

The Auditor-General  
Audit Report No.28 2003–04  
Audit Activity Audit

# **Audit Activity Report: July to December 2003**

## **Summary of Outcomes**

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of Australia 2003

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Canberra ACT  
12 February 2004

Dear Mr President  
Dear Mr Speaker

In accordance with the authority contained in the *Auditor-General Act 1997*, I present this report of the results of our audits and audit related services over the first half of the financial year 2003–2004 and the accompanying brochure to the Parliament. The report is titled *Audit Activity Report: July to December 2003*.

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

Yours sincerely



P. J. Barrett  
Auditor-General

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

## AUDITING FOR AUSTRALIA

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

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ANAO audit reports and information about the ANAO are available at our internet address

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# Abbreviations

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AAA	Agriculture – Advancing Australia (package)
AAS	Australian Accounting Standards
AASB	Australian Accounting Standards Board
ABA	Aboriginals Benefit Account
ADF	Australian Defence Forces
AFFA	(The Department of) Agriculture, Fisheries and Forestry – Australia
ANAO	Australian National Audit Office
ANU	Australian National University
APRA	Australian Prudential Regulation Authority
APS	Australian Public Service
ASOSAI	Asian Organisation of Supreme Audit Institutions
ARMS	Audit Recommendations Management System
AQIS	Australian Quarantine and Inspection Service
ASX	Australian Stock Exchange
ATO	Australian Tax Office
ATSIC	Aboriginal and Torres Strait Islander Commission
ATSI	Aboriginal and Torres Strait Islander Services
AUSTRAC	Australian Transaction Reports and Analysis Centre
BPG	Better Practice Guide
BSP	Business Support Process
CAC Act	<i>Commonwealth Authorities and Companies Act (1997)</i>
CFS	Consolidated Financial Statements
CLERP 9	Corporate Law Economic Reform Program
CMIS	Consular Management Information System
COBIT	Control Objectives for Information and related Technology
CPG	Commonwealth Procurement Guidelines
CSA	Child Support Agency

DCITA	Department of Communications, Information Technology and the Arts
DEO	Defence Estate Organisation
DEWR	Department of Employment and Workplace Relations
DFAT	Department of Foreign Affairs and Trade
DID	Diversified Institutions Division
DOTARS	Department of Transport and Regional Services
EES	Employee Entitlements Support Scheme
EM	Emergency Management
ETM	Economic transactions method
FBO	Final Budget Outcome
FBT	Fringe Benefits Tax
Finance	Department of Finance and Administration
FMA Act	<i>Financial Management and Accountability Act (1997)</i>
FMD	Farm Management Deposits
FMOs	<i>Finance Ministers Orders</i>
FOI	Freedom of Information
FRC	Financial Reporting Council
FTR	Financial Transaction Report
GAAP	Generally Accepted Accounting Practices
GAO	General Accounting Office
GBE	Government Business Enterprise
GEERS	General Employee Entitlements and Redundancy Scheme
GFS	Government Finance Statistics
IFRS	International Financial Reporting Standards
INTOSAI	International Organisation of Supreme Audit Institutions
IT	Information Technology
IT&C	Information Technology and Telecommunications
JCPAA	Joint Committee of Public Accounts and Audit
MAC	Management Advisory Committee
Manpower	Manpower Services (Australia) Pty Ltd

MOP(S) Act	<i>Members of Parliament (Staff) Act 1984</i>
MoU	Memorandum of Understanding
NOIE	National Office for the Information Economy
NTN	Networking the Nation (program)
PFA	Plasma Fractionation Agreement
RTC	Rural Transaction Centre
SID	Specialised Institutions Division
SIS Act	<i>Superannuation Industry (Supervision) Act 1993</i>
SRC Act	<i>Safety, Rehabilitation and Compensation Act</i>
TBL	Triple Bottom Line
UK	United Kingdom



# 1. Introduction

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*This chapter explains the role and objectives of the Australian National Audit Office (ANAO); describes its main outputs; and outlines the purpose of this report. It also discusses major influences on the current work program, as well as indicating the contents of following chapters.*

## Role and Objectives of the ANAO

**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. The ANAO's mission is to add value to public sector performance and accountability. Accordingly, the ANAO seeks to achieve two outcomes:

- improvement in public administration—the independent assessment of the performance of selected Australian Government public sector activities including the scope for improving efficiency and administrative effectiveness; and
- assurance—the independent assurance of Australian Government public sector financial reporting, administration, control and accountability.

**1.2** To achieve the required results, the ANAO delivers an integrated audit service designed to assist the Parliament in its work, as well as aiding Australian Government bodies to achieve improved performance and accountability.

## ANAO Outputs

**1.3** The Auditor-General has a mandate, provided under the *Auditor-General Act 1997*, that extends to all Australian Government agencies, authorities, companies and subsidiaries with the exception of performance audits of Government Business Enterprises (GBEs) and of persons employed or engaged under the *Members of Parliament (Staff) Act 1984*.

**1.4** Performance audits of wholly owned GBEs, however, may be undertaken by the Auditor-General if they are requested by the responsible Minister, the Minister for Finance or the Joint Committee of Public Accounts and Audit (JCPAA).

**1.5** In addition to financial statement audits and performance audits, the ANAO produces business support process audits, protective security audits, benchmarking studies and better practice guides (BPGs). Figure 1.1 lists ANAO outputs for the six-month period from 1 July to 31 December 2003.

**1.6** ANAO staff also organise and participate in conferences, seminars and workshops to share expertise and disseminate better practice and lessons learnt from auditing activity. A growing element of this role is communicating the ANAO's activities and outcomes through representational activities with a wide range of stakeholders and contacts, including Parliamentary Committees, boards of Government authorities and companies, as well as professional organisations.

**1.7** A particularly important facet of the ANAO's ongoing work with stakeholders is the relationships that have developed with the audit committees of individual agencies. The ANAO sees its relationship with audit committees as one of partnership. Senior ANAO members of staff routinely observe and participate in meetings of these committees. Through this mechanism, the ANAO seeks to: develop its linkages with overall agency review processes; co-ordinate the ANAO's external audit work program with the range of ongoing internal agency review activities; and strengthen the effectiveness and credibility of audit committees in the eyes of both internal and external stakeholders.

**Figure 1.1**

**ANAO products, July to December 2003**

<i>ANAO Products</i>	<i>July to December 2003</i>
Performance Audit Reports	16
Business Support Process Audit Reports	4
Better Practice Guides	2
Benchmarking Studies	0
Controls Reports	1
Financial Statement Opinions	250
Audit Activity Reports	1

## Purpose of the Activity Report

**1.8** The Activity Report is tabled every six months. This report summarises audit and other ANAO activities for the period July to December 2003. Its purpose is to:

- inform the Parliament of major issues the ANAO is examining as it works with agencies to encourage, and provide assurance about, a better performing and more accountable public sector;

- provide the Parliament with a consolidated summary of activity over this period, including tabled audit reports, details of BPGs and other audit services undertaken; and
- highlight some of the major lessons learned from the audit services provided by the ANAO over this period.

## Developing the ANAO's Audit Work Program

**1.9** The ANAO undertakes an on-going planning approach to ensure that its outputs are effectively integrated for maximum impact, and continue to meet the needs of the Parliament, the Government and public sector entities.

**1.10** Public sector organisations do not operate in isolation from the wider community. A wide range of issues affect the public sector as a whole, as well as individual Australian Government bodies, and have to be dealt with as comprehensively as possible for assurance purposes. The ANAO reviews identified issues annually as part of its planned audit approach to aid its budget preparation and develop an integrated Audit Work Program.

**1.11** The Audit Work Program is developed taking into account the Australian Public Service (APS) environment, business risks likely to impact on the APS during the period under review and, over recent years, a number of factors that have significantly affected the APS environment, including: requirements for a more responsive, contestable public service; greater collaboration between agencies, stakeholders, and levels of Government; and an increased focus on sound governance.

**1.12** Against this background, the ANAO identified the following performance audit themes to underpin the 2003–04 Audit Work Program:

- human resource management including workforce planning;
- financial management and reporting;
- performance management and measurement;
- procurement and contract management;
- application of information technology and other resources; and
- service delivery.

## Report Outline

**1.13** The following chapter outlines the ANAO's relationship with the Parliament, and details the work of the JCPAA, the main body that oversees the ANAO's activities. It also gives details of assistance provided by the ANAO designed to advance public sector administration in Australia and overseas. Chapter 3 summarises findings from performance audits tabled from July to December 2003. Chapter 4 discusses emerging broad issues affecting

financial statement reporting and outlines significant issues arising from financial audits conducted from July to December 2003.

**1.14** Appendix 1 lists series titles of audits tabled from July to December 2003. Appendix 2 contains summaries of these audit reports, while Appendix 3 summarises ANAO BPGs published in the same period. Appendix 4 lists series titles of all BPGs published to date. Appendix 5 lists presentations and papers given by the Auditor-General and ANAO staff during the period July to December 2003. Appendix 6 lists performance audits underway at 31 December 2003.

## 2. Assistance to Parliament and the Advancement of Public Administration

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*This chapter discusses the relationship between the ANAO and the Parliament – in particular with the JCPAA with reference to the Committee's recent examination of ANAO reports. Also detailed are activities by the ANAO to advance public sector administration in Australia and overseas by assisting public sector organisations.*

**2.1** The ANAO's principal client is the Parliament. Within this context, Parliamentary Committees are the main focus for contact and liaison for the ANAO. Also, as part of regular business (discussed in more detail at the end of this chapter), the ANAO briefs Ministers, Shadow Ministers, Parliamentary Committees and their staff on audit reports tabled in the Parliament. The ANAO also contributes to the advancement of public administration in Australia and overseas by participating in relevant forums and hosting Australian and international public sector groups.

### The Joint Committee of Public Accounts and Audit

**2.2** The JCPAA is a statutory committee with members from both houses of Parliament and has particular responsibilities for the ANAO. The JCPAA: 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 Committee reviews all ANAO reports and examines a selection at quarterly public hearings. The JCPAA may also conduct more broadly based inquiries into matters arising from an audit. The JCPAA's specific duties are described in sections 8 and 8A of the *Public Accounts and Audit Committee Act 1951*.

**2.3** Working-level liaison between the ANAO and Parliament, especially the JCPAA, occurs regularly. The ANAO consults with the Committee on the Parliament's audit priorities. This consultation is a strategic level process that the ANAO uses to assist it in developing its forward Audit Work Program.<sup>1</sup> As well as reflecting the priorities of the Parliament, the Audit Work Program discusses current developments impacting on the APS and the work of the ANAO, and outlines particular themes that will guide audit activity for the following year.

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<sup>1</sup> The Audit Work Program is available on the ANAO website, <<http://www.anao.gov.au>>.

**2.4** The following sections discuss the main findings from the JCPAA public reviews of ANAO reports for the first three quarters of 2002–03 and outline other JCPAA activities related to ANAO audits.

## **JCPAA Report 396—Review of Auditor-General’s Reports 2002–2003 First, Second and Third Quarters**

**2.5** In September 2003, the JCPAA released Report 396, *Review of the Auditor-General’s Reports, First, Second and Third Quarters 2002–03*. It presented the results of the JCPAA review of the following audits:

- Audit Report No.2, 2002–03, *Grants Management ATSI*C;
- Audit Report No.3, 2002–03, *Facilities Management at HMAS Cerberus*;
- Audit Report No.7, 2002–03, *Client Service in the Child Support Agency, Follow Up Audit*;
- Audit Report No.18, 2002–03, *Management of Trust Monies*;
- Audit Report No.19, 2002–03, *The Australian Taxation Office’s Management of its Relationship with Tax Practitioners*;
- Audit Report No.20, 2002–03, *Employee Entitlements Support Schemes*;
- Audit Report No.23, 2002–03, *Protective Security Audit, Physical Security Arrangements in Commonwealth Agencies*;
- Audit Report No.25, 2002–03, *Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2002*;
- Audit Report No.27, 2002–03, *Management of Commonwealth Guarantees, Warranties, Indemnities and Letters of Comfort*; and
- Audit Report No.28, 2002–03, *Northern Territory Land Councils and the Aboriginal Benefit Account*.

### **Audit Report No.2, 2002–03, Grants Management, ATSI**C

**2.6** This report examined the Aboriginal and Torres Strait Islander Commission’s (ATSIC’s) grant management practices as measured against recognised best practice standards set out in the ANAO Better Practice Guide for grants management.<sup>2</sup>

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<sup>2</sup> Auditor-General, Better Practice Guide - *Administration of Grants*, Canberra, May 2002.

**2.7** The Committee noted that its review of the audit had, in part, been overtaken by the establishment of the Aboriginal and Torres Strait Islander Services (ATSIS) agency,<sup>3</sup> which now administers ATSIC's grants program.

**2.8** The JCPAA observed that the management of the grants program faced a range of difficulties, for example, the large number of organisations that receive funding, their geographical isolation, and their difficulty in attracting and retaining skilled staff to manage funded projects. The Committee was pleased that ATSIC was exploring various options to address these difficulties at the time of the hearing.

**2.9** Grant project officers are required to identify alternative sources of funding for projects. The Committee considered that ATSIC could considerably lighten its funding load if ATSIC Regional Councils could better access and distribute information about alternative sources of funding.

**2.10** The Committee recommended that ATSIS investigate cost-effective methods of compiling and publishing information about alternative sources of funding from the three levels of Government. The information should be provided to ATSIC Regional Councils on a regular basis.

### **Audit Report No.3, 2002–03, *Facilities Management at HMAS Cerberus***

**2.11** This audit was undertaken by the ANAO at the request of the then Minister for Defence. The request followed allegations about the Defence Estate Organisation's (DEO's) facilities management at HMAS Cerberus and other Defence bases in Victoria, and an investigation by Defence's Inspector-General Division (IGD) in 2000. The IGD reported in February 2001 that it had found procedural and managerial deficiencies in certain DEO activities. The ANAO's audit confirmed the findings made by IGD.

**2.12** The Committee also found that there were serious deficiencies in the use of Defence's Audit Recommendations Management System (ARMS). Many of Defence's actions in response to JCPAA and ANAO recommendations were being marked off by Defence personnel as 'complete' simply because the due date for action had been reached.

**2.13** The JCPAA considered that these deficiencies potentially compromised the veracity of Defence's advice concerning its progress in implementing recommendations that it had agreed with. The Committee recommended that Defence immediately update ARMS and provide advice on the current status of all Committee and ANAO recommendations.

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<sup>3</sup> ATSIS was established on 1 July 2003.

## **Audit Report No.7, 2002–03, *Client Service in the Child Support Agency, Follow Up Audit***

**2.14** This report assessed the Child Support Agency's (CSA's) implementation of the recommendations in Audit Report No.39, 1997–98, *Management of Selected Functions in the Child Support Agency* and the associated JCPAA Report No.367, *Review of Auditor General's Reports 1997–98*. As well, the audit broadly assessed the performance of the CSA in delivering quality client service.

**2.15** The JCPAA noted that the CSA had no separate process, outside of ongoing business arrangements, to monitor the implementation of recommendations from external reviews. The Committee also expressed concern that some of its recommendations<sup>4</sup> and those of the ANAO had not been fully implemented. The CSA indicated that this was because it had implemented the intent of the recommendation. The Committee, however, was concerned that the CSA re-interpretation of JCPAA and ANAO recommendations could delay system improvements. The Committee considered that its recommendations and those of the ANAO were sufficiently well thought out and considered to warrant full implementation.

**2.16** The Committee recommended that the CSA make a detailed report to it on progress made towards the implementation of strategies that address debt management for its clients.

## **Audit Report No.18, 2002–03, *Management of Trust Monies***

**2.17** This audit assessed the management of trust monies against the requirements of trust deeds, trust law, legislation and other Australian Government requirements/guidelines.

**2.18** The Committee supported the ANAO's recommendation that agencies review the legal status of the special accounts that they had identified as trusts and amend their accounting for them, if appropriate.

**2.19** The Committee noted that while Comcare's procedures regarding compensation payments to incapacitated employees were efficient and effective (a view supported by the ANAO audit report), these procedures did not conform to the requirements of the *Safety, Rehabilitation and Compensation Act, 1998* (SRC Act). A submission to the inquiry by the Department of Finance and Administration (Finance) indicated that amendments to the SRC Act would be included in the Financial Framework Legislation Amendment Bill.

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<sup>4</sup> Particularly JCPAA Recommendation 3 that related to regular client surveys.



## **Audit Report No.19, 2002–03, *The Australian Taxation Office's Management of its Relationship with Tax Practitioners***

**2.20** This audit assessed the Australian Tax Office's (ATO's) management of its relationship with tax practitioners,<sup>5</sup> with the main focus being the ATO's management of its relationship with tax agents.

**2.21** The Committee acknowledged the ATO's efforts to gather information on the tax agent population. The information collected relates to the demographics of tax agents, indicators of their business success, and factors that motivate and frustrate them. While the compliance profile of tax agents was part of a future phase of the research, the Committee believed that this important aspect of profiling should not be overlooked.

