1 January to 30 June 2002

Audit Report No.30 2001–02

Performance audit

Test and Evaluation of Major Defence Equipment Acquisitions

Department of Defence (Defence)

Test and evaluation (T&E) is an important element of Defence's major capital equipment acquisition program. In 2001–02, the Defence Materiel Organisation (DMO) was expected to spend \$2.9 billion on progressing some 270 projects in that program. The audit sought to assess Defence's management of the T&E aspects of its major capital equipment acquisition program.

Defence T&E policy aims to promote a unified approach to T&E to guarantee effective and efficient use of all T&E resources and to avoid unnecessary duplication of effort. However, there was little evidence of effective corporate initiatives to promote that approach. The individual Defence groups have formulated their own practices and training. Accordingly, the policy should be reviewed and articulate how the 'unified approach' should be implemented. The policy also required T&E resources to be costed to assist in management and funding of T&E. However, the cost of T&E was unknown.

Defence could benefit by establishing an office responsible for independent oversight of, and common standards for, operational T&E, which is conducted in the final stage of acquiring major equipment before acceptance into service. T&E records relating to Navy major capital equipment acquisition indicated that DMO could improve aspects of its T&E procedure and practice, although similar problems were not identified with T&E for Army and Air Force projects.

The ANAO made five recommendations to improve Defence's management of T&E and ensure T&E personnel receive adequate training. Agreed recommendations related to review and update of Defence's T&E policy; ensuring that T&E practice is consistent with policy; and training for T&E practitioners. Disagreed recommendations related to independent oversight of operational T&E; and training of personnel responsible for safety-critical system development, maintenance and test and evaluation.

Audit Report No.31 2001–02

Summary of outcomes

Audit Activity Report: July to December 2001

Cross Agency

The report summarised performance, financial audit and other related activities for the ANAO in the period July to December 2001. Key issues arising from performance audits tabled in this period were summarised against ANAO themes of:

- human resource management including workforce planning;
- financial management and reporting;
- performance measurement and management;
- procurement and contract management;
- information technology and telecommunications; and
- service delivery, including the impact of e-government.

Financial audit activities undertaken by the ANAO during the period July to December 2001 were also addressed and, in particular, issues in relation to:

- audits of financial statements;
- the consolidated financial statements and the final budget outcome report;
- outcomes and outputs costing and the appropriation reporting framework;
- timing for financial statement preparation;
- summary of control issues; and
- audit of the Consolidated Financial Statements 2000–01.

Appendix 1 of the Activity Report provided a short summary of each of the performance audits tabled between 1 June 2001 and 31 December 2001. As well, it summarised Audit Report No.29 2001–02, *Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2001*. Appendix 2 provided an outline of the two Better Practice Guides completed in the relevant period.

Audit Report No.32 2001–02

Follow-up audit

Home and Community Care Follow-up Audit

Department of Health and Ageing

The Home and Community Care (HACC) program is jointly funded by the Commonwealth Government and State and Territory governments under the *Home and Community Care Act 1985*. The Department of Health and Ageing is responsible for national administration of the HACC program.

The aims of the HACC program are to:

- provide a comprehensive, coordinated and integrated range of basic maintenance and support services for frail aged people, people with a disability and their carers;
- support these people to be more independent at home and in the community, thereby enhancing their quality of life and/or preventing their inappropriate admission to long term residential care; and
- provide flexible, timely services that respond to the needs of consumers.

The objective of this follow-up audit was to assess the extent to which the department had implemented the nine recommendations of Audit Report No.36 1999–2000, *Home and Community Care*. The audit examined issues related to funding, guidance, fees, coordination with other aged and disability care programs, acquittals, accountability and data requirements, and records management.

The follow-up audit found that satisfactory progress had been made against all nine recommendations in Audit Report No.36. The department had implemented five recommendations and was implementing the other four recommendations. In addition, the previous audit found that the development and approval of the national triennial plan and state annual plans was not timely. Health has since made good progress in improving the timeliness of these planning tools. The follow-up audit did not make any recommendations.

Audit Report No.33 2001–02

Assurance and Control Assessment audit

Senate Order of 20 June 2001 (February 2002)

Cross Agency

The Senate Order of 20 June 2001, required all Financial Management and Accountability (FMA) agencies to list contracts over \$100 000 on the Internet. FMA agencies should indicate, amongst other things, whether the contracts contained clauses requiring the parties to maintain the confidentiality of any of their provisions. The Senate Order also requested the ANAO to conduct an examination of a number of such contracts, and indicate if the Office identified any inappropriate use of confidentiality provisions. The government agreed that agencies would comply with the spirit of the Order.

Six agencies were included in the detailed audit and all FMA agency Internet home pages were subject to a desktop review to determine:

- if the process by which agency Internet listings were made was likely to lead to a complete list of contracts being placed on the Internet;
- how agencies identified which contracts should contain confidential provisions and if the process was appropriate; and
- whether there was any inappropriate use of confidentiality provisions in a selection of contracts.

The ANAO concluded that all six audited agencies had listed contracts on the Internet in accordance with the requirements of the Senate Order. In addition, each agency had taken appropriate action to revise their policies and procedures, including their standard Request for Tender and contract documentation, so that they reflected the new contracting environment. This required agencies, amongst other things, to:

- determine what information is to be protected as confidential at the time the contract is negotiated; and
- include provisions in tender documentation and contracts that provided for information to be made available to Parliament and its Committees, if requested.

In relation to other FMA agencies that were either subject to the Senate Order or had agreed to comply with the Order, 63 had placed a contract listing on the Internet as at 30 January 2002. Three agencies had no contracts over \$100 000 and, therefore, were not required to provide a listing on the Internet. The other

six agencies indicated that they were still undertaking the work necessary to list of contracts on the Internet. Overall, the ANAO considered that this represented a positive response to the government decision that agencies should comply progressively with the Senate Order. There were also indications that a number of agencies were developing, progressively, more detailed guidance to assist relevant staff on how to determine those aspects of the contract that might be protected as confidential.

The audit report did not make any specific recommendations.

Audit Report No.34 2001–02

Assurance and Control Assessment audit

Management of Travel—Use of Taxis

Cross Agency

The ANAO undertook an audit in six Commonwealth organisations of the management of travel, the focus being the use of taxis. Overall, the six organisations spent just over \$1 million on taxi travel in 2000–01 or on average, some 6 per cent of their total travel expenditure.

The objective of the audit was to provide assurance to Parliament and to the audited organisations that:

- the organisations were effectively managing the risks associated with the use of, and payment for, taxi services; and
- the organisations were complying with legislation and guidelines with regard to the use of, and payment for, taxi travel.

Having regard to the relatively low level of financial exposure taxi travel presents for the audited agencies, each was found to have a sound overall framework for administering the use of, and payment for, taxi services. Nevertheless, each agency would benefit from further development of policies and procedures and enhanced controls to promote greater adherence to existing policies and procedures.

The audit concluded that adequate controls were generally in place to administer the use of credit cards and reimbursement for the payment of taxi services. However, agency controls over the use of Cabcharge vouchers were generally weaker than those in place for credit cards and cost reimbursement arrangements. In particular, there was a need for agencies that use Cabcharge vouchers to maintain comprehensive registers of Cabcharge vouchers issued to travellers; develop stronger and more consistent acquittal processes; and enhance policies and procedures to, among other things, reinforce to travellers their responsibilities to ensure adequate accountability for use of such vouchers.

Two recommendations were made to strengthen the agency control environments by the further development of policies and procedures on the use of taxis. The agencies audited responded positively to the report, agreeing with the recommendations made.

Audit Report No.35 2001–02

Performance audit

Australian Taxation Office Progress in Addressing the Cash Economy

Australian Taxation Office (ATO)

The term ‘cash economy’ describes the practice of hiding certain transactions by receiving payments in cash, primarily to evade paying tax. The ATO established a task force in 1996 to develop a greater understanding of the factors involved and to devise a coordinated approach to deal with the cash economy. In 1998, the task force made 34 recommendations on how to deal with the cash economy with an expectation that the implementation of tax reform would have a significant impact on the cash economy. It was also estimated that tax reform would provide \$2.6 billion of the overall tax reform compliance dividend of \$3.5 billion over the first three years of operation, beginning in July 2000.

The objective of the performance audit was to report to Parliament on the ATO’s progress in addressing the cash economy, including its monitoring and reporting of outcomes. The audit focused on the ATO’s implementation of its Cash Economy Task Force recommendations in the light of the tax reform that had taken place over the last two years.

The ANAO concluded that the ATO strategy to address the cash economy was consistent with those of comparable countries, offering a range of approaches to dealing with the cash economy. Current operational plans were consistent with the strategic directions recommended by the task force. As well, most of the task force recommendations had been implemented, either in full or in part. However, ATO could improve its approach to industry partnerships, the use of cash economy intelligence and communication and education strategies related to the cash economy. In particular, the ANAO considered that the recommendation on the strategic use of cash transaction data to identify high-risk cash transactions should be fully implemented as the success of this approach had been demonstrated. The ATO has advised that this issue was being addressed.

