



THE AUDITOR-GENERAL ANNUAL REPORT 2014-15





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Auditor-General for Australia



11 September 2015

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
CANBERRA ACT 2600

Dear Mr President
Dear Mr Speaker

In accordance with section 28 of the *Auditor-General Act 1997*, I present to the Parliament my report on the operations of the Australian National Audit Office for the year ended 30 June 2015.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's website—<http://www.anao.gov.au>.

Yours sincerely

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Auditor-General

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ABOUT THIS REPORT

This annual report documents the performance of the Australian National Audit Office (ANAO) in the financial year ending on 30 June 2015.

It addresses the *Requirements for Annual Reports for Departments, Executive Agencies and Other Non-corporate Commonwealth Entities* approved by the Joint Committee of Public Accounts and Audit in June 2015; the performance measures set out in the outcome and programs framework in the 2014–15 Portfolio Budget Statements; section 28 of the *Auditor-General Act 1997*; and other annual reporting requirements set out in legislation.

- In Part 1, the Auditor-General reviews the significant issues and achievements of the past year and reflects on the challenges for the year ahead.
- Part 2 provides an overview of the ANAO—including its role and vision, the way it is organised, and how it reports on performance—and a summary of financial performance and results against key performance indicators.
- Part 3 reports on the performance of the ANAO's two programs: Assurance Audit Services and Performance Audit Services.
- Part 4 describes core elements of the ANAO's corporate governance and management of human resources, and other management issues.
- Part 5 summarises the ANAO's financial results and presents the audited financial statements for 2014–15.
- Part 6 contains appendixes, with details of staffing statistics; performance audit reports; public addresses by the Auditor-General and the Deputy Auditor-General; and ways to contact the ANAO.
- Part 7 contains references to assist the reader to use the report—an abbreviations list, an index showing how reporting requirements are addressed in the main report, and a subject index.

This report and other ANAO publications, as well as information on the ANAO, are available online at www.anao.gov.au.

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PART 1

FOREWORD BY THE AUDITOR-GENERAL



I am pleased to present my first annual report for the Australian National Audit Office.

I have been grateful for the warm welcome I have received from all the staff of the ANAO. Their support has ensured a smooth transition to my new role as Auditor-General for Australia.

I would like to acknowledge the work and commitment of my predecessor, Ian McPhee AO PSM. During his tenure he stressed the importance of the ANAO building relationships with our auditees and the Parliament, as he recognised that sound and strong relationships were critical to the success of our audits.

I look forward to continuing this work.

THE YEAR IN REVIEW

This year the ANAO conducted a survey of members of Parliament which found that the overall satisfaction with the ANAO was 84 per cent, which is broadly consistent with the previous result of 86 per cent in 2011–12. The ANAO attracted solid ratings across the survey results—particularly for the responsiveness of our staff (91 per cent) and the integrity of the office (91 per cent)—which is a pleasing outcome. The survey did identify areas for improvement, including better articulating the ANAO’s contribution to improving public sector administration, reviewing the way our findings are communicated, and liaising with members of Parliament through the committee system. The ANAO 2015–19 Corporate Plan includes initiatives to address these findings.

I appreciate the support provided to the office by the key stakeholders we engage with, including the Parliament and its committees—particularly the Joint Committee of Public Accounts and Audit—and the executive government.

There continue to be some challenges for the financial statement audit teams as a result of machinery of government changes made in December 2014 and the continuing effects of machinery of government changes made in September 2013. These changes resulted in some delays in the completion of audits planned for the 2014–15 interim audit phase. A sustained effort will be required by the entities concerned and the ANAO to ensure that the 2014–15 financial statements are prepared, audited and reported on time. However, I am confident that the ANAO will be able to meet these challenges.

The office supported initiatives to make financial statements easier to read and less administratively burdensome. The ANAO better practice guide *Public Sector Financial Statements: High-quality Reporting Through Good Governance and Processes*, published in March 2015, includes a discussion and practical examples designed to assist entities to improve the presentation of financial statements.