**2.22** The Committee endorsed the ATO's endeavours to improve its communication with tax agents through the introduction of the ATO Internet tax agent portal. The Committee expected this system to be regularly reviewed to take advantage of advances in information technology.

## **Audit Report No.20, 2002–03, *Employee Entitlements Support Schemes***

**2.23** This report assessed the management of the provision of funds to eligible employees under the Employee Entitlements Support Scheme (EESS) and the General Employee Entitlements and Redundancy Scheme (GEERS)<sup>6</sup>, by the Department of Employment and Workplace Relations (DEWR).

**2.24** The Committee commended DEWR on its positive response to suggestions for improvement by both the ANAO and a consultant engaged by DEWR. The Committee also noted that many of the suggestions and recommendations had already been partially or fully implemented.

**2.25** The JCPAA noted that insolvency practitioners have a substantial and essential role in the successful operation of EESS and GEERS. Consequently, DEWR's management of its relationship with insolvency practitioners would have a significant impact on the management of both EESS and GEERS. The Committee recommended that DEWR examine ways in which it can monitor interactions between insolvency practitioners and individual claimants for the quality and accuracy of information provided to claimants.

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<sup>5</sup> Tax practitioners include tax agents and other professionals such as: bookkeepers lodging business activity statements; lawyers and accountants working on taxation matters for clients.

<sup>6</sup> EESS was established to provide a safety net for employees who lost their jobs on or after 1 January 2000 as a result of their employer's insolvency or bankruptcy and were left without some or all of their employee entitlements. In September 2001 the Government replaced EESS with GEERS.

**2.26** As well, the Committee concluded DEWR could take a more active role in promoting awareness of the schemes. It recommended that DEWR examine ways in which it could improve claimants' awareness of the scheme and their eligibility for benefits under the scheme. As well, it recommended DEWR effect changes in the interpretation of the operational arrangements, so that individuals affected by company insolvency can actively pursue options for assistance.

### **Audit Report No.23, 2002–03, *Protective Security Audit, Physical Security Arrangements in Commonwealth Agencies***

**2.27** This audit assessed the protective security policies and practices of seven Australian Government agencies, to determine whether they had established an appropriate physical security control framework, based on the principles outlined in the Protective Security Manual.

**2.28** The Committee noted that the agencies examined were aware of the importance of a thorough and timely response to security breaches and the importance of incorporating lessons gained from breaches into current security controls.

**2.29** The JCPAA also noted that the ANAO report contained suggestions and examples of better practice, which may be of use to Australian Government agencies in providing a secure physical environment, and encouraged agencies to examine the potential lessons in the report.

### **Audit Report No.25, 2002–03 *Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2002***

**2.30** This report summarised the results of the audits of the financial statements of Australian Government entities for the 2001–2002 financial year. The report also complemented Audit Report No.67, 2001–02, *Control Structures as part of the Audit of Financial Statements of Major Commonwealth Entities for the Year Ending 30 June 2002*.

**2.31** The Committee revisited its recommendation in an earlier report that the Final Budget Outcome (FBO) be audited. The Committee noted the two significant impediments to achieving this goal: the need to determine which audit standards to use; and the difficulty in preparing and auditing the FBO within the three months specified by the *Charter of Budget Honesty*.

**2.32** The Committee was encouraged by the move to harmonise Australian and international reporting standards, and the move to progressively bring forward the provision of financial information by agencies. While the Australian Government had not agreed to the recommendation that the FBO be audited, the Committee believed in the merits of its recommendation. The

Committee recognised, however, that the goal of the issuing of audited FBOs was achievable only in the medium term.

**2.33** The JCPAA referred to the qualification of ATO financial statements for several years running because the lease for its computer equipment had been recognised in the accounts as an operating lease, rather than as a finance lease in accordance with Australian accounting standards. The Committee noted that the leasing contract would soon expire and recommended that the ATO review the terms of its leasing arrangements.

### **Audit Report No.27, 2002–03, *Management of Commonwealth Guarantees, Warranties, Indemnities and Letters of Comfort***

**2.34** This audit assessed the action taken to implement the recommendations in Audit Report No.47, 1997–98, *Management of Commonwealth Guarantees, Warranties, Indemnities and Letters of Comfort*.

**2.35** The JCPAA took particular note of the accuracy of agency registers of contingent liabilities, the management of risk associated with raising a contingent liability and accountability to the Parliament. The Committee noted that the procedures for the issuing of indemnities adopted by the United Kingdom (UK) Parliament provided their Parliament with the opportunity to become involved at an early stage in the creation of contingent liabilities. This contrasted with the system in Australia where contingent liabilities are reported after the event.

**2.36** The Committee supported the earlier involvement of the Parliament when the Australian Government's contingent liabilities were being incurred. The Committee recommended that the Australian Government adopt similar procedures to those used by the UK Parliament to notify Parliament of the issuing of indemnities.

### **Audit Report No.28, 2002–03, *Northern Territory Land Councils and the Aboriginal Benefit Account***

**2.37** This report assessed the operations of the four Northern Territory Land Councils that provide a range of services to Aboriginal people under the *Aboriginal Land Rights (Northern Territory) Act 1976*. The audit also assessed ATSIC's administration of the Aboriginals Benefit Account (ABA), which provides funding to the Land Councils under the same Act. The audit arose following a request from the Minister for Immigration and Multicultural and Indigenous Affairs.

**2.38** The Committee commended the Land Councils for having accepted the advice of the ANAO in a responsive and proactive manner and for having acted quickly to apply the advice to their organisational practices. The Committee also noted that the Land Councils had taken a proactive approach

in response to the audit and that the process of implementing the recommendation (in relation to performance information) had begun.

## JCPAA reviews and inquiries in progress

**2.39** Publication is pending for the JCPAA review of the following ANAO audit reports which were tabled in the fourth quarter 2002–03:

- Audit Report No.42, 2002–03, *Managing Residential Aged Care Accreditation* (The Aged Care Standards and Accreditation Agency Ltd);
- Audit Report No.51, 2002–03, *Defence Housing and Relocation Services* (Department of Defence); and
- Audit Report No.55, 2002–03, *Goods and Services Tax – Fraud Prevention and Control* (Australian Taxation Office).

**2.40** The following ANAO audit reports that were tabled in the first quarter 2003–04 have been selected for review:

- Audit Report No.1, 2003–04, *Administration of Three Key Components of the Agriculture – Advancing Australia (AAA) Package*;
- Audit Report No.4, 2003–04, *Management of the Extension Option Review – Plasma Fractionation Agreement*; and
- Audit Report No.6, 2003–04, *APRA's Prudential Supervision of Superannuation Entities*.

**2.41** Other JCPAA inquiries in progress at the time of the preparing of this report, include the Inquiry into Management and Integrity of Electronic Information in the Australian Government, for which the public hearings have been completed, and the Inquiry into the Draft Financial Framework Legislation Amendment Bill. The JCPAA also announced in early June 2003 that, as an extension of the Committee's responsibility to examine reports from the Auditor-General, the Committee would conduct an inquiry reviewing aviation security arrangements in Australia. This last inquiry stems from the Committee's May 2003 review of Audit Report No.26, 2002–03, *Aviation Security in Australia*.

## Requests from Parliament and Parliamentary Committees

**2.42** Parliament, and other Parliamentary Committees as well as the JCPAA, use ANAO reports and request the Auditor-General to undertake specific audits. The ANAO published a number of audit reports during July to December 2003 that were a consequence of a request from Parliament or a

Parliamentary Committee. Three recent reports that were initiated in this way are:

- Audit Report No.5, 2003–04, *The Senate Order for Departmental and Agency Contracts Autumn 2003*;
- Audit Report No.10, 2003–04, *Australian Defence Force Recruiting Contract*; and
- Audit Report No.15, 2003–04, *Administration of Staff Employed Under the Members of Parliament (Staff) Act 1984*.

### **Audit Report No.5, 2003–04, The Senate Order for Departmental and Agency Contracts: Autumn 2003**

**2.43** The Senate Finance and Public Administration References Committee reported on the first year of operation of the *Senate Order for Departmental and Agency Contracts* in December 2002. The Senate Order requires agencies operating under the *Financial Management and Accountability Act 1997* (FMA Act) to place lists of contracts of \$100 000 or more on the Internet, twice yearly. Among other things, the lists are to indicate whether the contracts contain any confidentiality requirements. The Order is based on the principle that information in contracts should not be made confidential unless there is good reason to do so.

**2.44** The Senate Order requested the Auditor-General to undertake twice-yearly examinations of agency contracts required to be listed on the Internet and report whether there has been any inappropriate use of confidentiality provisions. Two of these audits had been tabled (Audit Report No.33, 2001–02, and Audit Report No.8, 2002–03) at the time of the Committee's review of the first year of operation of the Senate Order. The Committee's report drew heavily on the findings from these two audit reports.

**2.45** The Committee's report made a number of recommendations, which were mainly aimed at improving the operation of the Senate Order. The Government agreed, or agreed in principle, with the majority of the recommendations in June 2003. Some of the agreed recommendations required action from Finance, in consultation with the ANAO. Finance has initiated action on these recommendations. In the process, the ANAO has provided advice to Finance and has contributed to the development of guidance for agencies on confidentiality issues and the Senate Order requirements. In addition, the ANAO has continued to undertake the six monthly audits, with the fourth audit being tabled in September 2003 (Audit Report No.5, 2003–04). More details on this audit are found in Appendix 2.

## **Audit Report No.10, 2003–04, Australian Defence Force Recruiting Contract**

**2.46** The Senate Foreign Affairs, Defence and Trade References Committee reviewed Defence's contract with Manpower Defence Recruiting for the provision of recruiting services to the Australian Defence Forces (ADF), as part of its inquiry into recruitment and retention of ADF personnel.<sup>7</sup> In their subsequent report, the Committee commented that 'the original contractual arrangements with Manpower for the trial leave much to be desired and deserve further scrutiny by ANAO'.<sup>8</sup>

**2.47** In response to the Committee's comments, the ADF recruiting contract was selected as a topic for audit. The ANAO examined Defence's management of the contractual arrangements with Manpower for the provision of recruiting services to the ADF. Manpower itself was not subject to the audit. Audit Report No.10, 2003–04, *Australian Defence Force Recruiting Contract*, details the ANAO findings of the audit. Appendix 2 has more information on this audit.

## **Audit Report No.15, 2003–04, Administration of Staff Employed Under the Members of Parliament (Staff) Act 1984**

**2.48** The Senate, on 2 November 2000, passed a resolution requesting the Auditor-General review all expenditures and entitlements accruing to Parliamentarians and Ministers in 1999–2000. The Auditor-General was asked to consider a number of specific matters and report by 30 June 2001. On 10 November 2000, the Auditor-General wrote to the President of the Senate advising of his decision to undertake a performance audit. In August 2001, ANAO Audit Report No.5, 2001–02, *Parliamentarians' Entitlements: 1999–2000*, was tabled in the Parliament.

**2.49** In February 2001, the Auditor-General advised the President of the Senate that, given the range of issues involved and the slower than anticipated rate of progress being made by the ANAO in securing access to relevant Commonwealth records, it would be preferable to defer examination of issues relating to Parliamentarians' staff so that there was a reasonable chance of providing the information closer to the Senate's reporting timeframe. An audit of the administration by Finance of the entitlements of staff engaged under the *Members of Parliament (Staff) Act 1984* (MOP(S) Act) was subsequently included in the ANAO Audit Work Program for 2001–02.

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<sup>7</sup> Manpower operated as 'Manpower Defence Recruiting' with respect to the provision of services to the ADF during the initial stage of the operation of the contract.

<sup>8</sup> Senate Foreign Affairs, Defence and Trade References Committee, *Recruitment and Retention of ADF Personnel*, Canberra, 2001, p.36.



**2.50** Audit Report No.15, 2003–04, *Administration of Staff Employed Under the Members of Parliament (Staff) Act 1984*, examined the administration by Finance of payments and services to MOP(S) Act staff. More details on this audit are found in Appendix 2.

## Other ANAO Assistance to Parliament

**2.51** The ANAO is conscious that carefully targeted briefings to Committees allow Committee members to discuss particular issues in more depth and assist Parliamentarians, especially new Members and Senators, to understand audit related issues such as the selection of audit topics, and how audits may assist them in their work. Briefings may be on particular subjects or audits (or aspects of an audit).

**2.52** In the past six months, Committees (other than the JCPAA) that have received briefings include the:

- House Of Representatives Standing Committee on Economics, Finance and Public Administration;
- House of Representatives Standing Committee on Ageing; and
- Senate Finance and Public Administration References Committee.

**2.53** Some Ministers, Shadow Ministers and Ministerial Advisers have received, at their request, individual briefings on particular audits.

## Advancement of public sector administration overseas and within Australia

**2.54** The ANAO is recognised within Australia and internationally as being at the forefront of public sector auditing. As a consequence, in relation to public sector auditing and associated issues such as governance, the ANAO undertakes client seminars; hosts local and overseas delegations; participates in international groups; and contributes to conferences and other forums.

### *Client seminars*

**2.55** Client seminars are held twice a year for the ANAO financial statement audit clients to update them on developments in financial reporting requirements arising, primarily, from changes in accounting standards and the Finance Minister's Orders. The seminars are held in Canberra, Sydney and Melbourne.

**2.56** The seminars held in November and December 2003 introduced the proposed changes to Australian Accounting Standards arising from the adoption in Australia of International Standards that take effect on 1 January 2005.

### *Visiting delegations*

**2.57** During July to December 2003, the ANAO hosted almost 150 delegates from 11 organisations and the five countries listed below. Also, there was one visit by a delegation from an Australian state. Figure 2.1 provides information on the visiting delegations.

**Figure 2.1**

#### **Delegations visiting ANAO, July to December 2003**

<b>Country</b>	<b>Organisations represented by delegates</b>
Australia—New South Wales	Public Bodies Review Committee of the NSW Parliament
Belgium	Public Management Institute
Cambodia	Ministry Of Economy and Finance
China	Chinese National Audit Office Chinese Ministry of Commerce Xiamen Auditing Bureau Chinese Ministry of Supervision
United Kingdom	Audit Commission
South Africa	Northern Cape Provincial Legislature Standing Committee on Public Accounts Standing Committee on Finance and Economic Development—Western Province
Thailand	Royal Thai Government—Budget Bureau

### *Participation in international audit groups*

**2.58** On October 2003, at the invitation of the Governing Board, the Auditor-General attended the 50<sup>th</sup> anniversary of the International Organisation of Supreme Audit Institutions (INTOSAI).

**2.59** INTOSAI was created to promote the exchange of ideas and experiences between Supreme Audit Institutions around the world. Since its creation in 1953, its membership has grown from 34 to 185. INTOSAI projects discussed include audit independence, the harmonisation of auditing standards, the INTOSAI Development initiative and the International Journal of Government Auditing.

**2.60** The Auditor-General also attended the Asian Organisation of Supreme Audit Institutions (ASOSAI) Assembly in Manila last October. ASOSAI represents 32 Asian Audit Institutions and is a regional grouping of INTOSAI.



The objectives of ASOSAI include promoting understanding and cooperation through the exchange of ideas and experiences, providing facilities for training and continuing education and serving as a centre for regional audit development.

**2.61** Issues discussed by ASOSAI included:

- quality management in public sector auditing;
- guidelines for Information Technology (IT) auditing (a research project undertaken by supreme audit institutions of Australia, China, Malaysia and India); and
- audit guidelines on fraud and corruption (for use by ASOSAI members).

*Contributions to conferences and forum*

**2.62** From July to December 2003 the Auditor-General, Deputy Auditor-General and Audit Office staff delivered papers at 15 conferences and other forums associated with public administration. More details are found in Appendix 5.

## 3. Performance Audits

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*This chapter explains the objective of performance audits and summarises key issues arising from performance audits tabled from July to December 2003, according to the ANAO's main themes. Examples from recently tabled audits are used to illustrate each theme.*

### Performance Audit Objective

**3.1** The objective of ANAO performance audits is to improve agencies' administration and accountability by providing 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 Australian Government public sector entities. The ANAO does this by:

- undertaking a cost-effective program of audits;
- identifying and recommending better practices;
- 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.

**3.2** Complementing the ANAO's audit work program and directly contributing to the goal of improving public service administration are ANAO Better Practice Guides on a variety of issues.<sup>9</sup> These guides are based on:

- research undertaken by the ANAO with specific input provided, if necessary, by other parties, such as consultants, steering committees, or tertiary institutions;
- better practices identified during the conduct of audits; and
- information collected during surveys or studies associated with the preparation of particular BPGs.

**3.3** BPGs are a particularly useful means of making agencies aware of the latest developments in public administration and translating relevant private sector developments to a public sector environment. As well, they provide small agencies that do not have sufficient resources with the means to be conversant with relevant developments in public administration.

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<sup>9</sup> Appendix 3 lists better practice guides published from July to December 2003, while Appendix 4 lists the series titles.