The ANAO made five recommendations in relation to the management framework for the cash economy team, knowledge sharing within the ATO, industry partnerships, community education and ATO cash economy intelligence. The ATO agreed with all the recommendations.

Audit Report No.36 2001–02

Benchmarking Study

Benchmarking the Implementation and Production Costs of Financial Management Information Systems (FMIS)

Cross Agency

The ANAO undertook a benchmarking study in the Commonwealth budget sector to assess FMIS implementation and assist agencies in future FMIS product selection exercises. The study assessed implementation production costs and timeframes; and collected data on resource support, size, volume and the use of FMIS information.

The results of this study and ANAO Audit Report No.12 2001–02, *Selection, Implementation and Management of Financial Management Information Systems in Commonwealth Agencies*, suggest that some agencies could have achieved better outcomes if they had more appropriate procurement, implementation and FMIS management practices. As well, some agencies had unnecessarily high whole-of-life costs for their FMIS and, particularly, high ongoing annual FMIS costs because the systems installed were not the most suitable of those available to the organisation.

As appropriate, agencies should:

- establish and apply selection criteria for the product evaluation process that assist in the identification of a product that meets the agency's requirements;
- gain a better understanding of the whole-of-life costs during the initial product evaluation process;
- determine the whole-of-life costs for FMIS that include implementation and maintenance costs;
- set realistic project timeframes for the implementation, modification and upgrading of FMIS products, periodically monitor progress against these timeframes and, as necessary, revise the timeframes or take appropriate remedial action;
- involve senior management in all stages of the FMIS implementation; and
- establish an FMIS implementation and production team that, as required, includes internal and external staff to support current and future users of the system.

The study did not make any recommendations directed at specific agencies. The audit, however, identified opportunities for agencies to improve their FMIS selection, implementation and management procedures.

Audit Report No.37 2001–02

Follow-up audit

Purchase of Hospital Services from State Governments

Department of Veterans' Affairs

The Commonwealth provides eligible veterans with medical treatment as part of the package of repatriation benefits provided under the *Veterans' Entitlement Act 1986*. Originally, medical treatment and hospital care was provided directly by the Commonwealth through a network of Repatriation General Hospitals (RGHs). In 1989, the Commonwealth decided to divest itself of the remaining RGHs and integrate them with the State health systems. To facilitate this, the Commonwealth entered 10 year arrangements with four States to incorporate the RGHs into their State health systems. DVA has now entered into arrangements with all States and Territories to buy hospital services delivered by their public hospitals. In 2001–02, \$2.2 billion was budgeted for veterans' hospital and health services with \$1.2 billion of that amount for treatment in public and private hospitals.

Audit Report No.40 of 1997–98, *Purchase of Hospital Services from State Governments*, examined DVA's administration of the purchase of hospital services from State governments. The report made nine recommendations that focused on, amongst other things, the development of appropriate agreements between the department and service providers, incentives for service providers to meet agreement conditions, value-for-money and the adequacy of performance information.

The objective of the follow-up audit was to assess if the Department had implemented the nine recommendations in Report No.40, taking account of any changed circumstances or administrative issues that the Department identified as affecting their implementation; and to offer continued assurance to the Parliament on the management of the purchase of hospital services.

The ANAO concluded that, overall, DVA had either implemented or made satisfactory progress in implementing all but one of the recommendations of the earlier audit. One recommendation in relation to the development of a performance indicator to monitor and report on its progress in performing reconciliations had not been implemented. DVA has advised that this will be included in a new IT system that was being implemented. The ANAO made one recommendation that related to the Arrangements for the supply of public hospital data relating to all veteran treatment to facilitate understanding of all aspects of the Arrangement and minimise the potential to focus on only those aspects that are frequently varied. DVA agreed with this recommendation.

Audit Report No.38 2001–2002

Performance audit

Management of Australian Defence Force (ADF) Deployments to East Timor

Department of Defence (Defence)

The audit assessed Defence's planning and management of the ADF deployments to East Timor and identified areas that could be improved in future deployments. The audit focused on Defence's planning for the deployments and the role of Australia as the lead nation in the International Force in East Timor; and logistic and other support systems used to deploy and sustain Australia's military presence in East Timor.

The audit found that ADF personnel and units had capability deficiencies when they deployed to East Timor because of the short time available for additional training and marshalling equipment and personnel in the early phase of deployment. Despite this, Defence personnel performed their task to high professional standards. However, financial planning and arrangements for funding the operation were delayed by lack of relevant expertise, uncertainty about responsibilities and inadequate costing systems.

The operational transition from an Australian coalition force to a United Nations (UN) peacekeeping force was well planned and effective. In contrast, reaching agreement with the UN on the Australian personnel and equipment contribution to the UN force and, reimbursement for that contribution, had been protracted.

When the East Timor crisis developed, Defence's logistic structures did not provide suitable support for the military deployments. New logistic structures were created but they led to uncertainty about responsibilities and authority for decisions, doubts about the reliability of the logistic system and duplication of effort. Logistic structures have since been improved but delays have persisted in meeting demands and in maintenance work.

The audit identified areas for improvement related to tracking of personnel movements, and a need for more comprehensive preparation of troops for deployment. The audit report did not make recommendations but it identified lessons to be learnt from the deployments.

Audit Report No.39 2001–02

Performance audit

Management of the Provision of Information to Job Seekers

Department of Employment and Workplace Relations (DEWR) and Centrelink

Commonwealth services for unemployed and job seekers are primarily delivered through DEWR and Centrelink, with DEWR developing the employment service programs and Centrelink providing these services. One of the most important elements of employment services programs run by these agencies is the provision of accurate and timely information to job seekers. The objective of the audit was to examine the administrative effectiveness of DEWR's management of the provision of information to job seekers with the focus on what and how the information is provided; and how DEWR can be assured that the information was delivered effectively.

The ANAO concluded that DEWR's management of the provision of employment services information to job seekers was generally effective. DEWR had conducted research that identifies job seekers' characteristics, attitudes, expectations and how these factors should shape the information provided to them. This research had been augmented by Centrelink's research, which focuses on operational matters such as the delivery of information on products and services.

While DEWR was developing feedback mechanisms that will help to improve the provision of information to job seekers, because of the focus on Centrelink's monthly key performance indicators, it did not fully use research data. The audit highlighted issues relating to the currency of jobs listed on JobSearch, the computer-based system that links job seekers to the national vacancy database.

The ANAO found some job seekers are confused about the respective roles of Job Network and Centrelink in job search assistance. Therefore, Centrelink should better explain to job seekers the roles of Centrelink and Job Network and more pro-actively meet job seekers' expectations.

The ANAO made three recommendations in relation to research, information provided to job seekers and raising their awareness to their rights. As applicable, DEWR and Centrelink agreed to all the recommendations.

Audit Report No.40 2001–02

Performance audit

Corporate Governance in the Australian Broadcasting Corporation (ABC)

The objective of the audit was to provide Parliament with an assurance that ABC programming adequately reflects the ABC's Charter. The focus of the audit was on Board and management governance arrangements that enable the ABC to demonstrate how efficiently and effectively it was achieving its Charter obligations and other related statutory requirements.

The audit did not find any evidence to indicate that the ABC does not comply with its Charter requirements. Nevertheless, there was significant scope for the ABC to improve its strategic planning and measurement so that it can demonstrate how well it was performing against its Charter requirements. The ANAO supports the initiatives currently under way to improve the strategic planning process by aligning divisional goals with corporate goals, linked to the Charter.

Past ABC Corporate Plans have not clearly informed stakeholders of the ABC's corporate objectives, priorities or performance indicators. However, the ABC Corporate Plan 2001–04 was a significant improvement on the previous corporate plan. This, combined with the improved reporting framework, will place the Board in a better position to ensure that the programs clearly reflect its priorities and interpretation of the Charter.

Board policies and practices were generally in accord with better practice, and where this was not the case, steps have been taken to more closely align them better practice.

The recently established organisational structure will enable the Corporation to implement the Board's strategic directions. The internal control and accountability arrangements had been strengthened as part of the planning framework. As well, the new internal budget setting process was more closely aligned with the objectives and strategies in the corporate plan.

Performance information used by management and published in key accountability documents can be improved. Although the ABC collected a wide range of data, there were significant gaps and the data could be used more strategically. Work is required to collect and integrate performance information, including audience research data that is aligned with the Corporate Plan.

The audit made 14 recommendations that address such matters as aspects of internal administration; schedule management; the corporate plan; the alignment of the Portfolio Budget Statements with the corporate plan; and performance information. The ABC agreed with the recommendations, with a qualification in two instances.

Audit Report No.41 2001–02

Performance audit

Transactional Banking Practices in Selected Agencies

Cross Agency

New arrangements for transactional banking, that is, deposit and payment services provided by banks and other deposit taking institutions, for agencies subject to the *Financial Management and Accountability Act 1997* (FMA Act), came into effect on 1 July 1999. These arrangements transferred responsibility for payments and receipting from the Department of Finance and Administration (Finance) to individual agencies.