Our performance audit program highlighted the diversity of Australian Government programs and services. In 2014–15, we tabled 49 performance audits, collectively involving all portfolios and 29 public sector entities, and covering a range of areas of public administration, including regulation, service delivery, grants management, and procurement.

As outlined in Part 3 of this report, the ANAO continues to identify areas of public administration that need some improvement:

- › underdeveloped performance measures in a number of programs, which constrained the ability to measure and report on program effectiveness and provide informed policy advice to government
- › lack of consistency with important aspects of the grants and procurements policy frameworks requirements, and scope to improve the advice provided to government on the design of grant programs and to decision-makers on the approval of individual grants
- › variation in the extent to which risk-based approaches for managing compliance activities have been adopted, and the maturity of the approaches adopted
- › shortfalls in commonly accepted administrative practices, such as quality assurance, record keeping, and internal guidance materials.

The ANAO's sound financial management allowed the office to operate with a slight surplus for the year 2014–15. However, continuing budgetary pressures will require the office to continue to focus on efforts to reduce costs and seek efficiencies in how we deliver our work.

Finally, the ANAO has experienced a number of staffing changes at senior levels. I am pleased with the resilience of ANAO staff and their ability to adapt to changing environments.

THE YEAR AHEAD

In the coming year the ANAO will focus on delivering value to the Parliament—and, through it, the public of Australia—through our audit services. We will look to further develop our key capabilities, with a focus on developing our leadership, leveraging contemporary communication approaches, enhancing our information and analytical capabilities, and increasing our audit impact through value for money audit services.

The office will continue to give attention to the diverse range of government activities that we audit. We are paying particular attention to making our reports more accessible, particularly in an increasingly digital world, and this will be a key project for 2015–16. As we progress initiatives in the coming year, we will retain our clear commitment to audit quality, better public administration and better outcomes for Australia.

I expect that the ANAO 2015–19 Corporate Plan will assist in setting an agenda for the organisation and prioritising our investment in our key capabilities.

Grant Hehir

Auditor-General

PART 2

OVERVIEW



ROLE

The role of the Auditor-General is to improve public sector performance and accountability through independent reporting on Australian Government administration to Parliament, the Executive and the public.

The *Auditor-General Act 1997* provides a legislative framework for the role of the Auditor-General and the Australian National Audit Office (ANAO). Under the Act, the Auditor-General is responsible for auditing the financial statements of Commonwealth entities, Commonwealth companies and their subsidiaries.

The Act also authorises the Auditor-General to:

- conduct performance audits, assurance reviews, or audits of the performance measures, of Commonwealth entities and Commonwealth companies and their subsidiaries, other than government business enterprises; audits of government business enterprises can be undertaken if requested by the Joint Committee of Public Accounts and Audit (JCPAA)
- conduct a performance audit of a Commonwealth partner as described in section 18B of the Act; audits of Commonwealth partners that involve a state or territory must be requested by the responsible minister or the JCPAA
- provide other audit services as required by other legislation or allowed under section 20 of the Act
- report directly to Parliament on any matter, or to a minister on any important matter.

Through the delivery of an integrated range of high-quality audit reports and opinions that are timely, cost-effective and conducted in accordance with the ANAO's Auditing Standards, the ANAO aims to meet the needs and expectations of Parliament, the Government and audit clients. In doing so, the ANAO aims to add value to public sector performance and accountability.

In addition, the ANAO plays a leadership role in improving public administration and public sector audit capability in Australia and overseas, through:

- publishing relevant and topical information such as better practice guides
- participating in forums and seminars
- providing development opportunities, including secondments, for audit professionals
- deploying experienced staff to audit institutions in Indonesia and Papua New Guinea.

The Auditor-General Act establishes the Auditor-General as an Independent Officer of the Parliament of Australia—a title that symbolises the position's unique relationship with Parliament. The independence of the Auditor-General and the quality and objectivity of the ANAO's work form the foundation of the office's standing and reputation.