**3.4** In reports tabled during July to December 2003, the ANAO made 87 recommendations aimed at improving the efficiency, administrative effectiveness and accountability of public sector service delivery. Agencies agreed with 84 of the recommendations and agreed partially, or with qualification, with the other three recommendations.

## Inclusion of Agency Comments in Audit Reports

**3.5** Since 1 July 2003, following a recommendation by the JCPAA and agreement with the recommendation by the Australian Government and pending legislation in relation to this, agency comments on a proposed report have been published in the final report<sup>10</sup> with a summary of agency comments being included in the brochure accompanying each audit report.

**3.6** The decision by the JCPAA to recommend the inclusion of agency comments in full was made to promote the effective management, by both audited agencies and the ANAO, of the 28-day comment period to ensure that requests for extensions of time remain the exception. The ANAO's past experience has been that, while the ANAO recognises that agencies have practical problems in relation to the co-ordination of responses, increasingly, delays in receiving replies have added to the costs of many audits. It has also made it more likely that an audit report's planned tabling schedule will be delayed with consequent disruption to the overall audit program impacting adversely on both the ANAO, and affected agencies and other organisations.

## Corporate Governance and Audit Themes

**3.7** The following sections discuss corporate governance, the themes discussed in paragraph 1.12, and recent ANAO reports addressing them.

### Corporate Governance

**3.8** The public sector is operating in an increasingly complex and dynamic environment that is impacting on corporate governance. Two 'environmental' factors discussed below are: corporate collapses in the private sector; and the increased complexity of service delivery and the related implementation of whole of government policies.

#### *Corporate collapses and the APS*

**3.9** Highly publicised corporate failures that have occurred, at least in part, because of breakdowns in private sector corporate governance have led

<sup>10</sup> In JCPAA Report 386, *Inquiry into the Auditor-General Act 1997* (September 2001), the Committee recommended a number of amendments to the Auditor-General Act. One recommendation was that the Auditor-General include in the final report agency comments on the draft report.

to Parliament, the media and the public taking a greater interest in APS corporate governance.

**3.10** Corporate failures in the private sector have been addressed in Australia in a number of ways. In relation to the private sector, for example, the Australian Stock Exchange (ASX) Corporate Governance Council has acted, providing advice on corporate governance in its *Principles of Good Corporate Governance*.<sup>11</sup>

**3.11** The Australian Government has addressed governance issues in the private sector through the Corporate Law Economic Reform Program, (CLERP 9), with action being taken to improve the corporate regulatory framework for private enterprise organisations. For example, an element of CLERP 9, *Corporate disclosure – Strengthening the financial reporting framework*,<sup>12</sup> provides advice on audit services. CLERP 9 also raises the issue of the lack of auditor independence as one factor that has contributed to corporate collapses (or, if not contributed to a corporate collapse, failed to identify the risk of a corporate collapse). Auditor independence was considered sufficiently important to be enshrined in the *Auditor-General Act 1997*.

**3.12** In the public sector, advice on improving corporate governance in Australian Government organisations should also be forthcoming with the publication of a report by Mr John Uhrig AC, who was commissioned by the Australian Government to review the corporate governance of statutory authorities and office holders. The review, announced by the Prime Minister in November 2002, examined structures for good governance, as well as the relationships between statutory authorities and office holders, portfolio Ministers, the Parliament, the public and business.

**3.13** ANAO audits continually identify weaknesses in aspects of the corporate governance for Australian Government organisations and this, among other things, promotes the recognition of the importance of public sector corporate governance. Therefore, there is an expectation that, at a minimum, Government agencies should have governance arrangements at least as robust and comprehensive as those for private enterprise organisations. For example, the Chief Executive of the International Federation of Accountants, Dr Ball, stated ‘all market participants, including governments, should meet the same disclosure requirements’.<sup>13</sup> As a consequence, public sector agencies need to ensure that they address private

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<sup>11</sup> <<http://www.asx.com.au>>.

<sup>12</sup> <<http://www.treasury.gov.au/documents/403/pdf/clerp9.pdf>>.

<sup>13</sup> Dr Ian Ball, 23 October 2002, CPA Australian Inaugural Neil Walker Memorial Lecture, CPA Congress, Melbourne.

sector governance issues as they are identified, particularly where the latter sector is involved in the delivery of public services.

### *Whole of government policies*

**3.14** The Prime Minister has noted that the Australian Government strategic program is now 'made up of both whole of government issues that cross many portfolio areas and more focussed strategic issues often covered by a single portfolio'.<sup>14</sup> The Prime Minister also identified the following nine areas that need to be addressed by whole of government policies: national security and defence; work and family life; demographics; science and innovation; education; sustainable environment; energy; rural and regional affairs; and transport.<sup>15</sup>

**3.15** The issue of whole of government policies and the complexity of APS policy development and service delivery was also enunciated by Dr Peter Shergold, Secretary, Department of the Prime Minister and Cabinet, when he observed:<sup>16</sup>

Public policy is ... not reducible to linear formulations or boxed areas of bureaucratic responsibility. Complexity often emerges as the ramifications of a policy evolve and, from my experience, only become fully visible when the Australian Government and the States work together to address the issues.

**3.16** Dr Shergold went on to note that, as a consequence, the APS is increasingly required to take a whole of government approach to address public policy issues:

the public isn't interested in identifying which level of Government is responsible for the delivery of which services: their goal, quite appropriately, is the seamless delivery of public policy.

**3.17** The increasing number of whole of government (or, as it is otherwise known, 'joined-up government') projects developed to implement whole of government policies, places additional demands on the capacity of agencies to maintain an appropriate level of corporate governance. In particular, in situations where a number of agencies contribute to an outcome, sufficient information should be collected and reported for the overall effectiveness of a

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<sup>14</sup> The Hon. John Howard, MP Prime Minister, 20 November 2002, *Strategic Leadership for Australia: Policy Directions for a Complex World*, <[www.dpmc.gov.au](http://www.dpmc.gov.au)>.

<sup>15</sup> *ibid.*

<sup>16</sup> Dr Peter Shergold, September 2003, *Been Down So Long It Feels Like Up To Me: working in Commonwealth-State Relations*, Institute of Public Administration Australia, *Spotlight on Spring Street Issues*.

program to be determined. Therefore, a lead agency should collect and report the overall effectiveness of a program.

**3.18** From an audit perspective, a risk that arises from whole of government projects is that separate audits by the Australian Government Auditor-General and one or more Australian State Auditors-General of such a project, may result in different conclusions about the project, perhaps arising from different perspectives, and hence, create public confusion. This can occur because the scope of each audit is necessarily limited to the member's own area of responsibility. A further risk is that part, or all, of a project may 'fall between the cracks' and not be considered for audit at all.

**3.19** As a consequence, Australian/State Government Auditors-General may need to consider taking a joint responsibility for providing assurance to the various legislatures. However, current legislation that determines the operation of each member may limit the extent of cooperation between members. However, cooperation between Australian/State Government Auditors-General to conduct contemporaneous audits may often be possible. For example, this approach was successfully adopted for an audit of the gun buy-back scheme, funded by the Commonwealth and operated by the States and Territories, in 1996–97.

## **Themes:**

### **Human Resource Management Including Workforce Planning**

**3.20** A major issue confronting private and public organisations is their capacity to attract and retain suitable staff so that they can effectively achieve their objectives, that is, organisational renewal. The Management Advisory Committee's (MAC's) report, *Organisational Renewal*,<sup>17</sup> identified many of the human resource management and workforce planning issues that must be addressed by the APS for organisational renewal to take place effectively. Foremost among the issues identified were the:

- implications of the ageing profile of the APS and the resignation and retirement patterns of mature-aged workers, including the impact of current superannuation arrangements; and
- career intentions and patterns of new graduate entrants and their implications for workforce planning.

**3.21** MAC indicated that it was essential that APS organisations understand their workforce, identify current and future capability

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<sup>17</sup> Management Advisory Committee, *Organisational Renewal*, Commonwealth Government of Australia, 2003.

requirements and implement succession management. As well, APS organisations need to adopt a number of strategies to attract and retain people with the necessary human resource skills. These strategies include:

- flexible working patterns that recognise that life stage dynamics influence workforce participation (part-time work, flexible working hours, home based work, purchased leave);
- the use of the agreement making facilities offered by the *Public Service Act 1999* and *Workplace Relations Act 1996* to create these flexible working patterns;
- management and leadership consistent with the needs of a dynamic workforce. For example, leadership that understands the need for flexible approaches to resource management;
- learning and development opportunities; and
- knowledge management.

**3.22** Principles that reflect better practices, to be observed when developing strategies to promote learning and development opportunities, can be found in the ANAO Better Practice Guide, *Building Capability – A framework for managing learning and development in the APS*, April 2003.

#### ***ANAO reports examining human resource management***

**3.23** In the period July to December 2003, the ANAO did not table any performance audit reports that primarily addressed human resource management. However, human resource management was a major theme in the following audits:

- Audit Report No.9, 2003–04, *Business Continuity Management and Emergency Management in Centrelink*; and
- Audit Report No.10, 2003–04, *Australian Defence Force Recruiting Contract*.

## **Financial Management and Reporting**

**3.24** Failures in corporate governance referred to previously (3.9, 3.10) have had a significant impact on financial management and reporting in Australia and overseas. For example, in relation to corporate collapses, the Comptroller-General of the United States recently stated:<sup>18</sup>

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<sup>18</sup> David M. Walker, Testimony before the subcommittee on Government Efficiency and Financial Management, Committee on Government Reform, House of Representatives, 8 October 2003; GAO-04-117T.

our nation now faces new challenges that demand even more from government performance and accountability professionals...recent corporate failures have shaken public confidence in financial reporting and accountability in the private sector...

**3.25** Australia has also experienced corporate collapses and faces a similar loss of public confidence in financial management and reporting.

**3.26** The APS is in the fortunate position, in that, it has had an ongoing program to improve financial management and reporting over the last several years. The Finance Minister, Senator Minchin, has detailed some of these reforms as follows:<sup>19</sup>

- the move from a simple cash based budget to a full accrual budget;
- reporting of all Australian Government decisions;
- the statement of risks;
- agencies providing a forecast set of financial statements and performance indicators for their outcomes and outputs; and
- a comprehensive mid-year budget update.

**3.27** These innovations, as Senator Minchin observed, have received international recognition as better practices for public sector financial reporting.<sup>20</sup>

#### *ANAO reports examining financial management and reporting*

**3.28** In the period July to December 2003, the ANAO tabled three performance and one Business Support Process (BSP) audit reports that mainly addressed financial management and reporting. The following reports are examples of these that demonstrate issues related to this theme.

**3.29** Audit Report No.12, 2003–04, *The Administration of Telecommunications Grants*, assessed the administration of grants programs worth nearly \$500 million, designed to enhance telecommunications infrastructure and services in regional, rural and remote areas of Australia. Issues examined included: financial and performance information; performance reporting; and the management of funding agreements associated with the grants. The audit found that although the administration of the programs demonstrated elements of better practice there was scope to improve the administration of the programs examined. In relation to financial management and reporting, for example, shortcomings were the timing of progress reports and the absence of a link between progress reports and project payments. The audit

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<sup>19</sup> Senator Minchin, Media Release, *Budget 2003/04—Budget Transparency Improved*, May 2003.

<sup>20</sup> op cit.13.



also found that although public reports provided information on levels of program activity, it is difficult for stakeholders to get a sense of what outcomes have been achieved by the programs.

**3.30** Audit report No.21, 2003–04, *Special Employee Entitlements Scheme for Ansett Group Employees* (SEESA) addressed the management of two key elements of SEESA: DEWR's management of SEESA payments; and DOTARS' management of the Air Passenger Ticket Levy. The audit found that SEESA payments have been made far more promptly than if the employees had had to wait until assets were realised and creditors paid. Despite the assessed effectiveness of SEESA, the ANAO considered that DEWR could have been more efficient in its administration despite the tight timeframe. One of the key issues was that there were opportunities, in the ANAO's view, for DEWR to have better managed the repayment of the SEESA loan and the interaction between SEESA and other Commonwealth payments.

## Performance Management and Measurement

**3.31** The Management Advisory Committee stated in its publication, *Performance Management in the Australian Public Service—A Strategic Framework*:<sup>21</sup>

Performance management is an essential component of a corporate governance framework, allowing boards, Ministers and committees to lead, monitor and respond to how an organisation delivers against its goals, mission and the outcomes required of it by the government.

**3.32** That is, robust performance information is essential for good corporate governance and performance management. This is widely recognised by APS agencies, which have comprehensive guidance to assist them to develop and report sound performance information, including the following publications:

- Department of Finance and Administration, *The Outcomes and Outputs Framework - Guidance Document*, November 2000;
- Department of Prime Minister and Cabinet, *Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies*, June 2003;
- Australian National Audit Office, *Performance Information Principles – Better Practice Guide*, 2000;
- Australian National Audit Office, *Performance Information in Portfolio Budget Statements*, May 2002; and

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<sup>21</sup> Management Advisory Committee, 2001. *Performance Management in the Australian Public Service—A Strategic Framework*, Commonwealth of Australia, Canberra, p.14.

- Australian National Audit Office, *Annual Performance Reporting*, November 2003.

**3.33** Besides these APS specific documents, there is also a considerable volume of literature that addresses issues related to performance measurement and management. For example, on the Balanced Scorecard<sup>22</sup> and the Triple Bottom Line<sup>23</sup> (TBL).

**3.34** Both the Balanced Scorecard and the TBL have been part of private sector reporting for over a decade. A number of APS agencies have incorporated the principles behind the Balanced Scorecard in their performance measurement and management arrangements. However, the first ever verified TBL was not produced by an Australian Government agency until 2002–03.<sup>24</sup>

**3.35** While there is no agreed definition of precisely what TBL reporting comprises and covers, it is currently fairly widely accepted that, at its narrowest, the term TBL is used to describe the framework for measuring and reporting organisational performance against economic, social and environmental indicators. At its broadest, the term is used to capture the full set of values, issues and processes that organisations must address in order to create economic, social and environmental value and to minimise any harm resulting from their activities to the economy, society or environment. This necessitates organisations being clear about their purpose and taking into consideration the needs of all their stakeholders. The emphasis is on organisational sustainability, which also provides a framework for more effective risk management as part of good corporate governance.

#### *ANAO reports examining performance management and measurement*

**3.36** In the period July to December 2003, the ANAO tabled six performance and one BSP audit reports that mainly addressed performance management and measurement. The BPG, *Management of Scientific Research and Development Projects in Commonwealth Agencies*, which also deals with performance management issues, was also released. The following reports are examples of the six audits that demonstrate issues related to this theme.

**3.37** Audit Report No.1, 2003–04, *Administration of Three Key Components of the Agriculture--Advancing Australia (AAA) Package*, reports on the adequacy of

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<sup>22</sup> Kaplan Robert S & Norton David P, 1992, *The Balanced Scorecard—Measures that Drive Performance*, Harvard Business Review Jan/Feb. Since this paper was published, a number of other papers and books on the Balanced Scorecard have been published by Kaplan and Norton.

<sup>23</sup> Elkington John, 1999, *Triple Bottom Line Revolution—reporting for the third millennium*, Australian CPA, vol.60 No.10, November.

<sup>24</sup> Department of Family and Community Services.

the Australian Government's administration of three key components of the Agriculture—Advancing Australia package: the FarmBis II program; the Farm Help program; and the Farm Management Deposits scheme. Broadly, the audit examined the areas of strategic management, managing compliance, program promotion, performance monitoring and evaluation, and performance results.

**3.38** The ANAO concluded that many aspects of administration of the AAA programs examined are well managed. The programs have been well promoted. There is a performance management framework, although better use could be made of targets and data collected to assist in assessing performance. There are some weaknesses in administration, most notably relating to strategic management and compliance arrangements, which require strengthening for more effective outcomes. The issues are relevant for these programs as well as for any extension to them.

**3.39** Audit Report No.11, 2003–04, *Annual Performance Reporting*, was undertaken in response to recommendations made by the JCPAA's Report No.388, *Review of the Accrual Budget Documentation*, which was released in June 2002. The audit reviewed the 2001–02 annual reports of the Departments of: Communications, Technology and the Arts; Education, Science and Training; Employment and Workplace Relations; Immigration and Multicultural and Indigenous Affairs; and the Australian Customs Service. The audit focussed on the annual reporting performance information frameworks of each of the agencies and how they were used to measure and analyse results for their 2001–02 annual reports. The ANAO found that performance information generally had not been presented and analysed in annual reports in a way that would allow Parliamentarians and other stakeholders to interpret and fully understand results. In order to provide accountability and transparency to Parliamentarians and other stakeholders, agencies' annual reporting frameworks need to be improved.

**3.40** Audit Report No.20, 2003–04, *Aid to East Timor*, assessed the Australian Agency for International Development's (AusAID) planning for, and management of, delivery of aid to East Timor. The audit concluded that AusAID made a significant and timely response to the humanitarian crisis in East Timor, and that Australian post-crisis assistance through multilateral trust fund arrangements and bilateral aid has contributed to East Timor's economic and social recovery.