The objectives of the audit were to: review selected agencies' implementation and ongoing management of contractual banking arrangements; tendering for the procurement of banking services; and identify practices that have improved administrative arrangements. The audit included Finance, which oversaw the transition to the new arrangements, and four other agencies subject to the new banking requirements.

All audited agencies were able to make payments and take receipts from 1 July 1999. However, Finance did not recognise the financial risk to the Commonwealth of lost interest arising from commercial banks' standard practice of clearing low value payments the day before settlement. This risk did not arise under the arrangements for *same-day value* operated by the Reserve Bank of Australia. Changes to the commercial banks' settlement arrangements, which came into effect in mid January 2002, now permit them to provide same-day settlement through the Bulk Electronic Clearance System. Finance has modified the core requirements to improve the clarification that same-day value represents best practice for Commonwealth payments. These changes should eliminate these interest losses to the Commonwealth.

Rather than the Budget neutral approach envisaged for the new banking arrangements there had been a substantial net transfer of benefits under the cash management incentive scheme to the agencies estimated at \$ 151 million since 1999–2000. While all FMA Act agencies were required to market test under the new banking arrangements, initial progress had been modest. In the two audited agencies that outsourced banking services, costs had risen in comparison to the costs incurred prior to 1 July 1999.

The ANAO made four recommendations that covered risk assessment planning, the monitoring and review of banking arrangements, the conduct of tender

processes, and the timely execution of formal written agreements. All were agreed to by all agencies, other than one agency that qualified its agreement to two recommendations.

Audit Report No.42 2001–02

Performance audit

Integrity of the Electoral Roll

Australian Electoral Commission (AEC)

The objectives of the audit were to provide an opinion on the integrity of the electoral roll, that is, its accuracy, completeness, validity and security. As well, the audit examined how well the AEC ensured the integrity of the electoral roll.

The ANAO concluded that, overall, the Australian electoral roll was one of high integrity and that it can be relied on for electoral purposes and that the AEC was managing the electoral roll effectively. In particular, the AEC had mechanisms in place that provided assurance that the names and addresses on the electoral roll were legitimate and valid and that people who were eligible to vote were registered properly. Data matching by the ANAO of the names and dates of birth of individuals on the roll indicated that over 96 per cent were accurate.

However, there were areas of AEC management of the roll that can be improved. For example, while it is unlikely that the electoral roll will ever include all eligible voters, there was scope for the AEC to improve the completeness of the roll, identify the areas of significant levels of non-enrolment and develop more effective strategies to encourage enrolments in under-represented groups. In particular, the AEC could better target and expand the data sources currently used to update the roll; strengthen strategic relationships with key stakeholders; and better identify and manage risks to the integrity of the roll.

The ANAO made 12 recommendations designed to improving the accuracy, completeness, validity and security of the electoral roll. The AEC agreed to all of the recommendations.

Audit Report No.43 2001–02

Performance audit

Indigenous Education Strategies

Department of Employment Science and Training (DEST)

The objective of the audit was to assess whether the department had efficiently and effectively managed the development and implementation of the Indigenous Education Strategic Initiatives Program (IESIP) agreements for 2001–04. While the audit focused on the department, State, Territory and non-government providers were consulted because one of the department's roles is to influence their approach to indigenous education.

The audit found that the department had a major task in seeking to improve the educational outcomes of indigenous students through agreements with the States, Territories and other providers as there was a significant gap between the educational outcomes of indigenous and non-indigenous students. In addition, at the time the new IESIP agreements were being negotiated, there was some tension between the Commonwealth and State/Territory providers associated with the introduction of a performance framework under the States grants arrangements for mainstream school funding.

The then Department of Education, Training and Youth Affairs developed plans for the efficient and effective implementation of IESIP agreements for 2001–04. However, these plans were not implemented within the proposed time frames. Finalising agreements took much longer than the department anticipated, with many of the agreements with larger providers not being completed until June 2001. This also reduced the efficiency and effectiveness of the implementation of the IESIP. There was scope to improve the efficiency and effectiveness of future IESIP agreement negotiation processes through a more comprehensive risk assessment and preparatory consultations with providers that include discussions on the terms and conditions of agreements, including target setting.

The ANAO made six recommendations that were principally directed at improving future negotiations of agreements with providers, the planning and assessment of special initiatives and the outcomes of monitoring meetings. DEST agreed to all six recommendations.

Audit Report No.44 2001–02

Performance audit

Australian Defence Force (ADF) Fuel Management

Department of Defence (Defence)

The audit sought to assess the efficiency and effectiveness of the ADF's management of fuel and lubricants and identify possible areas for improvement. The audit focused on major aspects of the fuel supply chain, in particular, the strategic management of fuel, for example, the coordination of fuel requirements and stockholding policy. The audit also reviewed fuel procurement practices, storage and handling issues. The audit coverage addressed the fuel supply aspects of these matters rather than transport, distribution and equipment issues. Although directed principally towards fuels used for operational purposes, the audit took into consideration issues associated with the ADF's requirement for oils and lubricants.

The Defence fuel and lubricants supply chain is complex and involves a wide range of processes and control structures. The cost of ADF fuel (excluding excise) and lubricants purchases in 2000–2001 was \$223 million.

The ANAO found that the strategic management of the fuel supply chain was fragmented and insufficiently coordinated. There was significant scope for Defence to improve liaison and consultation with external agencies in relation to the petroleum industry environment. As well, Defence did not have a fuel procurement price risk management policy and more should be done to identify, analyse and manage these risks.

The audit identified a number of activities being undertaken by Defence to improve the management of fuel and lubricants, in particular, through organisational redesign and administrative reviews. The ANAO made eight recommendations to improve ADF's management of its fuel and lubricants. Defence agreed, or agreed in principle, to all the recommendations.

Audit Report No.45 2001–02

Assurance and Control Assessment audit

Recordkeeping

Cross Agency

This audit was undertaken in four Commonwealth organisations to determine if record keeping policies, systems and processes were consistent with the requirements of the: *Archives Act 1983*; relevant government policies; accepted standards; and principles. The audit was also designed to identify better practices and recommend improvements. The audit addressed both electronic and traditional records.

The ANAO found that for record keeping to be effective, it should be viewed as part of information management. The organisations audited were starting to appreciate the need to develop their record keeping and were at different stages of development. In respect of areas such as records of electronic transactions, the organisations were not able to provide Parliament with an assurance that all significant records were being kept in accordance with Archives Act requirements.

While record keeping controls existed for paper-based files, in practice, they were not applied as effectively as they should have been. Outside of the formal recordkeeping systems, organisations also had significant core business systems that did not fully meet their record keeping needs. Also, the methods used by the agencies to capture and manage electronic records did not meet record keeping requirements.

The audit report also detailed the better practices associated with record keeping that were observed. The audit report made six recommendations that are relevant to all APS agencies in relation to the assessment of recordkeeping needs; corporate recordkeeping policy and infrastructure; and controls over record capture, classification, tracking, disposal, and preservation. The organisations audited agreed with the recommendations.

Audit Report No.46 2001–02

Performance audit

Management of an IT Outsourcing Contract

Department of Veterans' Affairs (DVA)

The objective of the audit was to assess DVA's management of its information technology (IT) outsourcing contract and the outcomes of its approach to the contract. The audit considered DVA's planning to meet its strategic IT needs through the outsourcing contract, the provisions of the contract, contract administration and management of the impacts of the outsourced services on DVA's business.

The audit found that DVA had managed the outsourcing contract with the aim of ensuring the ongoing delivery of its program services. However, the audit identified strategic and operational issues that, if addressed, could lead to improvement in the department's contract management. There was insufficient alignment between DVA's IT strategic plan and the contract, particularly given that the department had expanded its use of client server technology after the contract was signed. This made it difficult for the department to obtain assurance that it was achieving best value from the contract in the context of its strategic direction. There was limited information by which to assess whether the department received value for money from its IT services after the contract was signed, and limited application of risk management. DVA had monitored the expected benefits of IT outsourcing, with the exception of the expected benefit from the contract of job creation and small business growth in Australia.

The ANAO made five recommendations to improve the:

- alignment between DVA's IT strategic planning and the contract;
- role of IT as a business enabler;
- use of benchmarking to secure the financial and service benefits specified in the contract;
- collection and review of performance data to enable the department to effectively monitor contract performance; and
- preparation of a consolidated contract that includes all variations, to facilitate ongoing management of changing requirements and ensure compliance with contract change procedures.

DVA agreed with all the recommendations, one in principle.

Audit Report No.47 2001–02

Performance audit

Administration of the 30 Per Cent Private Health Insurance Rebate

Cross Agency

The objective of the audit was to determine the effectiveness of the administration of the Private Health Insurance Rebate (PHIR). The agencies involved in the administration of PHIR are the: Health Insurance Commission (HIC); Australian Taxation Office (ATO); Department of Health and Ageing (Health); Department of Finance and Administration (Finance); and Department of Treasury (Treasury).

The ANAO concluded that Health, HIC and ATO worked together effectively to implement the PHIR and meet the government's tight timeframe. While the agencies had a clear and common understanding of their respective roles and responsibilities, this understanding was not formalised until two and a half years after the commencement of the PHIR.