ORGANISATION

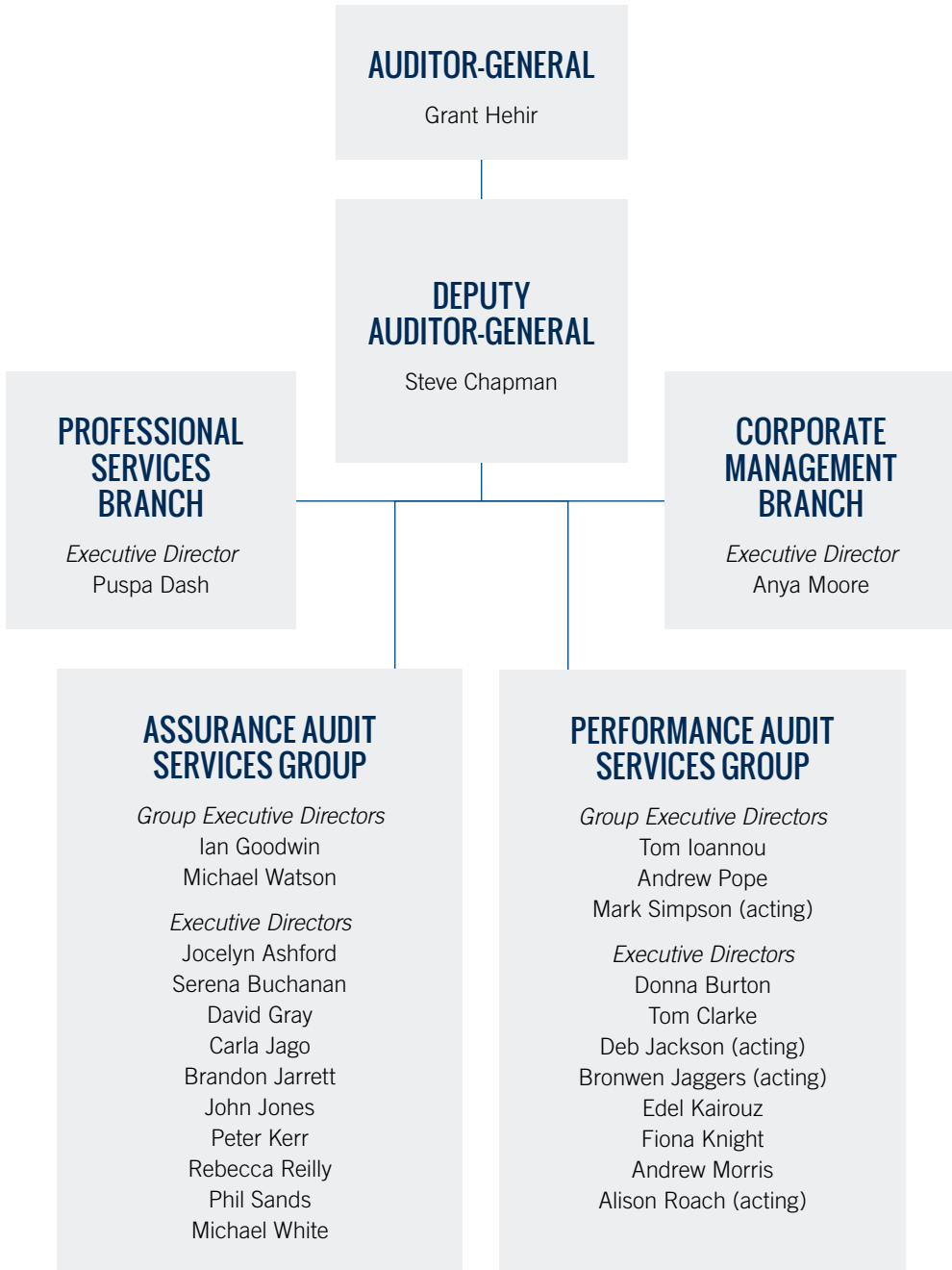
The ANAO is organised into two service groups and two support branches:

- Assurance Audit Services Group provides independent assurance on the financial statements and financial administration of all Australian Government entities. It also conducts assurance reviews.
- Performance Audit Services Group contributes to improved public sector administration and accountability by conducting performance audits of Australian Government entities and producing related publications.
- Professional Services Branch provides technical support—including quality assurance and the provision of information to auditees through newsletters and technical seminars—to the service groups and the Auditor-General.
- Corporate Management Branch provides administrative support, including the coordination of corporate governance activities, human resources, finance, external relations, IT and building services.