**3.41** The audit found that limitations in performance management, at the country program level, hampered AusAID's ability to assess whether overall desired aid objectives have been met. It also found that the quality of performance indicators and associated targets could be improved, to better monitor performance of individual bilateral aid activities.

## Procurement and Contract Management

**3.42** The Australian Government is a major purchaser of goods and services and, as such, has a well-established framework to guide procurement exercises. The FMA Act and related regulations govern Australian Government procurement. These are supported by specific requirements for each agency that are detailed in agencies' Chief Executive Instructions, and the *Commonwealth Procurement Guidelines*<sup>25</sup> (CPG) that describe the core principles and better practices.

**3.43** The primary issue that must be considered when purchasing goods and services is value-for-money. Underpinning this prime consideration are the principles of: efficiency and effectiveness; accountability and transparency; ethics; and industry development.

**3.44** The application of these principles can be a complex task given the range of issues that need to be considered. For example, in relation to service delivery, Dr Peter Shergold observed:<sup>26</sup>

There is increasing competition in the delivery of services to government and on behalf of government. Benchmarking, market testing and contract management have become a staple of public administration. The provision of policy advice has become contestable. The delivery of public policy has been outsourced.

**3.45** Therefore, there is a significant risk that inappropriate procurement decisions will be made and agencies should critically assess their procurement and contract management arrangements. Such an assessment is the *Defence Procurement Review 2003*.<sup>27</sup> An important element of this is the examination of the:

- involvement and support of senior Defence personnel;
- transparency of the review process; and
- quality and experience of the review team.

### *ANAO reports examining procurement and contract management*

**3.46** In the period July to December 2003, the ANAO tabled two performance and two BSP audit reports that mainly addressed procurement and contract management.

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<sup>25</sup> Department of Finance and Administration, February 2002, *Commonwealth Procurement Guidelines and Best Practice Guidance*.

<sup>26</sup> Dr Peter Shergold, 13 June 2003, *Two Cheers for the Bureaucracy: Public Service, Political Advice and Network Governance*, Australian Public Service Commission Lunchtime Seminar.

<sup>27</sup> Department of Defence, August 2003, *Defence Procurement Review 2003*.

**3.47** Audit Report No.4, 2003–04, *Management of the Extension Option Review – Plasma Fractionation Agreement*, examined the application of the FMA Act and Regulations and the CPGs to situations where agencies decide not to exercise an option to extend a major procurement contract. Health noted its view that the FMA Regulations 8 to 13 did not apply in this circumstance and that the CPGs do not specifically address options. Finance and ANAO did not agree with Health's view. However, given that there may be uncertainty about this issue, ANAO recommended that Finance enhance the guidance provided in the CPGs by including specific advice to agencies on the procedures to be applied to evaluating options in materially important procurement contracts. Finance agreed with this recommendation. In October 2003, Finance issued a Procurement Circular, which confirmed that the core principle of value for money specified in the CPGs applies to the consideration of options in materially important procurement contracts.

**3.48** Audit Report No.5, 2003–04, *The Senate Order for Departmental and Agency Contracts Autumn 2003*, assessed the inappropriate use of confidentiality provisions in agency contracts. The majority of lists examined generally complied with the requirements of the Senate Order, although there was scope for agencies to improve the presentation of the lists. Other key considerations were: the placement of contracts on agency websites by the due date; the classification of information as confidential; and the specific identification of the confidential information.

**3.49** Audit Report No.10, 2003–04, *Australian Defence Force Recruitment Contract*, examined Defence's management of its contractual arrangements with Manpower Services (Australia) Pty Ltd (Manpower) for the provision of recruiting services to the Australian Defence Force (ADF). Overall, the ANAO found Defence's contractual arrangements with Manpower for the provision of recruiting services to be sound. An absence of benchmarks and evaluation criteria in the contract prompted concerns about the evaluation to be conducted to inform the decision on whether Manpower's contractual term should be extended after 30 June 2007. Documented performance against the contract objectives would be an appropriate benchmark to inform such a decision. In response to the audit, Defence advised that it had commenced a benchmarking exercise and will develop, as part of the benchmarks, a set of criteria that will be used to evaluate the performance of the recruiting services by Manpower.

**3.50** Audit Report No.19, 2003–04, *Property Management* evaluated the delivery of property management services in selected organisations. In particular, it assessed whether those services were effectively supporting the delivery of each organisation's business or services. The property management policies and practices of each organisation were assessed against a series of evaluation criteria, which included an analysis of the level and nature of planning for, and the management of information associated with,

property holdings and property-related activities. As many of the property-related processes reviewed during the audit were delivered under contractual arrangements, the audit also considered the contract management processes in place, including how the performance of service providers was measured and monitored.

## Application of Information Technology and Other Resources

**3.51** The Australian Government is committed to promoting the use of IT and, particularly, the information economy. By way of explanation of the *Government Online Strategy*<sup>28</sup>, the Hon. John Fahey, MP stated in 1998:<sup>29</sup>

Online services and electronic commerce are the future, both public and private.

**3.52** Since this commitment and the implementation of the Online Strategy, there has been a rapid uptake of IT in the APS. A National Office for the Information Economy (NOIE) study placed Australia third in its e-government rankings (out of 11 developed countries and behind the United States and Canada).<sup>30</sup> An Accenture survey of 22 countries placed Australia fifth in terms of the maturity of e-government services.<sup>31</sup>

**3.53** To date the primary concerns in relation to e-government have been process issues such as the maintenance and integrity of electronic information, and client privacy. These issues are being addressed at the Government level. The JCPAA, is also examining them in *The Inquiry into Management and Integrity of Electronic Information in the Commonwealth*.

**3.54** Prudent risk management in relation to IT has always required a consideration of the effects of 'catastrophes' such as fires or flood that infrequently in the past have caused a disruption to government IT facilities. However, there is increasing evidence over the last few years that the incidence and type of risk could be changing. International terrorism is on the increase as is 'IT vandalism'. The United States General Accounting Office

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<sup>28</sup> <[www.noie.gov.au/projects/egovernment/archive/govonlinestrategy.htm](http://www.noie.gov.au/projects/egovernment/archive/govonlinestrategy.htm)>: Department of Communications, Information Technology and the Arts, April 2000, *Government Online—The Commonwealth Government's Strategy*.

<sup>29</sup> The Hon. John Fahey MP, May 1998, *The Gatekeeper—A strategy for public key technology use in the government*, Foreword.

<sup>30</sup> <[www.noie.gov.au](http://www.noie.gov.au)>, NOIE, August 2003, *NOIE Economy Index, E Government rankings*.

<sup>31</sup> <[www.Accenture.com](http://www.Accenture.com)>, August 2003, *eGovernment Leadership: Engaging the Customer*, p.7.



(GAO) has identified and described such concerns in relation to IT systems and data in a recent report:<sup>32</sup>

These concerns are well-founded for a number of reasons, including the dramatic increases in reported computer security incidents, the ease of obtaining and using hacking tools, the steady advance in the sophistication and effectiveness of attack technology, and the dire warnings of new and more destructive attacks ...

**3.55** It is, therefore, important that APS agencies reassess arrangements to ensure the continuity of business in the event of a natural catastrophe or a terrorist incident. In particular, Australian Government agencies must be able to maintain the integrity and continued access to IT resources.

*ANAO reports examining the application of IT and other resources*

**3.56** In the period July to December 2003, the ANAO tabled two performance audit reports that mainly addressed the application of IT and other resources.

**3.57** Audit Report No.9, *Business Continuity Management and Emergency Management in Centrelink*, considered the adequacy of Centrelink's business continuity management process and practices that would enable it to continue delivering essential services to its customers. A key consideration of the audit was the business continuity management (including disaster recovery) capability of Centrelink's information technology and telecommunications (IT&C) infrastructure and applications. Linked to this, was the treatment of business continuity for Centrelink's major IT&C contractors. The audit also considered human resource policies that influence the continuity responses for events that may impact on Centrelink's employees.

**3.58** In Audit Report No.18, *The Australian Taxation Office's Use of AUSTRAC Data Follow-up Audit* the ANAO assessed the ATO's progress in implementing the recommendations of Audit Report No.7 2000-01, *The Australian Taxation Office's Use of AUSTRAC Data*. The ATO uses financial transaction report (FTR) information provided by the Australian Transaction Reports and Analysis Centre (AUSTRAC) in its administration of the taxation system. The use and management of FTR data is an important source of financial intelligence for the ATO. In following up the original audit recommendations, particular consideration was given to the more effective use of FTR data and the implementation of a performance measurement framework, that supports the effective monitoring and reporting of the ATO's use of FTR data.

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<sup>32</sup> GAO, April 2003, *Information Security: Progress Made, But Challenges Remain to Protect Federal Systems and the Nation's Critical Infrastructures*, Report No.GAO-03-564T.

## Service Delivery

**3.59** Over the last several years, clients being serviced by APS agencies have observed a revolution in the way these services are delivered because of, for example, the Government Online Strategy (see paragraph 3.51) and the cooperative delivery of cross portfolio programs by a number of agencies. From a client perspective, these changes have simplified access to services considerably.

**3.60** Notwithstanding this revolution to service delivery, Government agencies need to have basic systems and controls in place to promote the quality of service delivery and transparency. For example, where required, planning for a program should be based on a whole of government approach and realistic specifications should be developed for the services to be delivered. Another basic requirement is the adequacy of guidance and training available to agency staff who are required to deliver the services.

**3.61** From a transparency perspective, it is essential that agencies have in place a measurement and control framework related to administration of the services delivered, so that Parliament can be assured that clients receive the appropriate level of service and, as appropriate, correct payments (or accounts).

### *ANAO reports examining service delivery*

**3.62** In the period July to December 2003, the ANAO tabled three performance audit reports that mainly addressed service delivery. The following reports are examples of these that demonstrate issues related to this theme.

**3.63** Audit report No.13, 2003–04, *ATSIIS Law and Justice Program*, addressed ATSIIS' management of the Law and Justice Program, having particular regard to the relative needs of Indigenous Australians. The audit found that while ATSIIS had effective processes in place regarding the financial oversight of the program and its grant recipients, there were weaknesses in the performance management of the program and the use of performance reports provided by grant recipients. In this environment ATSIIS had little information or assurance on the quality of services provided.

**3.64** The audit concluded that ATSIIS needed to act to provide realistic specifications for the services being provided. For example, clearly articulating the nature, type and quantity of legal services that ATSIIS wants to purchase and communicating these to potential service providers/grant recipients. Without these specifications, there are clear risks that there will be continued reductions in delivery of quality services.

**3.65** Audit Report No.15, 2003–04, *Administration of Staff Employed Under the Members of Parliament (Staff) Act 1984*, examined the administration by the



Finance of payments and services to MOP(S) Act staff. In 2001–02, direct payments made by Finance to, or on behalf of, MOP(S) Act staff amounted to \$101.4 million. Overall, the ANAO concluded that the control framework applying to the administration of employment-related payments to, and on behalf of, MOP(S) Act staff was improved by Finance over the four-year period examined by the ANAO. Finance also implemented, or took under consideration, additional improvements in order to address matters raised by ANAO over the course of the audit, or identified by the Department in the course of compiling information requested by the ANAO. The ANAO made a number of recommendations concerning improvements in the areas of personnel administration; authorisations and certifications; the control framework for payments; and payments and services provided to MOP(S) Act staff during election periods.

## 4. Financial Statement Audits

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*This chapter summarises financial audits and other financial audit activities conducted by the ANAO during the period July to December 2003. It also discusses significant issues such as the timing for financial statement preparation, and major findings from the annual Controls Report.*

### Audits of Individual entities

**4.1** The ANAO undertakes financial statement audits of all Australian Government agencies and bodies (described here as entities) each year. The FMA Act, the CAC Act and the *Corporations Act 2001* prescribe the need for entities to prepare financial statements and arrange for their audit.

**4.2** 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. That 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 operations 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.

**4.3** 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. Nevertheless, ANAO auditors are constantly on the lookout for any indications and/or evidence of fraud or unethical behaviour.

**4.4** The results of financial audits, together with any important findings arising from the audits, are reported directly to the responsible Minister at the completion of the audit, and progressively to executive management of each entity. If matters are not regarded as material to the audit opinion but are nevertheless of audit interest, a decision may be made by an audit manager, with approval, to conduct a separate investigation after the financial statement audit is completed.

**4.5** The audit report on the financial statements, which contains the audit opinion, is included together with the financial statements of each entity, in its Annual Report tabled in the Parliament. This report is the principal vehicle by which the Parliament and the public are able to hold an entity accountable for its financial performance.

## Summary Reports

**4.6** The Auditor-General also produces reports to the Parliament that summarise the outcomes of all financial statement audits. The first report, Audit Report No.61, 2002–03, *Control Structures as part of the Audits of the Financial Statements of Major Commonwealth Entities for the Year Ended 30 June 2003*, summarised issues regarding financial systems, controls and processes, arising from the interim phase of the financial statement audits of major Commonwealth entities for the year ended 30 June 2003.

**4.7** Audit Report No.22, 2003–04, *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2003*, draws together the overall results of the financial statement audits of Commonwealth agencies and entities. Together, these reports summarised the results of the audits of financial statements of all Australian Government entities for 2002–03.

## Audits of financial statements

**4.8** The ANAO formed an opinion and reported on the financial statements of 257 Australian Government entities for the period ended 30 June 2003, including the Australian Government's Consolidated Financial Statements. These entities are diverse in size, function and location. As mentioned above, the results of this work were reported in Audit Report No.22, 2003–04, *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2003*.

**4.9** Four qualified audit reports were issued for a variety of reasons, but predominantly for departures from financial reporting requirements and matters relating to limitations of the scope of audits.

**4.10** The ANAO also included 'matters of emphasis' in reports on the financial statements of a further eight entities. These references drew attention to issues which would be considered significant to the readers of the financial statements but which did not, of themselves, justify an audit qualification.

**4.11** In addition, the ANAO issued ten unqualified audit reports containing 'another statutory matter', advising that a contravention of section 48 of the FMA Act had occurred.

## The consolidated financial statements and the final budget outcome

**4.12** At the close of each financial year the Government prepares two key financial reports:

- the Consolidated Financial Statements (CFS) of the Australian Government which are prepared and audited pursuant to sections

55 and 56 of the FMA Act to present the financial results and the financial position of the Commonwealth; and

- the FBO Report that is prepared pursuant to Section 18 of the *Charter of Budget Honesty 1998* (the Charter) to present Commonwealth budget sector and Commonwealth general government sector fiscal outcomes for a financial year.

**4.13** Each financial report serves different purposes and is based on different sets of external reporting standards.

**4.14** The CFS are prepared on an accrual basis in accordance with applicable Australian Accounting Standards (AAS), including Financial Reporting by Governments AAS 31, and other mandatory professional reporting requirements in Australia and statutory requirements. The CFS is a general purpose financial report that discloses the assets controlled and liabilities incurred by the Government, the Government's revenues and expenses, and its related cash flows. Reporting under this framework provides a consolidated overview of the financial performance and position of the Government.

**4.15** Consistent with the requirements of the Charter of Budget Honesty, the FBO Report is based on the Australian Bureau of Statistics accrual Government Finance Statistics (GFS) framework as well as on AAS. The Charter also requires that departures from applicable external reporting standards be identified.

**4.16** The FBO Report, which is required to be produced within three months of the end of each financial year, comprises:

- unaudited information;
- general government sector budget aggregates with an analysis of final budget outcomes;
- Commonwealth financial statements in accordance with GFS;
- unaudited general government financial statements in accordance with AAS 31, *Financial Reporting by Governments*; and
- updated federal financial relations data.

**4.17** An explanation is provided in the FBO report of the key differences between the GFS aggregates and their counterparts prepared on the basis of Australian Accounting Standards.

## Harmonisation of Australian GAAP<sup>33</sup> and Government Finance Statistics

**4.18** A recommendation contained in Estimates Memorandum 2002/13, *Budget Estimates and Framework Review – Recommendations*, required that Finance continue to work towards harmonisation of GAAP and GFS frameworks. The review proposed that this would be achieved via the development of an Australian accounting standard for government to harmonise the two frameworks. This was reinforced in April 2003, when the Financial Reporting Council (FRC) set the broad strategic direction for the Australian Accounting Standards Board (AASB) to harmonise Australian GAAP with Government Financial Statistics.

**4.19** The ANAO supports this initiative from the viewpoint of overcoming the confusion that results from having two frameworks.

**4.20** If the ANAO is ever requested to audit the FBO Report, the issue of relevant standards to be used would be central to the audit.<sup>34</sup> Such an audit would include a review of the CFS to determine adherence with the relevant GFS framework.

## Adoption of International Financial Reporting Standards

**4.21** In July 2002, the Financial Reporting Council gave the AASB a strategic direction to adopt International Financial Reporting Standards (IFRSs) in Australia for reporting periods starting on, or after, 1 January 2005.