While the total cost of the PHIR to the Commonwealth budget significantly exceeded the initial budget estimates prepared by Treasury and ATO, the agencies adopted a reasonable approach to produce these estimates. Health also used an appropriate approach to determine subsequent PHIR budget estimates. However, Health did not obtain adequate performance information on HIC's and ATO's administration of the PHIR until mid 2001.

HIC did not comply with the sections of the *Private Health Insurance Incentives Act 1998* that require HIC to provide ATO with the data necessary for it to conduct adequate data matching checks to identify people who may already have claimed the rebate until two and a half years after the implementation date of the Act. Initially, HIC did not impose robust controls to confirm the accuracy and validity of payments to private health funds under the PRS because of the very tight time frames. However, while this was reasonable in the initial implementation stage of the PHIR, HIC did not strengthen its controls until mid 2001.

The ANAO made six recommendations in relation to: the performance information framework and exchange of data between agencies; and HIC's administration of Premium Reduction Scheme registration procedures and financial controls. As relevant, the agencies agreed with all recommendations, although Health qualified its agreement to one of the recommendations.

Audit Report No.48 2001–02

Performance audit

Regional Assistance Program (RAP)

Department of Transport and Regional Services

The objective of the audit was to determine if funding was allocated in accordance with the RAP policy guidelines and the department was managing RAP contracts to ensure that desired outcomes are achieved. The audit examined the administrative processes that support RAP and, particularly, the funding project selection, performance information, contract management and contract monitoring.

The audit concluded that the department's administration of RAP was generally efficient and effective. The department had a sound governance framework and had made appropriate changes to the management of the program during the last three years to improve accountability.

Funding for RAP community-based projects was allocated in accordance with policy guidelines and there was a balanced distribution of funds between remote, regional and metropolitan areas. Communication between Area Consultative Committees, the department's State offices and the national office was generally effective. Overall, there was a high level of goodwill and co-operation between the department and representatives of local communities. However, key stakeholders may not have been aware of the relative importance of some of the project selection criteria and feedback to unsuccessful applicants could also have been improved.

The department had a performance information framework in place and had developed an evaluation process for RAP community-based projects. However, there was scope to refine program effectiveness performance indicators and evaluate the program more systematically. The contract management framework was underpinned by appropriate guidelines and procedures. However, a national risk-based monitoring and review strategy could improve the consistency of interstate project monitoring and review.

The audit made six recommendations, covering issues such as: assessment criteria and their relative importance; feedback to unsuccessful applicants; the frequency of assessment rounds; performance indicators; the systematic evaluation of RAP; and monitoring and review for individual projects. Five recommendations were agreed to and one was agreed to with a qualification.

Audit Report No.49 2001–02

Performance audit

The Management of Commonwealth National Parks and Reserves

Department of the Environment and Heritage

The objective of the audit was to assess the adequacy of National Parks' planning, management and reporting systems. The audit found that Parks Australia's planning mechanisms provide a good foundation for an efficient and effective planning system and management plans have improved over time. However, the performance information, targets and priority setting, at the agency and individual park level can be improved. While the management of natural and cultural heritage had produced good results in some areas, the management of wildlife monitoring and feral pest control should be improved.

While systems for the control and accountability of contracts were sound, improved financial monitoring and internal reporting of expenditure on contracts could minimise future breaches of delegations and overspending, as well as assisting in end-of-year reconciliations. Human resource management in Parks Australia had improved, but a stronger focus on workforce planning for remote locations could assist it to address the high staff turnover at Uluru-Kata Tjuta and enhance business continuity.

Improved performance reporting could assist stakeholders to make more informed judgements on Parks Australia's performance and, in particular, compliance with the recommendations of the House of Representatives Environment Committee Report, *Managing Australia's World Heritage*. Therefore, this should be a high priority and part of a quality international report on Kakadu expected by 2003. Other national parks and reserves should be included as soon as practicable after this date.

The ANAO made 12 recommendations aimed at improving the management and accountability of Commonwealth national parks and reserves. Parks Australia agreed with the recommendations, one with qualification.

Audit Report No.50 2001–02

Preliminary performance audit

A Preliminary Examination into the Allocation of Grant Funding for the Co-Location of National General Practice Organisations

Department of Health and Ageing

On 11 March 2002, the Shadow Minister for Health and Ageing wrote to the Auditor-General requesting an investigation into certain matters in relation to the co-location of the National General Practice Organisations. On 12 March 2002, the Auditor-General responded, advising that the ANAO would undertake a preliminary examination of relevant papers relating to this matter. This was a preliminary examination that focused on whether or not due process was followed in making the decision to transfer \$5 million between outcomes in the then Department of Health and Aged Care (Health) to fund the co-location of General Practice Organisations. The preliminary examination also considered the procedures adopted by Health in developing the funding proposal, the advisory role played by the Department of Finance and Administration (Finance) and specific advice provided by both departments to their Ministers. Finally, the examination considered the disclosure of the related budget measure.

The Minister for Health and Aged Care sought the agreement of the Minister for Finance and Administration to transfer funds between portfolio outcomes in order to support an initiative relating to the construction of ‘GP House’. The transfer of funds between outcomes was effected through the Additional Estimates bills and supported by disclosure in the related *Portfolio Additional Estimates Statements 2001–02*.

In viewing this proposal, Ministers and agencies were required to have regard to Cabinet endorsed guidelines concerning, amongst other things, transfers between outcomes and the funding of new policy proposals. Ministers viewed this proposal as a transfer of funds between outcomes. The ANAO expressed the view that there was some uncertainty in the guidelines between whether initiatives of the kind proposed by the Minister for Health and Aged Care should have be treated as a reallocation of administered expenses between outcomes or as a new policy measure.

Despite the departmental views, the ANAO considered that it was not unreasonable to conclude that the issue as to whether this funding transfer conformed to the guidelines was not clear cut. In the ANAO’s view, there was some uncertainty about the application of budgetary guidance in this instance.

As well, from the evidence available to the ANAO, there was no indication that the contract between the Royal Australian College of General Practitioners and the Hon. Dr Wooldridge constituted a conflict of interest based on existing practices and procedures.

Accordingly, the ANAO suggested that Finance should consider reviewing the relevant budgetary guidance and, as necessary, provide advice to Cabinet on how to clarify current guidance. Also, the government should consider the development of guidelines for Ministers relevant to post ministerial-office employment to address conflict of interest issues. The audit did not make any specific recommendations.

Audit Report No.51 2001–02

Performance audit

Research Project Management

Commonwealth Scientific and Industrial Research Organisation (CSIRO)

The objective of the audit was to assess the effectiveness of CSIRO in administering research projects to deliver required results. It focused on structures for project management in CSIRO; the alignment of projects with strategic objectives; the adequacy of project planning; the monitoring and reviewing of project performance; and CSIRO's approach to assessing project outcomes.

The audit assessed research activities that were either formally designated as projects, or were managed in a similar way, and on relevant supporting administrative and information systems. The audit did not assess the quality of scientific analysis or outcomes, although it did address CSIRO's assessment of, inter alia, project outcomes.

CSIRO has an international reputation for scientific excellence, with external reviews indicating it delivers positive returns to the Australian community. It has wide experience in managing research projects. However, further strengthening of several aspects of project management arrangements was required to provide appropriate assurance that research projects, which are funded by substantial Commonwealth and private sector investment, were conducted in a cost-effective manner. This is particularly the case for research activities funded by appropriation moneys.

The ANAO made nine recommendations aimed at strengthening CSIRO's corporate approach to project management, including: project planning, costing and risk assessment; monitoring of project progress; and appropriate review on completion. CSIRO agreed with all the recommendations.

Audit Report No.52 2001–02

Financial Control and Administration audit

Internal Budgeting

Cross Agency

The audit was undertaken in eight Australian Public Sector (APS) organisations, the objective being to evaluate and covered the efficiency and effectiveness of internal budget processes put into practice in response to the implementation of the accruals-based, outputs and outcomes framework ion 1999–2000. As well, the audit assessed whether the organisations had revised their approaches to internal budgeting to reflect the introduction of the new accruals-based, outcomes and outputs framework.

The audit found that, while most of the organisations audited had sound and well-established processes for the development of internal budgets, there were a number of shortcomings in the ongoing management of these internal budgets. Areas requiring attention are the:

- recruitment and development of personnel with budgeting and decision-making skills;
- re-assessment of financial information needs;
- clarity of budget management responsibilities, through, for example, inclusion of financial targets in performance agreements;
- involvement and support from provided by senior management; and
- financial management information systems and their capacity to support the development of the internal budgets and provide timely information.

The audit made five recommendations directed at the APS in general designed to improve financial management and budgetary frameworks.

Audit Report No.53 2001–02 DONE

Assurance and Control Assessment audit

Goods and Services Tax (GST) Administration by Commonwealth Organisations

Cross Agency

While Commonwealth entities are not liable to pay the GST, it is the Parliament's intention that the Commonwealth and Commonwealth entities should be notionally liable to pay GST and be notionally entitled to the associated input tax credits. Accordingly, the Finance Minister's (A New Tax System) Directions requires each organisation, subject to the *Financial Management and Accountability Act 1997* (FMA Act) and the *Commonwealth Authorities and Companies Act 1997* (CAC Act), to manage its affairs as though it is subject to the GST.