The ANAO is located in Canberra.

The organisational and senior management structure of the ANAO at 30 June 2015 is shown in Figure 1.

FIGURE 1: ORGANISATIONAL AND SENIOR MANAGEMENT STRUCTURE AT 30 JUNE 2015



Note: An Executive Director from the Assurance Audit Services Group, Wayne Jones, is on long-term deployment to the Papua New Guinea Auditor-General's Office.

OUTCOME AND PROGRAMS FRAMEWORK

The ANAO's outcome and programs framework is set out in its Portfolio Budget Statements, which sit administratively within the portfolio of the Prime Minister and Cabinet. Part 3 of the annual report describes the ANAO's performance against the measures set out in its Portfolio Budget Statements and Business Plan for 2014–15.

The framework for 2014–15 consists of one outcome and two programs. In addition to its two programs, the ANAO administers a special appropriation for the remuneration of the Auditor-General.

FIGURE 2: OUTCOME AND PROGRAMS FRAMEWORK, 2014–15

Outcome 1	
To improve public sector performance and accountability through independent reporting on Australian Government administration to Parliament, the Executive and the public.	
Program 1.1 Assurance Audit Services	Program 1.2 Performance Audit Services
<p>The objectives of this program are:</p> <ul style="list-style-type: none"> ➤ to provide assurance on the fair presentation of financial statements of the Australian Government and its entities by providing independent audit opinions and related reports for the information of Parliament, the Executive and the public ➤ to contribute to improvements in the financial administration of Australian Government entities ➤ to contribute to the auditing profession and public sector developments nationally and internationally. 	<p>The objectives of this program are:</p> <ul style="list-style-type: none"> ➤ to report objectively on the performance of Australian Government programs and entities, including opportunities for improvement, by undertaking a program of independent performance audits and related reports for the information of Parliament, the Executive and the public ➤ to contribute to improvements in Australian Government administration by identifying and promoting better practice ➤ to contribute to the auditing profession and public sector developments nationally and internationally.

FINANCIAL SUMMARY

The ANAO's overall financial position remains sound. Financial year 2014–15 ended with a modest operating surplus of \$0.925 million (an increase compared to a surplus of \$0.444 million for the year ending 30 June 2014). Lower than anticipated expenditure was primarily due to lower salary expenses that resulted from audit staff vacancies during the year. Contractor arrangements were used to supplement the ANAO workforce and ensure that key deliverables were met, and the increased contractor costs were offset by efficiency initiatives across other supplier categories. The ANAO continues to tightly monitor ongoing costs, implications for the forward budget years, and opportunities to introduce additional efficiencies in work practices.

Financial resources for 2014–15, on an outcome–program basis, are summarised in Table 19 and Table 20 in Part 5 of this report. Part 5 also includes the ANAO's financial statements and commentary on financial performance for 2014–15.

RESULTS AT A GLANCE

Table 1 shows results against the ANAO's performance measures for 2014–15.

The gross cost of delivering Outcome 1 in 2014–15 was \$76.65 million, a small decrease compared with \$78.37 million in 2013–14.