**4.22** The reasons for adoption of IFRSs are explained in *CLERP 9 Corporate Disclosure* (2002), the ninth paper in a series of Government proposals to amend corporate law. For the private sector, entities will be able to list on more than one stock exchange around the world and only prepare one set of financial statements. In addition, the cost of capital will be positively influenced due to the need to only prepare one set of accounts. Australia will be more open to the world investment markets. Other benefits envisaged by the AASB include facilitating more meaningful comparisons of the financial performance and financial position of Australian and foreign public sector reporting entities; and improving the quality of financial reporting in Australia to meet best international practice.

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<sup>33</sup> Generally Accepted Accounting Practices

<sup>34</sup> See paragraph 2.31 for more background information on this issue.

**4.23** Harmonisation with IFRSs will impact upon all public sector entities. The extent of the changes will differ from entity to entity depending on the specifics of their business. Each entity will need to review the changes that will arise from harmonisation and assess how those changes will impact upon it.

**4.24** Some important issues to be aware of are:

- changes in relation to the recognition or de-recognition of assets or liabilities;
- new recognition criteria for revenues and expenses;
- comparative data to be collected in 2004–2005;
- changes to systems to capture new reporting requirements; and
- changes in the information to be disclosed.

**4.25** The International Accounting Standards Board issued IFRS 1, *First-time Adoption of International Financial Reporting Standards*, in June 2003. This standard outlines the arrangements for transitioning to international accounting standards. A key aspect to this standard is the requirement for international standards to be applied in a retrospective manner. For the balance date before the first internationally compliant statements are published, entities will need to prepare two sets of financial statements. One set is to be compliant with current AAS for publication as normal. The second set, to be compliant with harmonised AASB standards, will not be published immediately and will instead form the comparative data for the following year's financial statements. This message is of particular importance to those entities with a balance date of 31 December, which will be amongst the first to apply the new standards.

**4.26** Following issuance of IFRS 1, the timetable for implementation of the new standards currently stands as follows:

Balance Dates	Key Dates and Events				
				Full reporting under harmonised standards	
	Prepare Opening Balance Sheet	Start collecting comparative data	Full year comparative data figures	Half year reporting period ending	Annual reporting period ending
30 Jun	30/6/2004	1/7/2004	30/6/2005	31/12/2005	30/6/2006
31 Dec	31/12/2003	1/01/2004	31/12/2004	30/06/2005	31/12/2005
31 Mar	31/03/2004	1/04/2004	31/03/2005	30/09/2005	31/03/2006
30 Sep	30/09/2004	1/10/2004	30/09/2005	31/03/2006	30/09/2006

## Timing for Financial Statements Preparation

**4.27** For Commonwealth entities, under Section 57 of the FMA Act, and under clause 3, part 2 of Schedule 1 of the CAC Act, the Auditor-General is required to report each year to the relevant Minister on whether the entity's financial statements have been prepared in accordance with the *Finance Ministers Orders* (FMOs) and whether they give a true and fair view of the matters required by those orders. Both Acts outline the responsibilities of Commonwealth entities regarding the maintenance of adequate accounting records and reporting obligations.

**4.28** The Budget Estimates and Framework Review, accepted by Government in September 2002, made twenty recommendations. A number of the recommendations relate to the progressive improvement in the timeliness of reporting accrual budget outcomes. For the financial year ending 30 June 2005, the delivery targets for material entity financial statements will be:

- 20 days from the end of the financial year for financial statements submissions to Government;
- 25 days from the end of the financial year for providing a preliminary accrual budget outcome to Government; and
- 45 days from the end of the financial year for the final budget outcome report to Government.

**4.29** The submission of financial statements within 20 calendar days will be phased in over the 2003–2004 and 2004–2005 financial years. All material entities forming part of the CFS will be required to produce audit cleared material financial statements by 31 July 2004 and by 20 July in 2005.

## Audit of the CFS 2002–03

**4.30** As mentioned previously (4.12 to 4.17), the CFS fulfil a key stewardship obligation of the Government to report its financial performance during the reporting period and, consequently, are an important element of open and accountable government.

**4.31** The Minister for Finance and Administration is required under Section 55 and Section 56 of the FMA Act to table audited financial statements of the Commonwealth Government of Australia in each House of Parliament, as soon as practicable after the end of the financial year. The CFS for the year ended 30 June 2003 were signed and the audit report was issued on 7 November 2003. The financial statements and audit report were tabled in Parliament on 4 December 2003.

## Audit report

**4.32** The audit report expressed an opinion containing six qualifications under four broad headings and two 'emphases of matter'. These are explained in detail below. Two qualifications were the result of differences in accounting policies and the associated disclosures in the CFS. The other qualifications covered limitations of scope. The 'emphases of matter' were due to inherent uncertainty regarding two components of the Australian Government's liability position.

## Qualifications

### *Taxation Revenue*

**4.33** As in past years, the CFS for 2002–2003 have been prepared using the taxation liability method (TLM). This method recognises taxation revenue at the time when tax payments are due and payable. The adoption of TLM does not conform to AAS 31 Financial Reporting by Governments, in that it does not recognise all taxation revenue, assets and liabilities in the period in which the underlying transactions occur.

**4.34** In contrast, the ATO has continued to recognise taxation revenue in its annual financial statements on an accruals basis using the economic transactions method (ETM). Under ETM, taxation revenue is recognised in the period when underlying economic activity giving rise to a taxation obligation actually takes place. As a result, the ATO reports estimates of accrual revenues in relation to taxation assessments that will be raised in the following reporting period; the amount of revenue reported takes into account estimated refunds; and/or credit amendments to which taxpayers may be entitled. This treatment is also consistent with the requirements of taxation legislation wherein a taxation liability exists prior to a formal assessment.

**4.35** The ETM basis of estimating taxation revenue for accounting purposes is stronger both conceptually and on legal grounds than the TLM and, most importantly, clearly meets the requirements of AAS 31 including reliability of measurement. The TLM is aligned to modified cash accounting. This view is supported both by expert legal and accounting advice and reflects the basis on which the Commissioner for Taxation has prepared his financial statements in recent years (which were unqualified).

**4.36** The use of TLM, rather than ETM, has a material effect on the CFS. The financial effects of employing the former approach are as follows:

- the operating result for the year is understated by \$1.8 billion (2002: \$2.8 billion); and
- there are understatements as at 30 June 2003 in accrued revenues of \$31.3 billion (2002: \$25.7 billion) and liabilities of \$21.9 billion (2002:



\$18.1 billion). Reported net liabilities are overstated by \$9.4 billion (2002: \$7.6 billion).

**4.37** The difference between TLM and ETM revenue is the result of ETM revenue being recognised at an earlier point in the taxation cycle, other things being equal. In a growing economy, ETM revenue would generally be higher than TLM revenue. For this reason, the use of TLM in the current financial year has reduced the size of the surplus reported in the Statements of Financial Performance. A qualified audit opinion was issued on the 2002–2003 CFS due to the material understatement of taxation revenue associated with TLM being used as the basis for the recognition of taxation revenues.

**4.38** Currently, the use of the TLM method is consistent with the treatment adopted for the 2002–2003 Budget. The Departments of Finance and Administration and Treasury take the view that the ETM method does not currently provide a reliable measure of taxation revenue recognition for both budget and actual reporting purposes. However, both departments recognise that the comparable reliability of the two methods should be reviewed in future years. The Minister for Finance and Administration has been made aware of the issues involved.

#### *Goods and Services Tax and Related Grants Expense*

**4.39** As in the previous year, the CFS for 2002–2003 have been prepared without recognising the GST as a revenue of the Commonwealth Government.

**4.40** The Australian Government's reason for excluding GST and associated grant payments to the states is based on the view that the GST is a State tax collected by the Australian Government in an agency capacity, in accordance with the intent of the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations.

**4.41** From an accounting perspective, the GST is a revenue of the Australian Government. It is imposed under Australian Government legislation and the Australian Government, therefore, controls the revenue raised. The Government's decision to enter into an agreement to pass the GST revenue collected to the States is a separate transaction conducted to meet its particular objectives.

**4.42** The Australian Government's control of the GST revenue is also illustrated by the fact that the distribution of GST revenue is based on population share adjusted by a relativity factor embodying per capita financial needs. The relativity factor is determined by the Australian Government Treasurer based on advice given by the Commonwealth Grants Commission and following consultation with the States and Territories. Thus, the actual distribution could only ever coincidentally reflect the amount of tax collected within the jurisdictions of the beneficiary governments, as there is no direct

connection between the tax revenue arising in, and the tax revenue returned to, a particular State or Territory.

**4.43** The financial effects of not recognising the GST as a revenue of the Australian Government are to understate the net result for the period and to overstate net liabilities as at period end. The financial effects of not recognising the GST, calculated by reference to the amounts that would have been recognised had all other tax revenue been recognised on an accrual basis, are as follows:

- the consolidated statement of financial performance for the 2002–2003 year involves an understatement of revenues by \$31.8 billion (2002: \$27.6 billion), expenses by \$30.8 billion (2002: \$26.9 billion) and hence the net result by \$1.0 billion (2002: \$0.7 billion);
- the consolidated statement of financial position as at 30 June 2003 involves an understatement of accrued revenues by \$5.7 billion (2002: \$4.7 billion) and liabilities by \$0.4 billion (2002: \$0.3 billion), and hence an overstatement of net liabilities by \$5.3 billion (2002: \$4.4 billion); and
- the consolidated statement of cash flows, total operating cash inflows and outflows are each understated by \$25.4 billion (2002: \$23.1 billion) (that is a difference which takes account of GST-related cash flows within the Commonwealth Government).

**4.44** This treatment of GST in the CFS is contrary to the treatment adopted in the financial statements of the administering agencies. The ATO has reported the GST as an Australian Government tax and the associated payments to the states and territories are recognised by the Department of the Treasury as grant expenses. In addition, the Australian Bureau of Statistics treats GST as a tax of the Australian Government for statistical purposes.

**4.45** For the reasons set out above, the GST should be recognised as revenue of the Australian Government in the CFS. The CFS audit opinion includes a qualification in relation to the understatement of taxation revenue caused by the omission of GST from the CFS.

#### *Department of Defence Inventory and Repairable Items*

**4.46** Three qualifications under the heading, Assets, were reported in the audit on the 2002–2003 financial statements of the Department of Defence. They have been carried forward to the CFS audit opinion under the broad heading, Limitation of Scope-General Stores, Explosive Ordnance and Repairable items. A limitation of scope on the auditor's work arises when sufficient appropriate audit evidence does not exist to support a reported balance.

### *Department of Defence Employee Leave Provisions*

**4.47** One further qualification under the heading, *Liabilities*, was reported in the audit report on the 2002–2003 financial statements of the Department of Defence. This has been carried forward to the CFS audit opinion under the fourth broad heading, *Limitation of Scope – Employee Leave Provisions*.

## **Emphases of Matter—Inherent Uncertainty Regarding Certain Liabilities**

### *HIH Claims Support Scheme and Medical Defence Organisation Assistance Package*

**4.48** Two emphasis of matter, which are not qualifications, under the headings *Inherent uncertainty regarding the liability for HIH Claims Support Scheme*, and *Inherent uncertainty regarding the liabilities for the IBNR Scheme*, were reported in the audit reports of the 2002–2003 financial statements of the Department of Treasury and the Department of Health and Ageing respectively. They have been carried forward to the CFS audit opinion under the broad heading, *Emphases of Matter—Inherent Uncertainty Regarding Certain Liabilities*.

## **Audit and Accounting Issues**

### *Executive Remuneration*

**4.49** As with previous CFS, these financial statements do not include disclosure of the remuneration of Ministers or Executive Officers of Commonwealth entities. While the accounting standards do not currently require the disclosure of this information, its inclusion within the CFS would generally be seen as a positive contribution to enhanced accountability and better practice financial reporting.

**4.50** Debate has continued during 2002–03 over the proposed disclosures of remuneration and benefits at the whole of government level, including for Ministers. Events over the past two years within the private sector corporate arena, and the ensuing demands for increased disclosure, continue to highlight the importance of transparency and accountability. It would be seen as good practice for the Australian Government to provide such disclosure in the CFS for future financial years.

### *Controlled Entities*

**4.51** For a number of years the ANAO has held the view that the Australian Government has control over the Australian National University (ANU). The ANU has not been consolidated in the 2002–03 CFS. The effect of not consolidating the ANU is not material for the CFS statement to the extent that it warrants mention in the audit opinion. Discussions are currently being held

with the Department of Finance and Administration in order to resolve this issue.

### *Asbestos Liability*

**4.52** The CFS for fiscal 2003 includes a \$945 million provision and expense for asbestos related legal claims. This amount is based on a recently completed actuarial review of the Australian Government's financial exposure.

**4.53** A significant portion of this provision has been reported within the Department of Defence and the Stevedoring Industry Finance Corporations' 2002-03 financial statements. A residual amount has been booked as an unquantifiable contingency in the financial statements of a number of other agencies including those of the Departments of Finance and Administration and of Transport and Regional Services, while the allocation of the liability to individual affected departments is being resolved.

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Canberra ACT  
12 February 2004

P. J. Barrett  
Auditor-General

# Appendices



## Appendix 1: Audit Reports tabled from July to December 2003: Series Titles

Audit Report No.1

Performance Audit

*Administration of Three Key Components of the Agriculture—Advancing Australia (AAA) Package*

Cross Agency

Audit Report No.2

Summary of Outcomes

*Audit Activity Report: January to June 2003*

Audit Report No.3

Business Support Process Audit

*Management of Risk and Insurance*

Cross Agency

Audit Report No.4

Performance Audit

*Management of the Extension Option Review - Plasma Fractionation Agreement*

Department of Health and Ageing

Audit Report No.5

Business Support Process Audit

*The Senate Order for Departmental and Agency Contracts Autumn 2003*

Cross Agency

Audit Report No.6

Performance Audit

*APRA's Prudential Supervision of Superannuation Entities*

Australian Prudential Regulation Authority

Audit Report No.7

Business Support Process Audit

*Recordkeeping in Large Commonwealth Organisations*

Cross Agency

Audit Report No.8

Performance Audit

*Commonwealth Management of the Great Barrier Reef Follow-up Audit*

Great Barrier Reef Marine Park Authority

Audit Report No.9

Performance Audit

*Business Continuity Management and Emergency Management in Centrelink*

Centrelink

Audit Report No.10  
Performance Audit  
*Australian Defence Force Recruiting Contract*  
Department of Defence

Audit Report No.11  
Performance Audit  
*Annual Performance Reporting*  
Cross Agency

Audit Report No.12  
Performance Audit  
*The Administration of Telecommunications Grants*  
Department of Communications, Information Technology and the Arts  
Department of Transport and Regional Services

Audit Report No.13  
Performance Audit  
*ATSIS Law and Justice Program*  
Aboriginal and Torres Strait Islander Services

Audit Report No.14  
Performance Audit  
*Survey of Fraud Control Arrangements in APS Agencies*  
Cross Agency

Audit Report No.15  
Performance Audit  
*Administration of Staff Employed Under the Members of Parliament (Staff) Act 1984*  
Department of Finance and Administration

Audit Report No.16  
Performance Audit  
*Administration of Consular Services follow-up Audit*  
Department of Foreign Affairs and Trade

Audit Report No.17  
Performance Audit  
*AQIS Cost-recovery Systems follow-up Audit*  
Australian Quarantine and Inspection Service

Audit Report No.18  
Performance Audit  
*The Australian Taxation Office's Use of AUSTRAC Data Follow-up Audit*  
Australian Taxation Office



Audit Report No.19  
Business Support Process Audit  
*Property Management*  
Cross Agency

Audit Report No.20  
Performance Audit  
*Aid to East Timor*  
AusAID

Audit Report No.21  
Performance Audit  
*Special Employee Entitlements Scheme for Ansett Group Employees*  
Department of Employment and Workplace Relations  
Department of Transport and Regional Services

## Appendix 2: Audit Reports tabled from July to December 2003: Summaries

### Audit Report No.1 2003–04

#### *Performance Audit*

### Administration of Three Key Components of the Agriculture- Advancing Australia (AAA) Package

#### **Cross Agency**

The AAA package aims to help the rural sector to be more competitive, sustainable and profitable. The package was launched in 1997, and was enhanced in Budget 2000 to include the fishing, forestry and food industries. The enhanced package was funded for the budget year and three forward years, that is 1 July 2000 to 30 June 2004. The estimated cost of the package for these forward years is \$850 million.

The Department of Agriculture, Fisheries and Forestry – Australia (AFFA) is responsible for the AAA package that, in its current form, has nine programs or schemes.

The audit objective was to assess the adequacy of the Australian Government's administration of three key components of the AAA package: the FarmBis II program; the Farm Help program; and the Farm Management Deposits scheme. Broadly, the audit examined the areas of strategic management, managing compliance, program promotion, performance monitoring and evaluation, and performance results.