The objectives of the audit were to determine whether organisations had implemented adequate control frameworks and processes associated with GST obligations and transactions and identify better practices developed by agencies. The scope of the audit included all aspects of GST processing relating to the revenue and expenditure accounting cycles.

The ANAO found that during the GST implementation phase, most of the audited organisations had established a control framework that continued to effectively support most GST transactions and Business Activity Statement (BAS) reporting. Nevertheless, the ANAO concluded that at least three of the organisations needed to make immediate improvements to their internal control frameworks, with less pressing improvements required in the remaining three organisations. Areas for improvement included: risk assessment; ownership and accountability; training and procedures; and the use of technical specialists and continuous improvement tools.

The audit found that, for the organisations included in the audit, between approximately three and 17 per cent of the GST transactions examined had errors.

The audit report highlighted several better practices observed during the audit. The ANAO made eight recommendations relevant to all Commonwealth organisations. These were mainly directed towards improving the various aspects of the internal control framework, including a greater use of risk assessment, increased training and better supervisory controls in relation to BAS reporting. All organisations involved in the audit responded positively to the recommendations.

Audit Report No.54 2001–02

Performance audit

Drug Detection in Air and Containerised Sea Cargo and Small Craft

Australian Customs Service (Customs)

The objective of the audit was to assess the administrative effectiveness of Australian Customs' Service (Customs) drug detection strategies for air, containerised sea cargo and small craft activity. Within the scope of the audit, The following areas were examined: intelligence and law enforcement cooperation; air and containerised sea cargo; cargo examinations and technology; small craft activities; Customs funding arrangements (including funding for the National Illicit Drug Strategy initiatives); and governance, including performance reporting.

The audit concluded that, overall, the administrative effectiveness of Customs' drug detection strategies for air, containerised sea cargo and small craft was sound, particularly in terms of its intelligence structures and systems, law enforcement cooperation, governance arrangements and response capabilities. Customs' drug detection capabilities will increase considerably with the planned implementation of container x-ray technology in Sydney, Melbourne and Brisbane later this year. The Small Craft Targeting and Report Strategy had also refocussed Customs' strategies to further assessing the risks associated with small craft.

Customs had standard systems and processes for screening and risk assessing air and sea cargo, which were implemented by regions. That said, the ANAO found that Customs could improve its drug detection capabilities by:

- undertaking a benchmarking exercise to determine the optimum number of cargo reports that should be processed by each region. Such an exercise would also provide assurance that risk management practices are being applied consistently across regions and to ensure ensure high risk targets are selected for examination;
- reviewing its level of targeting in comparison to overall volumes received, to ensure it adequately reflects the effective application of risk management strategies for detecting illicit drugs;
- fully implementing risk management at the operational level; and
- developing performance measures that indicate the effectiveness and impact of its drug detection initiatives.

The ANAO made eight recommendations to improve Customs' systems and processes for detecting illicit drugs. Customs agreed with all the recommendations, with part of one subject to qualification.

Audit Report No.55 2001–02

Performance audit

Administration of Tobacco Excise

Australian Taxation Office (ATO)

The objective of the audit was to assess the Australian Taxation Office's (ATO) administration of tobacco excise, with a particular focus on: the tobacco excise governance arrangements; assessment of intelligence capabilities relevant to the detection and prevention of trade in illicit Australian-grown tobacco; and tobacco-related field services compliance and investigations activities. Although the audit examined these broader aspects of the ATO's administration of tobacco excise, the ANAO placed particular emphasis on the strategies used by the ATO to address the proliferation of *chop-chop*⁴³ in Australian markets as a major risk to revenue.

The audit was designed to complement a previous Australian National Audit Office (ANAO) audit into the ATO's administration of petroleum excise duties (the Petroleum Excise Audit).⁴⁴

The audit concluded that the ATO has arrangements in place for the effective administration of tobacco excise. That said, the ANAO found that the ATO could improve its administration of tobacco excise in a number of areas, including:

- articulating clearly appropriate strategies and measures aimed at achieving the objectives identified in the tobacco excise business planning documents and assessing agency performance against these objectives;
- developing partnerships with appropriate stakeholders to more accurately quantify revenue leakage associated with *chop-chop* (indicatively, excise loss attributed to the *chop-chop* market is currently estimated to range between \$99 million and \$450 million per annum) and to develop more informed risk assessments;
- establishing a tobacco intelligence capability that can effectively contribute to the ATO's compliance outcomes and support tobacco-related strategic, operational and tactical levels of decision-making;

⁴³ Generally refers to Australian-grown and manufactured tobacco that is sold illicitly in a chopped-up form to Australian consumers, and upon which excise has not been paid. However, there have recently been cases of imported leaf being smuggled for the *chop-chop* market.

⁴⁴ Audit Report No.17, 2001–2002, *Administration of Petroleum Excise Collections*, Australian Taxation Office. This audit examined whether the ATO had implemented effective arrangements for petroleum excise.

- establishing suitable liaison arrangements with authorities capable of providing relevant intelligence relating to *chop-chop*; and
- improving aspects of its internal and external relationship management, including sharing of information and intelligence within the ATO.

The ANAO made eight recommendations to strengthen key areas in tobacco excise administration. The ATO agreed to the recommendations, two with qualification, and advised that the report will be helpful in further developing its tobacco excise program.

Audit Report No.56 2001–02

Performance audit

Workforce Planning in the Department of Immigration and Multicultural and Indigenous Affairs

Department of Immigration and Multicultural and Indigenous Affairs (DIMIA)

Workforce planning enables an organisation to consider how best to use its human capital to achieve its outputs and outcomes. It provides leaders and managers with guidance on the acquisition, development, deployment, retention and refreshment of the workforce in a way that is closely supportive of business directions. For an organisation with significant devolved human resource functionality, workforce planning becomes even more important as it can serve as a practical framework or collection of policy settings, and is a way of establishing links between the activities of individual employees with higher level outputs and outcomes. DIMIA has extensive national and international operations with about 3500 permanent employees in approximately 30 Australian locations and is represented in 75 overseas offices.

The objective of the audit was to determine whether DIMIA's workforce planning systems were effectively supporting human resource management practices that contribute to the achievement of program outcomes. The audit focused on workforce planning systems in DIMIA, the broader management issues being taken to improve organisational performance, workforce performance information and workforce planning for the future, using the better practice guide on workforce planning, published by the ANAO in 2001, as a reference document to test agency workforce planning systems.

The audit concluded that existing workforce planning systems within the department had generally provided low levels of support for human resource management. The department had allowed workforce planning to occur largely at the discretion of program and regional managers. Such a devolved approach required a strategic workforce plan to act as a guiding framework so that human resource activities in and across programs and regional areas were aligned and coordinated with departmental outputs and outcomes. The *Workforce Framework (1999–2000)* which set out the department's approach to workforce planning, had provided limited practical guidance to managers to assist them to focus on short and long term staffing requirements, or on approaches to training and retention goals in support of the department's strategic directions and outputs.

The ANAO made six recommendations aimed at assisting the department in the development of its 'Investing in People' strategy and the systems which support workforce planning. The department agreed all of the recommendations.

Audit Report No.57 2001–02

Performance audit

Management Framework for Preventing Unlawful Entry into Australian Territory

Department of Immigration and Multicultural and Indigenous Affairs (DIMIA)

The objectives of the audit were to assess DIMIA's management of offshore measures to prevent and detect unlawful entry and identify opportunities for improvement. The audit focussed on the administrative effectiveness of the governance framework used by the department to implement and support the achievement of government strategies to prevent unlawful entry. The audit did not cover the processing arrangements, referred to as the Pacific Strategy, introduced as part of the legislative changes in September 2001. Nor did it cover the range of onshore measures used for prevention and detection of unlawful entry.

The ANAO concluded that the department's management of offshore measures to prevent unlawful entry could be enhanced by a more systematic and documented governance structure. Without such a structure, the department placed too much emphasis on the ability of individuals to respond effectively to particular situations based on their skills and experience, rather than relying on accepted governance arrangements to mitigate risks, communicate strategies and expected outcomes, and assess performance.

The ANAO considered improvements in the department's governance structure could be addressed through a more effective and integrated management, planning and reporting framework, which included developing:

- a departmental risk management strategy that includes the risk associated with the prevention of unlawful entry;
- operational level plans that are clearly aligned with higher level plans and facilitate internal performance monitoring and reporting;
- a strategic intelligence capability to support policy development, organisational planning, resource allocation and the identification of key risks and priority areas for examination; and
- effective performance monitoring and reporting mechanisms.

The audit made four recommendations relating to the integration of management of measures to prevent unlawful entry; the strategic intelligence capability; and the performance information framework. DIMIA agreed with all four recommendations.

Audit Report No.58 2001–02

Performance audit

Defence Property Management

Department of Defence (Defence)

The audit sought to: assess the efficiency of Defence property management; provide assurance that probity and compliance requirements were being met; and make practical recommendations for enhancing property operations.