TABLE 1: SUMMARY OF PERFORMANCE AGAINST 2014–15 PORTFOLIO BUDGET STATEMENTS DELIVERABLES AND PERFORMANCE INDICATORS

	Target	Result
Deliverables		
Program 1.1		
Number of financial statement audit opinions issued	260	262
Number of other assurance reports produced ^a	60	54
Number of financial statement related reports produced	2	2
Program 1.2		
Number of performance audit reports presented ^b	49	49
Number of better practice guides and other reports produced	3	3
Number of appearances and submissions to parliamentary committees	20	27
Shared		
Number of engagements that contribute to public sector auditing and support developing nations	40	43
Key performance indicators		
Program 1.1		
Percentage of parliamentarians surveyed expressing satisfaction with assurance provided by ANAO audit opinions issued in relation to the financial statements of the Australian Government and its entities ^c	90	80
Percentage of Australian Government entities that are provided with an audit opinion for tabling in the Parliament	100	100
Percentage of Australian Government entities that acknowledge the value added by ANAO services	90	95
Program 1.2		
Percentage of parliamentarians surveyed expressing satisfaction with ANAO services directed towards improving Australian Government administration ^c	90	88
Percentage of recommendations included in performance audit reports agreed by audited entities	90	98
Percentage of Australian Government entities that acknowledge the value added by ANAO services	90	84

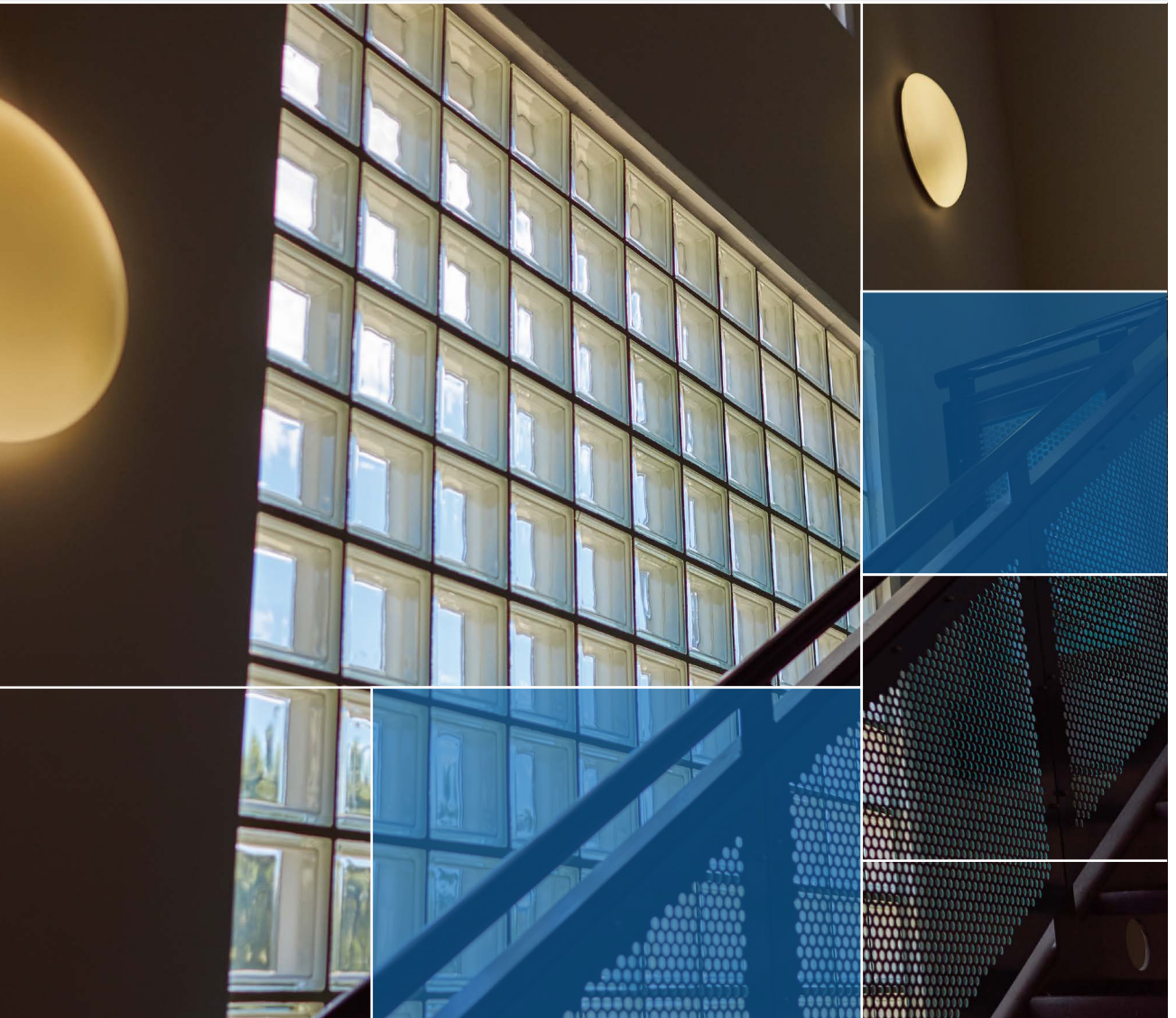
a Includes the annual Defence Materiel Organisation major projects report.