The ANAO concluded that many aspects of administration of the AAA programs examined are well managed. The programs have been well promoted. There is a performance management framework, although better use could be made of targets and data collected to assist in assessing performance. There are some weaknesses in administration, most notably relating to strategic management and compliance arrangements, which require strengthening for more effective outcomes. The issues are relevant for these programs as well as for any extension to them.

The administrative framework for Farm Help requires strengthening to enable AFFA to adequately assess the quality of Centrelink's service delivery and to obtain adequate assurance that payments for Centrelink's administration represent value for money. The overlap of Farm Help with the Rural Financial Counselling Services program also requires attention, as it reduces value for money from expenditure on the programs.

The absence of a documented agreement on the administrative arrangements between AFFA and the ATO for the Farm Management Deposits (FMD) scheme has contributed to communication shortcomings impacting on scheme administration. A more systematic approach to risk management is also required to appropriately address program integrity, as foreshadowed when the scheme was launched. This would include an agreed approach to compliance. To date there have been no compliance activities specifically targeting primary producer compliance with relevant FMD requirements.

Performance information indicates that the programs have been successful in addressing desired outcomes. For example, the FMD scheme has been successful in attracting an increased take up of income equalisation products by primary producers. Most service delivery standards are being met.

The ANAO made nine recommendations to improve: performance information, monitoring and reporting; program design and administration, including risk management; legislation; and compliance with legislation. As relevant, the agencies agreed with the recommendations.

## **Audit Report No.2 2003–04**

### *Summary of Outcomes*

## **Audit Activity Report: January to June 2003**

### **Australian National Audit Office**

The report summarises performance audit, financial statement audit and other related activities for the ANAO for the period January to June 2003. The key issues arising from performance audits tabled in this period are summarised against the ANAO themes of:

- human resource management including workforce planning;
- financial management and reporting;
- performance management and reporting;
- procurement and contract management;
- application of information technology and resources; and
- service delivery.

Financial statement audit activities undertaken by the ANAO during the period January to June 2003 are also addressed and, in particular, issues in relation to:

- audits of financial statements;
- summary reports;
- issues identified in the 2002–03 Controls Reports;
- key findings from Control Reports;
- the timing of financial statement reports; and
- international harmonization of accounting and auditing standards.

Appendices 1 and 2 of the Activity Report provide a listing and short summary, respectively, for each audit tabled during January to June 2003, while Appendix 3 provides an outline of BPGs completed in the same period. Appendix 4 lists the series titles for BPGs. Appendix 5 lists all presentations and papers given by the Auditor-General and ANAO staff during the before mentioned period. Appendix 6 details audits in progress on 30 June 2003.

## Audit Report No.3 2003–04

### *Business Support Process Audit*

## Management of Risk and Insurance

### Cross Agency

The objectives of the audit were to evaluate the administrative systems and frameworks in Australian Government organisations used in the management of risk and insurance. The audit focused on examining the application of risk management and insurance practices in five small to medium-sized Australian Government organisations. The organisations selected were clients of Comcover, with two organisations being governed by the CAC Act and three by the FMA Act. In addition, a survey was undertaken of risk management and insurance practices in 50 organisations to provide an overview of the systems and frameworks that Australian Government organisations use.

The audit concluded that the initiatives, such as the establishment of Comcover and other developments in risk management practices, as well as changes in the insurance market, have resulted in organisations introducing organisation-wide risk management practices and general insurance activities since 1998. Despite the stimulus that this created to apply sound management practices, the maturity of risk management and insurance practices across the five organisations audited (and of the 50 organisations surveyed) generally needed to be improved.

Overall, based on the five organisations audited, the ANAO concluded that general insurance frameworks and practices had the greatest potential to be improved, notwithstanding the training, education and consulting support provided by Comcover. Organisations audited had at least applied basic occupational health and safety and workers' compensation frameworks and, in some cases, had good frameworks and practices in place. The quality of risk management frameworks and practices tended to be better than general insurance practices but were often not as sound, or as well supported, as OHS and workers' compensation frameworks.

Despite the divergence of activities undertaken by the organisations audited and surveyed, consistent principles and objectives were established by all organisations, for the management of risk and insurance. However, the level of maturity of the practices of these organisations varied significantly. A major factor that contributed to a lack of maturity in risk management practices was the dominance of management 'silos', which limited the ability to take an organisation-wide perspective.

The ANAO observed some significant improvements in the consideration of factors that could vary the cost of general insurance between the 2001–2002

and 2002–2003 annual renewal exercises in the organisations audited. While, Comcover provides guidance to its client organisations regarding risk profiles, level of insurance and deductibles, the ANAO found that the cost of insurance and level of deductibles was generally not being considered by organisations in relation to their risk profile, or their incidents and claims experience.

The ANAO made eight recommendations aimed at improving the risk management and insurance activities of organisations by ensuring organisations: develop frameworks and improve existing frameworks; increase the level of senior management involvement; track costs and develop budgets; review resourcing levels; provide periodic awareness training to all staff; improve the application of the frameworks; and improve reporting, monitoring and review. Each of the organisations in the audit was issued with a management report detailing findings, conclusions, and recommendations. The organisations have agreed to their individual findings and recommendations, and have advised of action being taken to improve risk management and insurance activities.

## Audit Report No.4 2003–04

### Performance Audit

## Management of the Extension Option Review—Plasma Fractionation Agreement

### Department of Health and Ageing

The States, Territories and the Australian Governments spend around \$350 million annually on the production and supply of blood and blood products for the Australian Community. In 2001–02, Australian Government expenditure on plasma products under the Plasma Fractionation Agreement (PFA) between the Australian Government and CSL Limited represented more than one-third of the total annual expenditure on the sector by Australian Governments with expenditure under the PFA amounting to \$124.1 million in that year.

The audit was conducted in response to a recommendation of the JCPAA in Report No.378, which related the Committee's inquiry into Audit Report No.24, 1999–2000, *Commonwealth Management and Regulation of Plasma Fractionation*. The Committee recommended that ANAO undertake a timely performance audit of the Department of Health and Ageing's (Health's) handling of its review to decide whether or not the Commonwealth should exercise its unilateral option to extend the PFA on existing terms and conditions. The objective of the audit was to review the efficiency and effectiveness of Health's planning and conduct of this review.

The Steering Committee Health formed to undertake the extension option review recommended that the option to extend the PFA for five years, or possibly longer, not be exercised. Overall, ANAO considered that insufficient information was available to Health's Steering Committee to allow it to form an objective view on the financial merit of the advice it provided to the Minister on the value of the PFA extension option. ANAO made no judgement about whether or not the decision to extend the current agreement was a correct decision. The ANAO concluded that there were five key areas where improvements could have been made in Health's handling of the PFA extension option review.

The report made one recommendation aimed at the Department of Finance and Administration, which has policy responsibility for the FMA Act legislation and the CPG. We suggested that Finance enhance the guidance provided in the CPG by including specific advice to agencies on the procedures to be applied in evaluating options in materially important procurement contracts. Finance agreed with the recommendation.

## **Audit Report No.5 2003–04**

### *Business Support Process Audit*

## **The Senate Order for Departmental and Agency Contracts Autumn 2003**

### **Cross Agency**

At the time of the audit, the Senate Order for Departmental and Agency Contracts required FMA Act agencies to place on the Internet lists of contracts of \$100 000 or more by the tenth day of the Spring and Autumn sittings of Parliament. Among other things, the lists are required to indicate if the contracts contain any confidential provisions or other requirements of confidentiality. The Order provides for a contracting accountability framework, where the general principle is that information in contracts should not be made confidential unless there is good reason to do so.

The Auditor-General agreed to the Senate request to undertake twice-yearly examinations of agency contracts required to be listed on the Internet and report any inappropriate use of confidentiality provisions.

This is the fourth audit undertaken by the Office in relation to the Senate Order, namely, contract information to be listed on the Internet by 20 March 2003. The audit involved a desktop review of all FMA Act agencies' Internet listings, and a detailed review of the processes for making the Internet listings and the policies and practices for determining confidentiality provisions in contracts at six selected agencies.

The ANAO concluded that most agencies had reported their contracts of \$100 000 or more on the Internet and had generally complied with the requirements of the Senate Order.

All six agencies selected for detailed review had revised their policies and procedures to reflect the requirements of the new accountability framework and generally had processes in place to determine if the information in contracts should be protected as confidential. In five agencies, the ANAO concluded that the processes used to compile the Internet listing should result in the lists being complete in terms of the number of contracts listed. However, the ANAO considered that only six of the 20 contracts reviewed were appropriately classified as confidential.

The agencies generally accepted the report's findings.



## Audit Report No.6 2003–04

### Performance Audit

## APRA's Prudential Supervision of Superannuation Entities

### Australian Prudential Regulation Authority (APRA)

The audit focused on APRA's regulation of Approved Trustees and superannuation funds registered under the *Superannuation Industry (Supervision) Act 1993* (SIS Act). Because of public attention following some recent superannuation fund failures, there has been an increasing focus on the regulation of the superannuation industry, including Senate Committee inquiries (August and September 2001), a Productivity Commission review of the legislative framework (December 2001), and a policy review by the Government's Superannuation Working Group (March 2002). The audit evaluated APRA's superannuation supervisory activities and assessed the effectiveness of its supervision of superannuation entities. Particular attention was paid to the supervisory framework and the risk-based supervisory methodologies of APRA's frontline supervisory divisions, the Specialised Institutions Division (SID) and the Diversified Institutions Division (DID).

The audit found that re-organisation, relocation, and changes to case selection and auditing methodologies have had an impact on APRA's review of superannuation funds and Approved Trustees. A risk-based supervisory approach has yet to be consistently and comprehensively applied in relation to all superannuation funds regulated by APRA. Some two-thirds of the superannuation funds supervised by APRA were not allocated a risk rating.

Supervisory action within APRA varies significantly depending upon which of APRA's supervisory divisions is responsible for a particular fund or Approved Trustee. The supervisory approach, adopted by SID in recent years to balance efficiency with risk, was found to be generally effective in identifying exposures and underlying prudential risks and applying enforcement options. SID consistently applies a documented methodology for supervising superannuation funds, whereas DID does not have a documented separate methodology for reviewing superannuation entities within financial conglomerates. Also, SID has formalised a systematic approach to escalating supervision and undertaking enforcement actions whereas DID has an informal consultative approach.

APRA agreed with the audit conclusions and to all five recommendations aimed at improving its supervision of superannuation entities.

## **Audit Report No.7 2003–04**

### *Business Support Process Audit*

## **Recordkeeping in Large Commonwealth Organisations**

### **Cross Agency**

The audit reviewed the recordkeeping frameworks of four large Australian Government organisations. The objective of the audit was to assess whether recordkeeping policies, systems and procedures were in accordance with relevant Government policies, legislation, accepted standards and recordkeeping principles, and applicable organisational controls.

The ANAO concluded that the audited organisations met Government policies, legislation, accepted standards and principles to varying degrees. Although all organisations had taken active steps to improve their recordkeeping frameworks and practices, their recordkeeping policies, systems and procedures were at different stages of development.

The ANAO also concluded that there was a significant risk of the non-capture and unauthorised disposal of records because:

- organisations had not placed sufficient attention on the risks associated with recordkeeping, including those related to outsourced functions;
- formal recordkeeping systems, which are intended to provide for the appropriate maintenance of records, were not being used to their full potential as not all records were being entered into the recordkeeping system;
- limited controls were in place over electronic records, especially for those saved to shared network drives or personal workspaces;
- formal, long-term sentencing programs for the disposal of records were not in place, and instances of non-compliances with existing Records Disposal Authorities were identified;
- physical records were not being stored in compliance with National Archives' standards;
- contracts with outsourced providers did not include all of the recordkeeping elements recommended by National Archives, and minimal monitoring and review activities were being conducted to determine whether outsourced providers were meeting the recordkeeping requirements; and
- Business Continuity Plans did not identify organisations' vital records.

All of the audited organisations agreed to the recommendations.

## Audit Report No.8 2003–04

### *Performance Audit*

## Commonwealth Management of the Great Barrier Reef Follow-up Audit

### Great Barrier Reef Marine Park Authority (GBRMPA)

A performance audit of the GBRMPA was conducted by the ANAO in 1997–98 (Audit Report No.33) to assess the efficiency and effectiveness of the Australian Government's management of the Great Barrier Reef. The audit focussed on the GBRMPA's planning systems and procedures, organisational structure and performance reporting to Parliament, and the day-to-day management of the Marine Park. It made seven recommendations for improvement, all of which were agreed by the GBRMPA.

The objective of this audit was to assess the extent to which the GBRMPA has implemented the recommendations of the earlier audit.

The ANAO concluded that the GBRMPA has implemented six of the seven recommendations and has made good progress towards implementing the other recommendation. The GBRMPA stated that, in the 2002–03 Annual Report, it had addressed the requirements for full implementation of the other recommendation by including performance information that provides a better indication of its overall effectiveness in managing the Marine Park.

The ANAO made one further recommendation as a result of the follow-up audit. This relates to the GBRMPA including an estimation of the total Australian and State Government expenditure on managing the Great Barrier Reef in its reporting to Parliament. The GBRMPA agreed with the recommendation, and advised that an estimate of such expenditure was included in its 2002–03 Annual Report.

## **Audit Report No.9 2003–04**

### *Performance Audit*

## **Business Continuity Management and Emergency Management in Centrelink**

### **Centrelink**

Centrelink delivers the Government's social policy agenda and other programs. In 2001–02, the Government paid around \$55 billion to over 6.3 million customers. Business Continuity Management (BCM) strategies and plans are essential to ensure the agency can continue to deliver these important programs in the event of a crisis.

The primary objective of the audit was to assess if Centrelink has effective BCM and/or associated risk management procedures and plans in place that: minimise the likelihood of a significant business outage; and in the event of such an outage, minimise disruption of critical services to customers. The audit also assessed whether Centrelink services satisfy special demands in times of emergency.

Accordingly, the ANAO examined Centrelink's frameworks, approaches, strategies, plans, capabilities and recent performance in both BCM and emergency management (EM).

Overall, the ANAO found that Centrelink has comprehensive and detailed BCM and associated risk management frameworks, policies and plans. These generally provide appropriate preventive controls to minimise the likelihood of outages to many of its critical business processes, and provide effective corrective treatments to minimise disruptions of services to customers if these business processes are interrupted. It also has skilled staff, committed to the continuity of essential services to customers.

Notwithstanding previous good performance and inherent strengths, Centrelink has a number of continuity risks, which were identified during the course of the audit.

Centrelink has been able to satisfy increasing requirements to assist victims of community emergencies, despite some limitations in its EM framework and policies. This performance was based on flexible but robust systems to approve, deliver and record payments; mechanisms to liaise with other emergency service providers; and the efforts of skilled and committed staff.

The ANAO made 11 recommendations to further improve Centrelink's BCM and EM capacity. Centrelink has agreed to all of the recommendations and, at the time of report tabling, had begun to address all of them.

## Audit Report No.10 2003–04

### *Performance Audit*

## Australian Defence Force Recruiting Contract

### Department of Defence

As part of its 2001 inquiry into the recruitment and retention of Australian Defence Force (ADF) personnel, the Senate Foreign Affairs, Defence and Trade References Committee reviewed Defence's contract with Manpower Services (Australia) Pty Ltd (Manpower) trialling the outsourcing of recruiting services to the ADF. In its subsequent report, the Committee expressed concerns about the evaluation regime and commented that the contractual arrangements with Manpower deserved further scrutiny by the ANAO.

The ANAO examined Defence's management of the contractual arrangements with Manpower for the provision of recruiting services to the ADF. Manpower itself was not subject to the audit.

Overall, the ANAO found Defence's contractual arrangements with Manpower to be sound. Over the course of the audit, the ANAO observed many areas of contract management to be in accordance with better practice. In other areas, Defence Force Recruiting (DFR) showed a willingness to implement suggested measures, subject to time and resource constraints. DFR also exhibited awareness of the benefits of continuous improvement to identify and treat practices that effect recruiting outcomes.

The ANAO considers, however, that the arrangements for an evaluation of performance under the second amendment deed would be insufficient to meet the Senate Committee's concerns about the need for benchmarks or evaluation criteria to inform the decision on whether Manpower's term is to be extended. Defence has advised that it has commenced benchmarking recruiting finances and performance for the two years prior to national rollout, that is, 2001–02 and 2002–03. The results of the benchmarking exercise will be used in assessing the ongoing performance of the outsourced recruiting function, as well as to assist the evaluation of the first three years of the contract term.

The ANAO made two recommendations. The first recommendation concerned the documentation of performance against the contract objectives for use in evaluating the performance of DFR. The second recommendation concerned documenting the processes used to manage the contract and establish a firm timetable for the completion of this task. Defence agreed to both of these recommendations.