The audit found that staff responsible for property management were responsive to Defence clients' property needs. However, property management was largely reactive, whereas a proactive approach would be more effective. A more structured approach would accord with the Commonwealth Property Principles, which require assessment of the long-term yield, public interest considerations and disclosure of the costs of property use.

Available data indicated that Defence property costs amount to \$1.9 billion a year. These include a Capital Use Charge of \$1.2 billion but, as the charge was not linked to individual assets or the users of those assets, its effect as an incentive for better asset management relating to property holdings had been minimal.

The audit made recommendations in relation to:

- collating data on the full cost of owning and operating Defence property and on actual usage of properties to assist in Defence estate planning and management;
- providing staff with clear guidance on the delineation of responsibilities between Defence and its contracted property management firm and ensuring that financial arrangements with the firm comply with the *Financial Management and Accountability Act 1997*; and
- collating data on the cost of managing the contract for benchmarking with industry standards and the engagement of suitable expertise to advise on a new property management contract to assist in the formulation of a new contract.

Defence agreed or agreed in principle with all the recommendations.

Audit Report No.59 2001–02

Performance audit

AusAID contract management

Australian Agency for International Development (AusAID)

The objective of the audit was to assess AusAID's management of commercial contracts that deliver Australia's overseas aid program. The audit examined whether AusAID had: sound supporting structures for contract management; effectively managed risks; contracts that clearly define deliverables; appropriate arrangements to manage contractor performance; strategies that appropriately assess and allocate risk between AusAID and contractors; and contracts that deliver the desired aid outcomes.

The audit concluded that many aspects of AusAID's aid contract management were sound and well managed. However, there were some inconsistencies in contract management and weaknesses in the supporting process and practices. In particular:

- guidance mostly did not set minimum standards and contracting responsibilities were fluid, sometimes leading to duplication of effort and conflicting advice to contractors;
- high staff turnover was having an adverse ongoing impact on the quality of contract management;
- there was uncertainty over which party was primarily responsible for the management of significant risks;
- formal reporting by contractors was often excessive increasing the cost and quality of projects;
- contractors sometimes undertook work that had not been the subject of an approved contract variation;
- the contractor performance assessment scheme could be improved through the collection of more quantitative information on performance;
- contracts could more clearly articulate AusAID's intended approach to contract management; and
- the aid quality assessment system could be enhanced so that it provided better performance information.

The ANAO made 10 recommendations to improve AusAID contract management. AusAID agreed with each recommendation.

Audit Report No.60 2001–02

Follow-up audit

Costing of Operational Activities and Services Follow-up Audit

Centrelink

Audit Report No.43, 1999–2000, *Planning and Monitoring for Cost Effective Service Delivery—Staffing and Funding Arrangements*, included a review Centrelink’s design and implementation of a comprehensive costing system. The audit made three recommendations, one of which directly related to improving the reliability of Centrelink’s costing approach.

The objective of this follow-up audit was to assess whether Centrelink had implemented a comprehensive costing system as a basis for planning productivity improvements and accounting for its expenditure of purchaser funds. The ANAO assessed whether Centrelink’s current costing system reflected the design and implementation characteristics that were outlined in Audit Report No.43.

The ANAO concluded that Centrelink was implementing a comprehensive costing system. This included the establishment of an activity-based costing methodology to determine the costs of operational activities and services. This had taken time, commitment and clear business objectives.

Centrelink has recognised that it now needs to systematise data collection and integrate financial information with human resource and performance information in a manner useful for management. It has established a credible project to undertake this exercise.

The ANAO considered that success in this next step would require a continued focus on achieving the defined project objectives. This should include the application of project and change management approaches such as those applied during the Cost Optimisation Project as well as maintaining a critical mass of skilled staff.

Given that Centrelink had adequately addressed the issues raised by Audit Report No.43 in relation to costing issues, the ANAO did not make any recommendations. Centrelink agreed with the follow-up audit findings and the conclusions reported.

Audit Report No.61 2001–02

Benchmarking study

Managing People for Business Outcomes

Cross Agency

The objective of this study was to benchmark the following nine elements of the people management ('practice areas') for operational areas: organisational development; workforce planning; recruitment and selection; performance management; learning and development; reward and recognition; workplace diversity; employee relations; and occupational health and safety. The study assessed the quality, human resource (HR) integration, effectiveness and efficiency and business contribution for each people management practice area in 14 agencies.

The study found that, of the nine practice areas, organisational development, workforce planning and performance management contributed most to business success. Of these, within the 14 agencies examined, workforce planning was found to be the area that required the greatest attention.

The study also found that there was considerable scope for agencies to improve the integration of business and people planning activities and this should be a priority area for agencies. Within this framework, people/business planning strategies should enable people management to meet 'on the ground' challenges in a consistent and appropriate manner. This was essential for the attraction and retention of staff, management of staff in a devolved environment and the management of underperformance.

While HR functions were 'doing more with less', clear opportunities existed in HR service delivery to improve the support of people management practices across the agencies. The key factors accounting for HR's relatively poor performance included the: availability of HR skills; accessibility of people-related information; and impact of market testing/outsourcing (the time devoted in some agencies to market testing affected HR's performance).

The report included better practice principles but did not make any recommendations.

Audit Report No.62 2001–02

Benchmarking study

Benchmarking the Finance Function: Follow on Report

Cross Agency

The objective of the study was to benchmark the finance function of Commonwealth organisations and to obtain and report on over time, data relating to finance function activities. The study collected quantitative and qualitative benchmarking data for the three years ending 2000–01 in 14 agencies on the overall cost of the finance function, financial budgeting and analysis, fixed assets, accounts payable, close the books and financial reporting, accounts receivable, payroll, travel and related costs, billing and tax. The data collected (for the Commonwealth Group) was compared with data from an international group (the Global Group) for each of the three years.

Over the period of the study, the majority of organisations in the Commonwealth Group improved in their quantitative and/or qualitative benchmark results across the range of finance function activities. By the final year of the study (2000–01), a review of the overall results of the Commonwealth Group in comparison to the latest Global Group results indicated that organisations in the Commonwealth Group performed as well as, or better than, those in the Global Group in a number of areas. This included the cost of the overall finance function and cost of accounts payable and receivable. The benchmarking results also indicated that opportunities existed for the Commonwealth Group organisations to improve their performance in relation to the activities where they reported results below those for the Global Group.

Although the report makes comparisons of Commonwealth and Global groups, it is important to note that results against each of the benchmarks should not be assessed in isolation as this rarely provides useful insight into how different outcomes have been achieved. The report included better practices that participating organisations, and the wider public sector, may wish to adopt, or adapt in order to achieve improved performance in the activities of the finance function.

The nature of this benchmarking study precluded detailed recommendations. However, the ANAO suggested that, as part of a continuous performance improvement cycle, all Commonwealth organisations consider using benchmarking as a tool to evaluate aspects of their performance in terms of cost, quality, efficiency and better practice.

Audit Report No.63 2001–02

Performance audit

Management of the DASFLEET Tied Contract

Department of Finance and Administration (Finance)

The Commonwealth entered into a five-year tied contract for vehicle leasing and fleet management services with the purchaser of DASFLEET, on 1 September 1997 with Finance being responsible for the monitoring and management of the tied contract. The objectives of the audit were to assess the administrative and financial effectiveness of Finance's management of the Commonwealth's exposure under the DASFLEET tied contract and the effectiveness of Finance's monitoring of Macquarie Fleet's performance of the contract. The audit also reviewed the action taken by Finance in response to a recommendation of ANAO Report No.25 1998–99, which examined the 1997 sale of DASFLEET.

The audit concluded that Finance was not in a position to be able to effectively monitor the provider's performance under the contract or manage the Commonwealth's exposure under the contract because, almost immediately after its commencement, serious issues arose in relation to the operation of the contract and the completion statements for the sale agreement. As a result, there was a commercial dispute between the parties in relation to the tied contract and the sale agreement for DASFLEET.

The parties resolved these complex commercial disputes in July 2001. The dispute settlement process negotiated by Finance in relation to the DASFLEET sale agreement and the DASFLEET tied contract resulted in significantly lower outlays by the Commonwealth than had been initially sought by the other party or would have been payable if the arbitrator's interim award had been implemented.

The audit report highlighted a number of lessons to be learnt from the commercial disputes and the successful resolution of these disputes. Finance implemented these lessons, as far as was possible in the circumstances, in the negotiation of the amended tied contract with another provider. Therefore, the audit report did not include any recommendations.

Audit Report No.64 2001–02

Performance audit

Management of Learning and Development in the APS

Cross Agency

The objective of the audit was to examine and report on the key management factors that assist in ensuring learning and development provides value-or-money. The audit focused on the:

- alignment of strategies and plans with business mission and corporate goals;
- integration of learning and development with other aspects of human resource management;
- ensuring that learning and development was delivered in an efficient and cost effective manner; and
- evaluation of learning and development strategies and activities.