b These deliverables are dependent on ANAO capacity and changes to the public sector environment which influence the scale and scope of the performance audits undertaken.

c Based on the ANAO Parliamentary Survey completed during 2014–15.

PART 3

REPORT ON PERFORMANCE



PROGRAM 1.1—ASSURANCE AUDIT SERVICES

Financial statement audits

The ANAO's audits of the financial statements of Australian Government entities provide independent assurance that the financial statements have been prepared in accordance with the Government's financial reporting framework and Australian Accounting Standards. In 2014–15, the ANAO's audits of financial statements assisted Australian Government entities to fulfil their annual accountability obligations under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) or the *Corporations Act 2001*.

Methodology

Each year Australian Government entities must publish their financial statements, accompanied by an auditor's report pursuant to legislative requirements, in their annual reports. In accordance with the legislative requirements, the ANAO audits the financial statements and expresses an opinion on whether the statements:

- comply with Australian Accounting Standards and any requirements prescribed under the PGPA Act
- present fairly the entity's financial position, financial performance and cash flows.

In addition to the auditor's report on the financial statements, the ANAO provides each audited entity with a report on the findings of the audit and an assessment of the entity's business and accounting processes, including the entity's internal controls relevant to the preparation of the financial statements. A report on the audit is also provided to the minister responsible for the entity.

A risk-based methodology is used in auditing financial statements. It requires a detailed understanding of the entity's organisation and associated business risks, and seeks to rely where possible on governance arrangements and business processes. The office's audit methodology is supported by customised technology and comprehensive training programs.

To ensure that the audit methodology is kept up to date, the Professional Services Branch performs an annual upgrade to the audit methodology. This upgrade incorporates all relevant changes to the audit, accounting and legal frameworks.

Pursuant to section 29 of the *Auditor-General Act 1997*, the Auditor-General delegates responsibility for signing financial statement auditors' reports to senior ANAO staff, in accordance with accountabilities under the annual work program.

Financial statement audits—period ended 30 June 2014

The report *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2014* was tabled in December 2014. This report summarises the final result of the audits of the 2013–14 financial statements of Australian Government entities and the consolidated financial statements of the Australian Government. It also provides information about audit findings and key governance and control activities, such as the certificate of compliance, and comments on key developments in the financial reporting and auditing framework that affect the Australian Government and its reporting entities.

The auditor's understanding of each entity—including its operating environment, internal controls and previous audit findings—helps the auditor design the work needed to respond to significant risks. An examination of such issues is designed to assess the reliance that can be placed on internal controls to produce complete and accurate information for financial reporting purposes.

Internal control issues identified by the ANAO during the final phase of the 2013–14 audits related to:

- › controls in entities' IT environments, such as user access, and the segregation of duties
- › quality assurance and financial reporting, particularly concerning the preparation of the financial statements
- › asset management processes, including the valuation of assets and the reporting of inventory.

While these issues are generally consistent with the issues identified by audit findings in previous years, the number of issues relating to quality assurance and financial reporting increased.