## **Audit Report No.11 2003–04**

### *Performance Audit*

## **Annual Performance Reporting**

### **Cross agency**

The ANAO undertook this audit in response to recommendations made by the JCPAA in Report No.388, *Review of the Accrual Budget Documentation*, which was released in June 2002. The audit reviewed the 2001–02 annual reports of the Departments of: Communications, Technology and the Arts; Education, Science and Training; Employment and Workplace Relations; Immigration and Multicultural and Indigenous Affairs; and the Australian Customs Service. The audit focussed on the annual reporting performance information frameworks of each of the agencies and how the frameworks were used to measure and analyse results for their 2001–02 annual reports.

The ANAO concluded, on the basis of the sections of the five 2001–02 annual reports reviewed, that outcomes, agency outputs and administered item outputs were well specified in most instances. However, in order to provide accountability and transparency to Parliamentarians and other stakeholders, agencies' annual reporting frameworks need to be improved. As well, performance information generally had not been presented and analysed in annual reports in a way that would allow Parliamentarians and other stakeholders to interpret and fully understand results.

The ANAO made two recommendations to improve accountability for, and transparency of, results in agencies' annual reports. All agencies agreed to the recommendations, except DEWR which agreed with qualification to part of Recommendation No.1.

## Audit Report No.12 2003–04

### *Performance Audit*

## The Administration of Telecommunications Grants

### Department of Communications, Information Technology and the Arts

### Department of Transport and Regional Services

The Senate Environment, Communications, Information Technology and the Arts Reference Committee requested an audit of the telecommunications grant programs administered by the Department of Communications, Information Technology and the Arts (DCITA), including the extent to which DCITA was able to assess the success or otherwise of the Networking the Nation (NTN) program. The audit also covered the administration of the Rural Transaction Centre (RTC) program by the Department of Transport and Regional Services (DOTARS).

The primary objective of the audit was to assess whether DCITA and DOTARS were administering a number of grant programs that are designed to enhance telecommunications infrastructure and services in regional, rural and remote areas of Australia, according to better practice. The audit was also aimed at determining whether DCITA had implemented the recommendations of an earlier audit of NTN.

The ANAO found that, although DCITA's and DOTARS' administration of the programs demonstrated elements of better practice, the administration of both NTN and, more particularly, the RTC program could be improved. DOTARS is aware of many of the shortcomings with the administration of the RTC program and is resolving them.

The ANAO found that, although Departmental annual reports and the NTN Board annual report provide information on levels of program activity, it is difficult for stakeholders to get a sense of what outcomes have been achieved by the various programs and how they have contributed to the achievement of the Government's broader policy objectives.

With respect to the implementation of the recommendations from Audit Report No.43, 1998-99, *Networking the Nation – The Regional Telecommunications Infrastructure Fund*, the ANAO found that DCITA had implemented the three recommendations.

The report made four recommendations aimed at reducing administrative costs, improve the skills and support provided to staff, tightening financial controls and improving performance reporting. The Departments agreed with the recommendations that were directed to them.



## **Audit Report No.13 2003–04**

### *Performance Audit*

## **ATSIS Law and Justice Program**

### **Aboriginal and Torres Strait Islander Services**

The objective of the audit was to form an opinion on ATSIS' management of the Law and Justice Program, having particular regard to the relative needs of Aboriginal and Torres Strait Islander peoples. The audit focused primarily on how effectively ATSIS manages and delivers the provision of legal services to Aboriginal and Torres Strait Islander people. The audit was designed to complement but not reproduce previous audit and other evaluation activity relevant to the Program.

The ANAO concluded that there is a need for considerable improvement in the management of the Law and Justice Program. ATSIS has effective processes in place regarding the oversight of grant allocations, commitments and actual expenditure. However, there are weaknesses in the Program's planning processes, the communication of roles and responsibilities between the National Office and the Regional Offices, and the monitoring of the Program's performance. The growing volume of services being delivered by the Aboriginal and Torres Strait Islander Legal Service (ATSILS) is being achieved on the basis of the efforts of individuals working within those organisations. From an overall Program perspective, ATSIS has little information or assurance on the quality of the services being provided.

Planning for the program should take account of the services provided by the Legal Aid Commissions and, in consultation with relevant Australian and State Government agencies, adopt a whole of government approach to providing quality legal services for Indigenous Australians. Unless ATSIS acts to provide realistic specifications for the services ATSILS are to provide, there are clear risks that there will be continued reductions in ATSILS' ability to deliver quality services.

Within ATSIS, it is important that steps are taken to improve the guidance and training available to field staff who undertake much of the monitoring activity; and to better define and communicate to the National Office and the Regional Offices the responsibilities for particular matters, including performance monitoring. These findings may be applicable to other ATSIS programs.

The ANAO made seven recommendations to improve ATSIS' management of the Law and Justice Program. ATSIS agreed with all of the audit recommendations.



## Audit Report No.14 2003–04

### *Performance Audit*

## Survey of fraud control arrangements in APS agencies

### Cross agency

This audit was a follow up to a similar survey conducted by the ANAO in 1999 on fraud control arrangements in APS agencies. Its objectives were: to assess key aspects of the fraud control arrangements in place across the APS; identify improvements made by agencies since the 1999 survey; and to assess agency responses to the revised Australian Government Fraud Control Guidelines that were released in May 2002.

The ANAO concluded that, since the 1999 survey, more APS agencies had established fraud control arrangements consistent with the current Australian Government Fraud Control Guidelines. However, there are still a number of agencies that need to:

- undertake risk assessments on a regular basis to keep abreast of current trends and the changing nature of fraud;
- develop fraud control plans based on the most recent risk assessment and monitor and review the plans for effectiveness on a regular basis; and
- implement a cost-effective fraud control management information system to suit the agency's needs.

The 2002 survey found that 99 per cent of fraud against the Australian Government is committed against approximately 10 per cent of the agencies. These agencies tended to be the ones with comprehensive fraud control systems in place. The other agencies that reported fraud, experienced relatively lower levels of it. However, agencies that did not report fraud cannot assume that no fraud was committed within the agency. It could also mean that they do not have the systems in place to detect fraud or that the systems already in place are ineffective or inadequate.

The audit did not make any specific recommendations, but encouraged agencies to carefully follow the current Australian Government Fraud Control Guidelines in full.

## Audit Report No.15 2003–04

### *Performance Audit*

## Administration of Staff Employed Under the Members of Parliament (Staff) Act 1984

### Department of Finance and Administration

The objectives of this performance audit were to: review the effectiveness of the internal control structures in the Department of Finance and Administration (Finance) concerning the administration of entitlements for staff employed under the *Members of Parliament (Staff) Act 1984* (MOP(S) Act); review the effectiveness and efficiency of the procurement and support services Finance provides in relation to MOP(S) Act staff; and identify principles of sound administrative practices to facilitate improved administrative arrangements for the future. The audit was conducted as part of the Auditor-General's response to a resolution agreed to by the Senate on 2 November 2000. The audit covered Finance's administration of payments and services to MOP(S) Act staff during the period 1998–99 to 2001–02. The audit scope did not include examination of the responsibilities of MOP(S) Act staff.

Overall, ANAO concluded that the control framework applying to the administration of employment-related payments to, and on behalf of, MOP(S) Act staff was improved by Finance over the four-year period examined. Finance also implemented, or took under consideration, additional improvements in order to address matters raised by ANAO over the course of the audit, or identified by the Department in the course of compiling information requested by ANAO.

In recent years, Finance has taken steps to improve the Department's capacity to rely upon transaction certifications presented to it. Monthly certification by Parliamentarians of the management reports provided to them by Finance should also improve the reliability and timeliness of that process as a control on the expenditure of public money. However, this will not be the case where Parliamentarians do not provide the requested certifications, or do not provide them in a timely manner. There is no legal requirement for Parliamentarians to provide those certifications. The absence of any certification from a Parliamentarian in respect to his or her use of a number of entitlements represents a significant gap in the accountability and control framework. ANAO suggests that Finance continue to explore ways of obtaining a higher response rate to certification requirements.

ANAO recognises that Finance relies to a large extent on individual Parliamentarians' self-management of their entitlements use, as reported to them in the management reports. Nevertheless, an increased focus on analysis

of those reports by Finance could also assist the Department in discharging its obligation to investigate excessive or otherwise anomalous payments, and would also assist in identifying other possible entitlements breaches.

ANAO made 13 recommendations in four major areas, relating to: personnel administration; authorisations and certifications; the control framework for payments; and payments and services provided to MOP(S) Act staff during election periods. Finance agreed with twelve of the ANAO recommendations, and agreed with qualification to the other recommendation.

## **Audit Report No.16 2003–04**

### *Performance Audit*

## **Administration of Consular Services Follow-up Audit**

### **Department of Foreign Affairs and Trade**

The objectives of the follow-up audit were to assess the Department of Foreign Affairs and Trade (DFAT)'s implementation of the six recommendations made by the ANAO in the previous audit (Audit Report No.31, 2000–01). It also sought to determine whether implementation of these recommendations, or alternative action, had improved DFAT's administration of consular services.

The audit concluded that DFAT has implemented Recommendation 1 (client communication) and is making good progress towards implementing Recommendations: 2 (travel warnings); 3 (case management information system); and 5 (contingency planning) of the previous audit. However, key components of Recommendation 4 (performance management) and 6 (registration of Australians abroad) still need to be addressed. In particular, the audit found that DFAT has strengthened its risk assessment processes for travel advisories and contingency planning. However, with respect to Recommendation 6, DFAT has not established a clear methodology for determining post risk categorisation for the registration of Australians overseas. This could diminish DFAT's capacity to provide assurance that posts are appropriately categorised.

The audit also found that, over the last two years, DFAT has responded to changes in global security by expanding public access to travel information and travel assistance, particularly during crisis situations. New systems are in place to centralise monitoring of key consular activities, to improve risk assessment and to assist posts to review their contingency plans. However, some aspects of project management, and documentation of key consular processes and decisions could be strengthened for greater efficiency and effectiveness. DFAT has developed a Consular Management Information System (CMIS). However, to date, CMIS does not have a sophisticated capacity for collecting and reporting of information for performance management purposes.

The ANAO made two recommendations in the follow-up audit to improve CMIS project management and contingency planning. DFAT agreed to both recommendations.

## Audit Report No.17 2003–04

### *Performance Audit*

## AQIS Cost-recovery Systems follow-up Audit

### Australian Quarantine and Inspection Service (AQIS)

An ANAO audit of AQIS' cost-recovery systems was conducted in 2000–01 (Audit Report No.10, 2000–01), following a request from the JCPAA. That audit aimed to assess the efficiency and effectiveness of the management of AQIS' cost-recovery systems, and provide assurance to Parliament that cost-recoverable programs were identifying and recovering the full costs of services provided, without cross-subsidisation. The ANAO made six recommendations for improving the efficiency and effectiveness of AQIS cost-recovery systems. The JCPAA, at a subsequent hearing, made a further three recommendations.

The objective of the follow-up audit was to assess AQIS' implementation of the ANAO and the JCPAA recommendations. The audit also aimed to determine whether implementation of these recommendations, or alternative actions taken to address the issues leading to the recommendations, had improved AQIS' management of its cost-recovery processes.

The follow-up audit found that AQIS is continuing to enhance its cost-recovery management pursuant to the recommendations of the original audit. AQIS has made substantial progress towards implementing one of the ANAO's previous recommendations, and has implemented all the remaining recommendations.

Overall, AQIS has improved its management of cost-recovery. Improvements to charging guidelines and client reporting have enhanced the quality and quantity of information available to stakeholders. AQIS has also taken steps to improve its attribution of staffing costs.

AQIS' new budget management system, new activity cost assessment system, revised cost model and updated procedural documents will provide a sounder framework for managing cost-recovery. They will facilitate alignment of fees and charges with costs at an activity level, enabling AQIS to better manage over and under-recoveries for each activity.

The ANAO has made no further recommendations in this audit. However, the audit includes a number of suggestions to assist AQIS to continue to enhance its cost-recovery systems. In particular, the ANAO suggests that AQIS consider undertaking systematic comparisons of staffing cost attributions from the Activity Cost Assessment and personnel and human resources systems.

## Audit Report No.18 2003–04

### *Performance Audit*

## The Australian Taxation Office's Use of AUSTRAC Data Follow-up Audit

### Australian Taxation Office

In 2002–03, the ATO collected revenue of \$185 billion. Self-assessment and a broad range of compliance strategies support collection of this revenue. The ATO relies upon risk management approaches and the integrity features built into the tax system to identify, cost effectively, instances where taxpayers fail to comply. The ATO's compliance strategies aim to optimise collections and instil confidence in the community that the taxation system is operating effectively.

The ATO uses financial transaction report (FTR) information provided by the Australian Transaction Reports and Analysis Centre (AUSTRAC) in its administration of the taxation system. FTR data is an important source of financial intelligence for the ATO.

The objective of this follow-up performance audit was to assess the ATO's progress in implementing the recommendations of Audit Report No.7 2000–01, *The Australian Taxation Office's Use of AUSTRAC Data* that found that the ATO had used AUSTRAC data to achieve a significant improvement in the collection of taxation revenue. The ANAO considered that the ATO could build on this success by using AUSTRAC data more effectively at both the strategic and operational levels. The audit made six recommendations. The ATO agreed with all recommendations.

In the follow-up audit, the ANAO found that the ATO has implemented four of the recommendations and has made significant progress in implementing the other two. The ANAO considers that it is now timely for the ATO to finalise action on the recommendations that relate to its strategic partnership with AUSTRAC and the implementation of a cost effective performance management system.

In summary, the ATO agreed with the outcomes of the report. With regard to the development of a revised memorandum of understanding (MoU) and performance measurement framework, the ATO advised that further progress has been made since the completion of the audit. A draft of the MoU, which includes an updated performance measurement framework, has been completed and is with the executive of both agencies for approval.

## Audit Report No.19 2003–04

### *Business Support Process Audit*

## Property Management

### Cross Agency

The audit assessed the delivery of property management functions in a selection of organisations that occupy (whether as the owner or as lessee) properties or part of properties that are used primarily as office accommodation. For the purposes of the audit, office accommodation was taken to include offices used for general administrative activities and customer/client service functions, but excluded specialised operational accommodation.

The audit evaluated property management policies and practices in the selected organisations across the following dimensions: planning and control structures; property-related processes and practices; and the management of information and performance.

Overall, the audit found that the property management services in the organisations audited were operating efficiently and were generally providing an adequate level of support for the delivery of the organisation's business or services. The audit identified a number of opportunities to ensure property-related activity continues to meet user requirements and demands, and in some cases, to further enhance the efficiency of related processes. Principally, these opportunities related to the need to:

- enhance the level of planning to better identify and manage longer-term property requirements and property-related activities;
- improve the application of risk management principles and approaches to the delivery of property management activities;
- adopt more formal processes for measuring and reporting on a range of both financial and non-financial property management performance issues;
- adopt more formal and structured processes to monitor and manage the performance of contracted property-related services;
- improve the form and content of property-related services;
- improve the management of the property-related information, including recordkeeping practices; and
- periodically assess the ongoing appropriateness of property management services to ensure they continue to be relevant and sufficient and meet current circumstances and user requirements.

The audit made four recommendations, addressing these areas, to improve the effectiveness of property management arrangements in the Commonwealth. Overall, the organisations indicated that they supported, or agreed with, the recommendations in the report.



## Audit Report No.20 2003–04

### *Performance Audit*

## Aid to East Timor

### AusAID

Over the past four years, Australia has provided substantial assistance to the restoration and maintenance of security and the economic and social recovery of East Timor. The main components of this assistance have been security assistance, aid and policing assistance. The aid component, estimated to cost \$235 million over the five years 1999–2000 to 2003–04, is managed by the Australian Agency for International Development (AusAID).

The objective of the audit was to assess AusAID's planning for, and management of, the delivery of aid to East Timor. The audit examined: Australia's emergency and humanitarian response following the crisis in East Timor in 1999; AusAID's post-crisis strategy for assisting East Timor; coordination with overseas donors; and financial contributions to multilateral reconstruction assistance. Australia's bilateral assistance, comprising shorter-term transitional assistance and medium-term development assistance, was also examined. Audit fieldwork was undertaken in Canberra and in East Timor.

The ANAO concluded that AusAID made a significant and timely contribution to the international response to the humanitarian crisis in East Timor. AusAID's humanitarian response was followed by a well planned and targeted interim strategy for delivery of post-crisis assistance. However, there were some administrative shortcomings. Risk management did not include an assessment of the likelihood and consequences of individual risks, and identified risks were not regularly updated. In addition, limitations in performance management at the country program level hampered AusAID's ability to assess whether overall desired aid objectives have been met.

AusAID has played an active role in the successful coordination of international assistance to East Timor, and had adequate mechanisms to assess Australia's financial contributions to multilateral reconstruction assistance. Trust fund arrangements for this assistance produced major benefits for AusAID and other donors.

AusAID's management of most aspects of the design and implementation of individual bilateral aid activities has been sound, although the ANAO identified limitations in some supporting structures. In particular, the quality of performance indicators and associated targets can be improved to better monitor performance of East Timor activities. In addition, the relatively high inherent risk in delivering aid to East Timor warranted stricter adherence to AusAID requirements for preparing and updating risk management plans for

activities. Australian bilateral aid has made an important contribution to East Timor's reconstruction and development, and individual aid activities have mostly achieved planned outcomes and outputs.