The ANAO found that while agencies had made significant efforts to ensure that learning and development strategies were properly aligned with the business needs identified in their corporate plans, they were unable to demonstrate the efficiency and effectiveness of their investment in learning and development and its contribution to organisational effectiveness. Generally, learning and development strategies were not being evaluated by agencies.

The majority of agencies indicated that their learning and development strategies were part of an integrated and coherent approach to people management with 80 per cent of all agencies having a human resource management strategic plan that specifically included learning and development objectives.

The Australian Public Service Commission's (ASPC)⁴⁵ current role in APS-wide learning and development is largely directed at supporting the delivery of the training programs that it offers. Although the ASPC facilitates the sharing of information about learning and development across agencies, there was scope for the ASPC to undertake a more catalytic role. Particularly, it could better target its facilitation efforts and enhance its advisory and reporting roles.

Three recommendations were developed to help improve the role and impact of the ASPC. They were agreed to by the ASPC. Although the report did not include any recommendations aimed at all APS agencies, the better practice principles outlined in the report are intended to provide agencies with guidance on current better practice in the management of learning and development.

⁴⁵ Previously known as the Public Service Merit Protection Commission.

Audit Report No.65 2001–02

Performance audit

Management of Commonwealth Superannuation Benefits to Members

ComSuper

The objective of the audit was to review the administrative effectiveness of ComSuper in providing benefits to members of the Commonwealth Superannuation Scheme (CSS) and Public Sector Superannuation Scheme (PSS). In particular the audit sought to assess the effectiveness of ComSuper's performance in regard to the establishment of new purchaser/provider arrangements, the integrity of the ComSuper databases for the payment of CSS and PSS benefits, and the accuracy and effectiveness of benefit processing and payment for resignation, retirement and retrenchment.

The ANAO found that ComSuper's administration had provided a sound basis for the management of the delivery of superannuation benefits. However, late or inaccurate employer data had had an adverse impact on many ComSuper functions and significantly increased its workload.

The ANAO made six recommendations aimed at strengthening the administration of Commonwealth superannuation benefits. ComSuper agreed with all the recommendations.

Audit Report No.66 2001–02

Follow-up audit

Aviation Safety Compliance Follow-up Audit

Civil Aviation Safety Authority (CASA)

In November 1999, the ANAO tabled Audit Report No.19 1999–2000, *Aviation Safety Compliance*, on CASA's aviation safety regulatory activities. The audit concluded that CASA's regulatory regime had contributed towards Australia's highly regarded record in aviation safety but that it could be improved. The objectives of this follow-up audit were to determine whether:

- CASA had made satisfactory progress to improve aviation safety surveillance and compliance activities; and
- the introduction of new aviation safety improvement strategies was being appropriately managed.

The ANAO found that CASA had adequately addressed the recommendations in the 1999 audit and improved its management of aviation safety compliance. In particular, areas of improvement were the identification of risks at the operator level; the frequency and coverage of surveillance; and enforcement of the *Civil Aviation Act 1988*.

CASA had improved its means of identifying and prioritising risks to aviation safety at the operator level. However, it had not improved the identification and prioritisation of risks to aviation safety at the sector or industry level. The coverage of operators had improved significantly with the introduction of a combination of scheduled and risk-based surveillance and this should provide better safety outcomes. However, considerable work remained to be done to refine the implementation of the new approach.

Overall, the ANAO considered that CASA had improved the enforcement strategies in place to secure operator compliance with the Act and Civil Aviation Regulations. As well, CASA had bettered its target for the allocating its inspectors' time to surveillance activities. While CASA had significantly improved its corporate governance, more work needed to be done in some areas, for example, developing credible and useful performance measures and tracking recommendations made as a result of reviews of CASA operations.

CASA agreed to all three recommendations arising from this audit.

Audit Report No.67 2001–02

Financial statement audit

Control Structures as Part of the Audits of the Financial Statements of Major Commonwealth Entities for the Year Ending 30 June 2002

Cross Agency

This report summarised audit findings relating to internal control structures arising from the interim phase of the financial statement audits of major Commonwealth entities for 2001–2002. Examinations of such issues were designed to assess the reliance that can be placed on control structures to produce complete, accurate and valid information for financial reporting purposes.

Audit results over the past year indicated that there had been considerable improvement in the quality of control procedures over business and accounting processes. For example, the ANAO identified fewer agencies with ‘significant’ or ‘moderate’ business and financial risk audit findings and the number of agencies with no significant or moderate business and financial risk audit findings rose (from nil to three).

In respect to the internal control environment, progress had been achieved across all agencies in areas such as building risk awareness and better management into operational processes. However, in nearly all cases, further progress and refinements were required.

Most agencies had improved controls over their IT processing relating to financial systems. Agencies, generally, had well controlled processes over the planning of their IT environment, developing and delivering IT solutions, operating their IT system and organising and monitoring various IT processes. However, for a number of agencies, continuing control weaknesses were identified in IT system security and business resumption planning.

Agencies had improved the consistency of the application of reconciliation and control procedures, an issue raised in previous years. Despite this overall improvement, some agencies continued to experience difficulty with a small number of control processes. In addition, a persistent reconciliation issue in a number of agencies related to the need to reconcile payroll and leave costs recorded in human resource management information systems with balances recorded in the FMIS.

The current challenges for agencies are to improve the:

- understanding of accrual accounting, budgeting and reporting across agencies so as there is greater appreciation of the financial issues relating to core operating activities;
- timeliness and consistency of financial reporting so that the executive and operating areas have increased access to more relevant information;
- analysis of costs and overheads that support large core operational activities; and
- decision support arrangements by implementing improved performance measurement processes and analysis in key operating areas by better linking financial and non-financial information.

Appendix 2

Better practice guides completed in the period 1 January to 30 June 2002

AMODEL Agency: Illustrative Financial Statements for the Year Ended 30 June 2002

The ANAO's role includes encouraging improved accounting and financial management practices that contribute to the efficient administrative processes, functioning and transparency of the public sector. The AMODEL Better Practice Guides, now in their seventh year of publication, are prepared to assist Commonwealth entities in the preparation of their financial statements. The guides provide examples of better practice in Commonwealth public sector financial reporting and disclosure.

AMODEL Agency Financial Statements is one of two guides being issued for the financial year 2001–02. The other guide is AMODEL Non-Commercial Authority. These guides outline developments in the Finance Minister's requirements and in professional reporting requirements. The disclosures in AMODEL Agency have general application to Commonwealth agencies. The disclosures indicated cover both mandatory requirements and better practice recommendations.

Administration of Grants

Grants continue to be a significant feature of public sector administration. Public sector managers have a strong interest in ensuring that grant programs are appropriately designed and well administered both to achieve the objectives of government and to improve community outcomes.

The ANAO, in consultation with a number of Commonwealth agencies involved in the administration of grant programs, has updated the guide to the Administration of Grants, building on the strong foundation of the previous editions, issued in 1994 and 1997. The new edition is now more closely aligned to the current public sector environment and incorporates lessons learned from audits of grant and other related programs that have been conducted since 1997.

The main focus of the guide is on the administration of discretionary grants to community organisations selected on the basis of merit. However, the principles outlined in the guide also apply to other types of grants made to individuals, private sector companies, or State, Territory or local governments.

Performance Information in Portfolio Budget Statements

Performance information is a critical tool for public sector management and accountability. Since the ANAO issued the Better Practice Guide, *Performance Information Principles* in November 1996, the public sector has adopted an outcomes and output framework. This has required changes to agencies' performance management regimes, particularly the development and reporting of performance information in Portfolio Budget Statements (PBS) and related Annual Reports.

The Senate Finance and Public Administration Legislation Committee (SFPALC) has undertaken three reviews of performance information in PBS, which raised a number of concerns. As well, the ANAO has undertaken an audit on the issue, the findings of which were provided in Audit Report No.18, 2001–02, *Performance Information in Portfolio Budget Statements*. This audit examined performance information in the PBS in 10 Commonwealth agencies. This guide aims to address many of the issues highlighted by the SFPALC and the audit.

The examples and better practices included in this guide are drawn from the audit and a subsequent related workshop. They are aimed at assisting practitioners to develop and improve organisational performance information. The focus of the guide is on performance information in the PBS. However, the principles highlighted apply to all performance information as PBS (accountability-related) performance information and general management performance information should be partly of a fully integrated framework. It is intended that the guide be used in conjunction with information provided by the Department of Finance and Administration on its website in relation to the requirements for performance information in the PBS.

AMODEL Non-Commercial Authority: Illustrative Financial Statements for the Year Ended 30 June 2002

The ANAO's role includes encouraging improved accounting and financial management practices that contribute to the efficient administrative processes, functioning and transparency of the public sector. The *AMODEL* Better Practice Guides, now in their seventh year of publication, are prepared to assist Commonwealth entities in the preparation of their financial statements. The guides provide examples of better practice in Commonwealth public sector financial reporting and disclosure.

AMODEL Non-Commercial Authority is one of two guides being issued for the financial year 2001–02. The other guide is *AMODEL Agency*. These guides outline developments in the Finance Minister's requirements and in professional reporting requirements. The disclosures in *AMODEL Non-Commercial Authority*

have general application to Commonwealth authorities whose objectives do not include the overall generation of profits. The disclosures indicated cover both mandatory requirements and better practice recommendations.