FINANCIAL STATEMENT AUDITORS' REPORTS

Where an entity's financial statements have been prepared in accordance with the Government's financial reporting framework, and fairly represent its financial operations and position, the audit opinion is 'unmodified'. Without modifying the opinion, an auditor's report may include:

- › an 'Emphasis of Matter' paragraph, which draws the reader's attention to matters disclosed in the financial statements that, in the auditor's judgement, are of fundamental importance to the understanding of the financial statements
- › a 'Report on Other Legal and Regulatory Requirements', which addresses additional responsibilities supplementary to the auditor's reporting responsibilities for the financial statements.

The need to modify an audit opinion can arise for a number of reasons, including material misstatement of the final balances or insufficient appropriate audit evidence to enable the Auditor-General to form an opinion. By developing and maintaining professional working relationships, the ANAO seeks to support efforts by each entity's management to mitigate factors that may result in a modified audit opinion.

As shown in Table 2, for the 2013–14 financial year, 259 financial statement auditors' reports were issued with unmodified opinions. Of these, eight contained an Emphasis of Matter paragraph, and 15 included a Report on Other Legal and Regulatory Requirements.

Three additional financial statements audits were also performed, relating to the Administration of Norfolk Island and its subsidiaries. The auditor's report for each of these entities for 2013–14 (and 2012–13) was modified to include a disclaimer of opinion, as there were material uncertainties as to whether the 'going concern' assumption, on which the financial statements were prepared, was appropriate. The Norfolk Island entities are not Australian Government entities and do not form part of the Australian Government Consolidated Financial Statements.

TABLE 2: SUMMARY OF AUDITORS' REPORTS ON FINANCIAL STATEMENTS FOR THE 2012–13 AND 2013–14 FINANCIAL YEARS

	Financial year ended	
	30 June 2014	30 June 2013
Reports issued with an unmodified opinion	259	260
including an Emphasis of Matter paragraph	8	5
including a Report on Other Legal and Regulatory Requirements	15	22
Reports issued with a modified opinion ^a	3	0
Total reports^a	262	260
Reports outstanding	0	0
Total audits^{a,b}	262	260

a Three audits, performed in accordance with the *Norfolk Island Act 1979*, resulted in modified opinions. In 2014–15, for the first time, the ANAO is including the audits of three Norfolk Island entities in its annual reporting as mandated financial statement audits, although the entities are not Commonwealth sector entities.

b Includes the auditor's report on the Consolidated Financial Statements of the Australian Government. There were eight outstanding auditors' reports at the time of tabling of Audit Report No.16 2014–15 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2014*. The reports were subsequently finalised during 2014–15.

CLEARANCE DEADLINES

The ANAO plans financial statement audits so that audit clearance and audit reports are able to be issued in accordance with Australian Government timelines. For the 2013–14 financial year, the Department of Finance set 15 August 2014 as the audit clearance deadline for material entities (which comprise some 99 per cent of the income, expenses, assets and liabilities of the Australian Government). For non-material entities, the date was 30 August 2014.

Some 79 per cent of material entities and 61 per cent of non-material entities met their clearance deadlines for 2013–14. This was a decrease from 2012–13, when 80 per cent of material entities and 68 per cent of non-material entities met the deadlines.

There are no specific deadlines for the signing of the actual financial statements and the signing of the related auditor's report (although in a number of entities the financial statements were signed at or about the same time as audit-cleared information was provided to the Department of Finance). Ninety-eight per cent of auditors' reports on the 2013–14 financial statements were signed within two days of the signed financial statements, which is consistent with the percentage in 2012–13.

CERTIFICATES OF COMPLIANCE

The chief executives or directors of Commonwealth entities are required to annually provide the minister responsible for their entity with certification that the entity has complied with the requirements of legislation governing financial management.

The ANAO monitors the results of entities' certificate of compliance reporting to help assess whether there are any significant or systemic compliance issues that may have an impact on the audits of the financial statements.

In January 2015, the Department of Finance advised that entities reported a total of 8,712 breaches in 2013–14. This represents a decrease in reported non-compliance of about 38 per cent since 2012–13, when 14,027 breaches were reported. The department also advised

that the result reflects a continuous improvement by agencies in addressing non-compliance issues and is also a likely consequence of there having been no new significant financial management framework requirements introduced during the reporting period.