The ANAO made four recommendations aimed at strengthening AusAID's risk management and performance management, at the East Timor country program level and for individual bilateral activities. AusAID agreed with all four recommendations.

## **Audit Report No.21 2003–04**

### *Performance Audit*

## **Special Employee Entitlements Scheme for Ansett Group Employees**

### **Department of Employment and Workplace Relations Department of Transport and Regional Services**

Directly after the collapse of Ansett in September 2001, most of its estimated 15 000 employees faced the possibility of retrenchment. The Government immediately announced the introduction of the Special Employee Entitlements Scheme (SEESA) for Ansett group employees to address two risks facing the employees: the risk, to a certain limit, of a shortfall in their payments of accrued employee entitlements from Ansett; and the risk of delay in their being paid. The objective of the audit was to determine how efficiently and effectively the two key elements of SEESA were managed: DEWR's management of the mechanism for making SEESA payments; and DOTARS' management of the associated air passenger ticket levy.

The audit concluded that SEESA has been effective in delivering \$336.1 million in employee entitlements to former Ansett group employees terminated through their employer's insolvency. The arrangements for delivering these payments were put in place in a very tight timeframe. SEESA payments have been made far more promptly and with greater certainty than if the employees had had to wait until assets were realised and creditors paid in the normal course of events. However, no specific data on the promptness of SEESA delivery has been compiled. As well, performance information on SEESA is limited.

Despite the assessed effectiveness of SEESA, DEWR could have been more efficient in its administration despite the tight timeframe. A tax issue affecting repayment of the finance for the Scheme was a case in point, which also added to costs. There were also opportunities, in the ANAO's view, for DEWR to have managed better the repayment of the SEESA loan and the interaction between SEESA and other Commonwealth payments.

Some aspects of DEWR's contract management (such as the engagement of its contractor, SEES Pty Ltd) were sound but others (such as the specification of performance requirements) were inadequate. An absence of key documentation on the choice of financier is not conducive to proper accountability, particularly on a matter of considerable public interest.

DOTARS put effective arrangements in place, promptly, for the implementation and operation of the levy.

The report made one recommendation relating to the management of tax risk and other risks in schemes to be implemented using outsourced administration, particularly involving substantial payments by the administering agency to the outsourced provider. DEWR agreed with qualification.

## Appendix 3: Better Practice Guides published from July to December 2003: Summaries

### Public Sector Governance

This guide updates two previous ANAO guides published in 1997 and 1999: *Applying Principles and Practice of Corporate Governance in Budget Funded Agencies*, Discussion Paper, July 1997; and *Corporate Governance in Commonwealth Authorities and Companies*, Discussion Paper, May 1999. It provides guidance relevant to all public sector organisations - covering those subject to the FMA Act and the CAC Act.

The purpose of the guide is to assist Australian Government organisations to achieve better public sector governance by discussing the overarching public sector governance framework and proposing processes and practices to address commonly encountered governance problems.

While the guide focuses on Australian Government organisations, many of the governance issues it examines affect public sector entities outside the Government sector. It should, therefore, also assist such entities, especially those in Australia's state and local government sectors.

The issues canvassed in the guide are as follows:

- what are the principles and objectives of public sector governance?
- what is the Australian Government's legal and policy framework?
- what structures and processes best support good public sector governance?
- what are the behaviours, values and standards – both organisational and individual – that support good public sector governance?
- what are the main issues in public sector governance and what guidance is available?
- where can further information, guidance and updates be obtained?

Given the breadth and complexity of the subject, this guide cannot be exhaustive. However, it does cover a wide range of issues that affect every organisation in the Australian Government. It therefore highlights the major issues of public sector governance. Many of these were identified in a series of interviews conducted in 2002 with senior managers and board members in a selection of Australian Government organisations.

## **Management of Scientific Research and Development Projects in Commonwealth Agencies**

This Better Practice Guide has been prepared to provide practical assistance to senior managers in establishing processes and structures to support management of scientific research and development projects.

During 2003–04, the Commonwealth will invest over \$1.3 billion in the major public research agencies, and a further \$890 million in direct support for science and technology (for example, through Cooperative Research Centres, rural research agencies and other programs). It is important these funds are invested and managed well.

Management of research projects is challenging, often involving management of uncertainty and risks. At the same time, stakeholders increasingly hold agencies accountable for the efficient and effective use of scarce research dollars and achieving cost-effective outcomes.

A well-structured, explicit framework for project management can assist agencies and their staff to meet these varying pressures by clarifying the different perceptions and expectations of the various stakeholders, as well as fostering a more strategic approach to their research portfolios. The guide emphasises three aspects of project management:

- selecting and prioritising projects so that overall return to the taxpayer is maximised;
- establishing robust risk-management processes for projects; and
- maximising the opportunities for organisational learning through post-project review.

The guide is not intended to be a straitjacket, but be more the base for further development and adaptation by relevant agencies, to the extent that it suits their individual circumstances.

## Appendix 4: Better Practice Guides: Series Titles

Management of Scientific Research and Development Projects in Commonwealth Agencies	Dec 2003
Public Sector Governance	July 2003
AMODEL Non-Commercial Authority: Illustrative Financial Statements for the Year Ended 30 June 2003	June 2003
AMODEL Agency: Illustrative Financial Statements for the Year Ended 30 June 2003	May 2003
Management of Goods and Services Tax Administration	May 2003
Building Capability: a framework for managing learning and development in the APS	Apr 2003
Managing Parliamentary Workflow	Apr 2003
Internal Budgeting	Feb 2003
Administration of Grants	May 2002
Performance Information in Portfolio Budget Statements	May 2002
AMODEL Illustrative Financial Statements 2002	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
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)	June 1999
Commonwealth Agency Energy Management	June 1999
Corporate Governance in Commonwealth Authorities and Companies – Principles and Better Practices	June 1999
Managing Parliamentary Workflow	June 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	July 1997
Core Public Sector Corporate Governance	June 1997
Management of Corporate Sponsorship	Apr 1997
Telephone Call Centres	Dec 1996
Telephone Call Centres Handbook	Dec 1996
Paying Accounts	Nov 1996
Asset Management	June 1996
Asset Management Handbook	June 1996
Managing APS Staff Reductions	June 1996



## Appendix 5: Presentations delivered by the Auditor-General and ANAO Staff during July to December 2003

Mr Pat Barrett AO

*Accountability and Governance Issues - Commentary*

Forum on Public – Private Partnerships

The Accounting Foundation, University of Sydney  
Sydney, 8 December 2003

Mr Pat Barrett AO

*Governance and auditing in a changing environment in the public sector*

Chartered Secretaries Australia inaugural discussion luncheon  
Canberra, 4 December 2003

Mr Pat Barrett AO

*Outsourcing and partnerships in the public sector – driving a generic brand approach*

CPA Australia National Public Sector Convention  
Perth, 20 November 2003

Mr Pat Barrett AO

*Implications of harmonisation of proposed international standards for the public sector*

CPA Australia National Public Sector Convention  
Perth, 19 November 2003

Dr Paul Nicoll

*Australian National Audit Office Audits of Federal Health and Ageing Programs*

Joint conference:

The Royal Australian College of Physicians; and

The Health Services Research Association of Australian and New Zealand,

Third Health Services and Policy Research Conference

Melbourne, 16 November 2003

Mr Pat Barrett AO

*An Auditor's View of Commonwealth Assets, Including Property Management*

Occasional Paper

Canberra, 7 November 2003

Mr Pat Barrett AO

*Accountability issues in the Australian Public Service*

2003 Program for Officials of South East Asian Parliaments

Canberra, 6 November 2003

Mr Pat Barrett AO  
*The Department of Family and Community Services' Triple Bottom Line Report*  
Launch of the report  
Canberra, 30 October 2003

Mr Pat Barrett AO  
*Some Issues in Relation to Sound Organisational Governance and Audit*  
Committee for Economic Development of Australia  
Sydney, 30 September 2003

Mr Pat Barrett AO  
*Best Practice Corporate Governance in the Public Sector – what does it mean for you*  
Public Sector Governance Forum 2003, CSA Ltd  
Sydney, 24 September 2003

Mr Pat Barrett AO  
*Lessons from 50 years of Public Administration*  
Institute of Public Administration Australia (ACT Division)  
Canberra, 24 September 2003

Mr Andrew Morris  
*Better Practice Public Sector Governance*  
CPA Australia: Professional Development Program  
Darwin and Alice Springs, 11-12 September 2003

Mr Pat Barrett AO  
*Better Practice Public Sector Governance*  
National Institute for Governance  
Canberra, 21 August 2003

Mr Pat Barrett AO  
*Innovative People Management and Systems in the Australian Public Sector*  
InfoHRM Conference  
Gold Coast, 6 August 2003

Mr Oliver Winder  
*Auditor's Perspective: Better Practice Corporate Governance*  
IIR Conference on Corporate Governance in the Public Sector  
Canberra, 28 July 2003

## Appendix 6: Performance audits in progress at 31 December 2003

Ministerial Portfolio/Agency	Audit Title
Agriculture, Fisheries and Forestry	<ul style="list-style-type: none"> <li>Administration of the Dairy Industry Structural Readjustment Package</li> </ul>
Attorney General	<ul style="list-style-type: none"> <li>Administration of the Federal Magistrates Service and the Family Court</li> <li>Crim Trac</li> </ul>
Australian Customs Service	<ul style="list-style-type: none"> <li>National Marine Unit</li> </ul>
Australian Taxation Office	<ul style="list-style-type: none"> <li>ATO Management of Aggressive Tax Planning</li> <li>ATO Management of Activity Statements</li> <li>ATO's Use of Investment and Income Reports (AIIR) in Taxation Administration</li> </ul>
Communications, Information Technology and the Arts	<ul style="list-style-type: none"> <li>ABC Corporate Governance Follow-up</li> </ul>
Defence	<ul style="list-style-type: none"> <li>Airborne Early Warning and Control Project</li> <li>Management of Defence Force Preparedness</li> <li>Air Force Fast-Jet Pilot Workforce</li> <li>Defence's Project Bushranger: Acquisition of Infantry Mobility Vehicles</li> <li>Army Individual Readiness Notice—Follow-up</li> <li>Sale and Lease-back of the Australian Defence College Weston Creek Campus</li> </ul>
Environment and Heritage	<ul style="list-style-type: none"> <li>Management of Greenhouse Gas Reduction</li> </ul>
Family and Community Services	<ul style="list-style-type: none"> <li>Internet Portals</li> <li>Customer Assurance - Centrelink</li> <li>Debt management—Centrelink</li> <li>Administration of Health Care Cards</li> </ul>
Finance and Administration	<ul style="list-style-type: none"> <li>Integrity of the Electoral Roll—Follow up</li> </ul>
Foreign Affairs and Trade	<ul style="list-style-type: none"> <li>Management of Australia's Bilateral Relations with Selected Countries</li> </ul>

Health and Ageing	<ul style="list-style-type: none"> <li>• Financial Management in the Health Insurance Commission</li> <li>• Supporting Health and Medical Research: National Health and Medical Research Council</li> <li>• Rural Health</li> <li>• Therapeutic Goods Administration—Administering Non-Prescription Medicines</li> </ul>
Immigration, Multicultural and Indigenous Affairs	<ul style="list-style-type: none"> <li>• National Aboriginal Health Strategy—Follow-up</li> <li>• Management of the Processing of Asylum Seekers</li> <li>• On-shore Prevention and Detection of Unlawful Non-Citizens (Overstayers and/or Illegal Workers)</li> <li>• Management of Detention Centre Contracts</li> </ul>
Transport and Regional Services	<ul style="list-style-type: none"> <li>• Management of Federal Airport Leases</li> </ul>
Treasury	<ul style="list-style-type: none"> <li>• HIH Claims Support Program</li> </ul>
Veterans' Affairs	<ul style="list-style-type: none"> <li>• DVA's Management of Health Care Cards</li> <li>• Information Technology in the Department of Veterans' Affairs</li> </ul>
Cross-Agency Performance Audits	<ul style="list-style-type: none"> <li>• Review Of Intellectual Property</li> <li>• Monitoring And Evaluation Of Internet-Delivered Government Programs And Services</li> <li>• Agency Management Of Special Accounts</li> <li>• Performance Management In The APS</li> <li>• Management Of Protective Security</li> <li>• Financial Management And Reporting Of Administered Special Appropriations In Selected Agencies</li> <li>• Assessment And Referral Of Job Seekers To Employment Service Providers</li> <li>• Implementation Of The New Commonwealth Foreign Exchange Risk Management Policy</li> <li>• Efficient And Effective Internet Use</li> </ul>
Better Practice Guides	<ul style="list-style-type: none"> <li>• Annual Performance reports</li> <li>• Fraud Control</li> </ul>

<p>Business Support Process Audits</p>	<ul style="list-style-type: none"> <li>• Senate Order for Department and Agency Contracts—Fifth Progress Report (Spring 2003 Compliance)</li> <li>• Discretionary Payments and Waivers of Debt</li> <li>• Use and Effectiveness of HRIS in Commonwealth Agencies</li> <li>• Financial Delegations</li> <li>• Internal Audit—Follow-up</li> <li>• Administration of FOI Requirements</li> <li>• Administration of FBT Processes</li> <li>• Superannuation Guarantee Payments for Contractors</li> </ul>
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# Series Titles

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Audit Report No.27 Performance Audit  
*Management of Internet Portals at the Department of Family and Community Services*

Audit Report No.26 Performance Audit  
*Supporting Managers—Financial Management in the Health Insurance Commission*  
Health Insurance Commission

Audit Report No.25 Performance Audit  
*Intellectual Property Policies and Practices in Commonwealth Agencies*

Audit Report No.24 Performance Audit  
*Agency Management of Special Accounts*

Audit Report No.23 Performance Audit  
*The Australian Taxation Office's Management of Aggressive Tax Planning*  
Australian Taxation Office

Audit Report No.22 Financial Statement Audit  
*Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2003*  
Summary of Results

Audit Report No.21 Performance Audit  
*Special Employee Entitlements Scheme for Ansett Group Employees (SEESA)*  
Department of Employment and Workplace Relations  
Department of Transport and Regional Services

Audit Report No.20 Performance Audit  
*Aid to East Timor*  
Australian Agency for International Development

Audit Report No.19 Business Support Process Audit  
*Property Management*

Audit Report No.18 Performance Audit  
*The Australian Taxation Office's Use of AUSTRAC Data Follow-up Audit*  
Australian Taxation Office

Audit Report No.17 Performance Audit  
*AQIS Cost-recovery Systems Follow-up Audit*  
Australian Quarantine and Inspection Service

Audit Report No.16 Performance Audit  
*Administration of Consular Services Follow-up Audit*  
Department of Foreign Affairs and Trade

Audit Report No.15 Performance Audit  
*Administration of Staff Employed Under the Members of Parliament (Staff) Act 1984*  
Department of Finance and Administration

Audit Report No.14 Performance Audit  
*Survey of Fraud Control Arrangements in APS Agencies*

Audit Report No.13 Performance Audit  
*ATSIS Law and Justice Program*  
Aboriginal and Torres Strait Islander Services

Audit Report No.12 Performance Audit  
*The Administration of Telecommunications Grants*  
Department of Communications, Information Technology and the Arts  
Department of Transport and Regional Services

Audit Report No.11 Performance Audit  
*Annual Performance Reporting*

Audit Report No.10 Performance Audit  
*Australian Defence Force Recruiting Contract*  
Department of Defence

Audit Report No.9 Performance Audit  
*Business Continuity Management and Emergency Management in Centrelink*  
Centrelink

Audit Report No.8 Performance Audit  
*Commonwealth Management of the Great Barrier Reef Follow-up Audit*  
The Great Barrier Reef Marine Park Authority

Audit Report No.7 Business Support Process Audit  
*Recordkeeping in Large Commonwealth Organisations*

Audit Report No.6 Performance Audit  
*APRA's Prudential Supervision of Superannuation Entities*  
Australian Prudential Regulation Authority

Audit Report No.5 Business Support Process Audit  
*The Senate Order for Departmental and Agency Contracts (Autumn 2003)*

Audit Report No.4 Performance Audit  
*Management of the Extension Option Review—Plasma Fractionation Agreement*  
Department of Health and Ageing

Audit Report No.3 Business Support Process Audit  
*Management of Risk and Insurance*

Audit Report No.2 Audit Activity  
*Audit Activity Report: January to June 2003*  
Summary of Outcomes

Audit Report No.1 Performance Audit  
*Administration of Three Key Components of the Agriculture—Advancing Australia (AAA) Package*  
Department of Agriculture, Fisheries and Forestry—Australia  
Centrelink

# Better Practice Guides

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Managing Parliamentary Workflow	Apr 2003
Building Capability—A framework for managing learning and development in the APS	Apr 2003
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