Appendix 3

Performance audit and other audit services in progress as at 1 July 2002

Ministerial Portfolio	Audit Title
Agriculture, Fisheries and Forestry—Australia	Emergency Management of Pests and Diseases—Follow Up Audit
Attorney-General	ATO Management of Relationships with Taxation Practitioners Customs Fraud Control Arrangements ATO Management of Non-Residents Withholding Tax ATO Management of ABN Registrations
Communications and Information Technology	
Defence	Facilities Management Defence Explosive Ordnance—Safety and Suitability Retention of Military Personnel—Follow up Audit Defence and Industry Involvement Naval Operational Readiness
Education, Science and Training	E-Business in the Department of Education, Science and Training
Employment and Workplace Relations	Employee Entitlement Support Schemes- Department of Employment and Workplace Relations Special Employee Entitlements Support Scheme for Ansett Group Employees Department of Employment and Workplace Relation's Implementation and management of the Indigenous Employment Policy
Environment and Heritage	Environment Protection and Biodiversity Conservation Assessment Process

Ministerial Portfolio	Audit Title
Family and Community Services	Client Service in Child Support—Follow-up Centrelink’s Balanced Scorecard Age Pension Entitlements—Centrelink Delivery of Parenting Payment Single Business Continuity Management in Centrelink
Finance and Administration	Administrative Entitlements of Staff Engaged Under the Members of Parliament (Staff) Act
Foreign Affairs and Trade	Passport Services Aid to East Timor
Health and Ageing	IT in Health Australian Health Care Agreements HIC Customer Service Aboriginal and Torres Strait Islander Health Program—Follow Up Audit Financial Management and Financial Information in the Department of Health and Ageing Aged Care Standards and Accreditation Agency Plasma Fractionation Agreement Extension Review
Immigration and Multicultural and Indigenous Affairs	Family Migration Program in the Department of Immigration and Multicultural and Indigenous Affairs
Industry, Tourism and Resources	Innovation Investment Fund Automotive Competitiveness Investment Scheme
Prime Minister and Cabinet	
Reconciliation and Aboriginal and Torres Strait Islanders Affairs	The Administration of the Grants Management System Aboriginal Land Councils in Northern Territory
Transport and Regional Services	
Treasury	Treasury International Financial Commitments

Ministerial Portfolio	Audit Title
Veterans' Affairs	Management of Fraud Control in DVA
General performance audits: cross-agency	Selection Process of the Preferred Tenders for the Health IT Outsourcing Selected Agencies Management of Guarantees, Warranties & Indemnities Protective Security Audit—Physical Security Energy Efficiency in Commonwealth Operations—Follow Up Audit Management of Risk and Insurance Property Management
Performance audit and other audit services: <ul style="list-style-type: none"> • financial control and administration audits • benchmarking studies • better practice guides 	Benchmarking study—Internal Audit Function Better Practice Guide—Internal Budgeting Better Practice Guide—Update of on Corporate Governance Better Practice Guide—Asset Management Update
Assurance and control assessment (ACA) audit and other services: <ul style="list-style-type: none"> • financial statement audits • assurance control and assessment audits • protective security audits 	ACA audit—2nd Progress Audit—Senate Order Confidential Provisions ACA audit—Payment of Accounts and GST Processes in Small Organisations ACA audit—Management of Trust Monies ACA audit—Grants Administration in Small to Medium Organisations

Appendix 4

Presentations and papers given by the Auditor-General and ANAO staff during the period January to June 2002

Mr Pat Barrett AM

Achieving Better Practice Corporate Governance in the Public Sector
International Quality and Productivity Centre Seminar
Canberra, 26 June 2002

Mr Pat Barrett AM

Auditing in a Changing Governance Environment
Senate Occasional Lecture Series
Canberra, 21 June 2002

Mr Pat Barrett AM

Corporate Governance—More Than a Passing Fad
Attorney General's Department Luncheon Address
Canberra, 12 June 2002

Mr Pat Barrett AM

The Future Directions of Audit—a National Audit Office Perspective
Occasional Paper
Canberra, 31 May 2002

Mr Pat Barrett AM

External Scrutiny of Government Decisions—Trends and Lessons Learnt
Institute of Public Administration Australia
Canberra, 31 May 2002

Mr Alan Greenslade

ANAO Overview
Industry Research and Development Board Meeting
Canberra, 30 April 2002

Mr Alan Greenslade

Good practices of effective performance audits: process evaluations
Netherland Court of Audit Seminar
The Hague, Netherlands, 30 May 2002

Ms Ann Thurley

Performance Audit of Centrelink's Balanced Scorecard
International Quality and Productivity Centre—Balanced Scorecard Conference
Sydney 29–30 May 2002

Dr Paul Nicoll
Performance Audit and Some Current Management Issues
Public Sector Leadership Conference
Singapore, 24 May 2002

Mr David McKean
Emerging Issues Arising from ANAO Audits
Office of Evaluation Audit and Planning Conference
Canberra, 30 April 2002

Mr Alan Greenslade
Auditing of Innovation Programs
Research and Development Board Meeting
Canberra, 30 April 2002

Mr Richard Rundle
Protective Security Audits
Security in Government Conference
Canberra, 11–13 April 2002

Mr Pat Barrett AM
Putting the APS into or out of Business
Public Service Merit Protection Commission Planning Retreat
Bungendore, 16 April 2002

Mr Pat Barrett AM
Implementing Adequate Supervision—What Kind and How Much
Laboratory for Politicians and Top Managers from Different Public Institutions
in Europe
Regione Lombardia, Italy—6 April 2002

Mr Pat Barrett AM
Corporate Governance in the Public Sector
Staff of the Public Management Group, Public Administration Department
Bocconi University, Milan, 3 April 2002

Mr Ian McPhee
Overview of ANAO
Finance SES Forum
Canberra, 19 March 2002

Mr Ian McPhee
Strategies for Better Governance—Organisational Governance
Public Service Merit Protection Commission
Canberra, 6 March 2002

Mr Pat Barrett AM

The Role of Performance Auditing in Strengthening Democracies

Address to University of Canberra students

Canberra, 28 February 2002

Mr Richard Rundle

Improving Procurement Processes to Achieve Best Value in the Public Sector

International Quality and Productivity Centre—Strategic Procurement for

Government Conference

Canberra 27 February 2002

Mr Pat Barrett AM

Management of Intellectual Property in the Public Sector

Australian Government Solicitor Seminar

Sydney, 26 February 2002

Mr Pat Barrett AM

E-Government and Joined-up Government

Global Working Group Meeting

Wellington, New Zealand, 14–15 February 2002

Mr Pat Barrett AM

Government Accounting Forum—Address

Government Accounting Forum, Institute of Chartered Accountants in Australia

Canberra, 5 February 2002

Series Titles

Audit Report No.3 Performance Audit
Facilities Management at HMAS Cerberus
Department of Defence

Audit Report No.2 Performance Audit
Grants Management
Aboriginal and Torres Strait Islander Commission

Audit Report No.1 Performance Audit
Information Technology at the Department of Health and Ageing
Department of Health and Ageing

Better Practice Guides

Administration of Grants	May 2002
Performance Information in Portfolio Budget Statements	May 2002
Life-Cycle Costing	Dec 2001
Some Better Practice Principles for Developing Policy Advice	Nov 2001
Rehabilitation: Managing Return to Work	Jun 2001
Internet Delivery Decisions	Apr 2001
Planning for the Workforce of the Future	Mar 2001
Contract Management	Feb 2001
AMODEL Illustrative Financial Statements 2001	May 2001
Business Continuity Management	Jan 2000
Building a Better Financial Management Framework	Nov 1999
Building Better Financial Management Support	Nov 1999
Managing APS Staff Reductions (in Audit Report No.49 1998–99)	Jun 1999
Commonwealth Agency Energy Management	Jun 1999
Corporate Governance in Commonwealth Authorities and Companies—Principles and Better Practices	Jun 1999
Managing Parliamentary Workflow	Jun 1999
Cash Management	Mar 1999
Management of Occupational Stress in Commonwealth Agencies	Dec 1998
Security and Control for SAP R/3	Oct 1998
Selecting Suppliers: Managing the Risk	Oct 1998
New Directions in Internal Audit	Jul 1998
Controlling Performance and Outcomes	Dec 1997
Management of Accounts Receivable	Dec 1997
Protective Security Principles (in Audit Report No.21 1997–98)	Dec 1997
Public Sector Travel	Dec 1997

Audit Committees	Jul 1997
Core Public Sector Corporate Governance (includes Applying Principles and Practice of Corporate Governance in Budget Funded Agencies)	Jun 1997
Management of Corporate Sponsorship	Apr 1997
Telephone Call Centres	Dec 1996
Telephone Call Centres Handbook	Dec 1996
Paying Accounts	Nov 1996
Asset Management	Jun 1996
Asset Management Handbook	Jun 1996
Managing APS Staff Reductions	Jun 1996