Interim phase of the financial statement audits—period ended 30 June 2015

The report *Interim Phase of the Audits of the Financial Statements of Major General Government Sector Agencies for the Year Ending 30 June 2015* was tabled in June 2015. This report presents the results of the interim phase of the audits of the 2014–15 financial statements of 23 major entities in the general government sector that collectively represent some 95 per cent of total general government sector revenues and expenses.

The ANAO's interim audit phase encompasses a review of governance arrangements related to entities' financial reporting responsibilities, and an examination of relevant internal controls, including IT system controls.

The results of the 2014–15 interim audit phase indicate that control activities relating to financial and accounting processes continued to be maintained at an effective level, and that there had been a small decrease in the total number of audit findings compared with audit findings in 2013–14.

However, the audits continued to identify control weaknesses in a number of areas, such as:

- IT general and application controls, particularly the management of privileged and other user access to key financial business systems
- non-financial assets management, including the timely capitalisation of assets to enable the accurate calculation of depreciation
- the maintenance of complete and accurate asset registers
- the appropriateness of impairment assessments
- the effectiveness of quality assurance and compliance processes.

As a result of interest shown by the Joint Committee of Public Accounts and Audit (JCPAA), the ANAO's financial statement audits continue to include an assessment of compliance in relation to annual appropriations, special appropriations, special accounts and the investment of public moneys. The 2014–15 interim audits identified a continuing high level of compliance in these areas, although actual or potential breaches of section 83 of the Constitution continue to be identified by a number of entities. At the time of the 2014–15 interim audits, risk assessments by a number of entities in relation to potential section 83 breaches were in progress.

Machinery of government changes of December 2014 required some entities to review their governance and operating arrangements. Those changes, in addition to the continuing effects of September 2013 machinery of government changes, have resulted in some delays in the completion of audits planned for the 2014–15 interim audit phase. A sustained effort will be required by the entities concerned and the ANAO to ensure that the 2014–15 financial statements are prepared and audited on time.

CASE STUDY

Auditing in the Antarctic

In February–March 2015, the ANAO conducted audit fieldwork in Antarctica for the first time, examining the assets and management arrangements of the Australian Antarctic Division (AAD) of the Department of the Environment.

Two auditors—Rahul Tejani of the Assurance Audit Services Group and Meg Byrne of the Performance Audit Services Group—conducted a two-week site visit to the AAD’s Casey Station. During the visit, Rahul reviewed the Department of the Environment’s assets and remediation liabilities in Antarctica, while Meg reviewed the arrangements established by the department to support the overall Australian Antarctic Program. In addition to their audit duties, both auditors were actively involved in the day-to-day life of the station.

The financial audit work included understanding the business process verifying the completeness and accuracy of the non-financial assets at Casey Station and Wilkins runway, as recorded in the department’s fixed asset register. The remediation site, located near the base, was also inspected.

The performance audit fieldwork involved reviewing overall management structures;

asset and contract management approaches; and workforce arrangements, including work health and safety, and training and support for expeditioners and their families. The fieldwork was undertaken to help the ANAO build its understanding of the complexities and challenges of delivering the program in the remote and inhospitable conditions of Antarctica.

As part of her work, Meg spoke to the station leader, the operations manager, scientists and tradespeople at the station to gain an appreciation of how they work together and are supported by the AAD in their unique workplace. Those interviews enabled the ANAO to gain insights into expeditioners’ recruitment experiences with the AAD, their training requirements, and the work health and safety culture on the station. The performance audit report is expected to be tabled in the Autumn 2016 parliamentary sittings.

This audit activity demonstrates the breadth and variety of the ANAO’s work, and the ANAO’s ability to deliver its high-level audit services in even the most atypical environments.



Meg Byrne of the Performance Audit Services Group and Rahul Tejani of the Assurance Audit Services Group.



Wilkins Aerodrome, about 70 kilometres south-east of Casey Station.



Rahul Tejani carefully navigates the Antarctic environment.



The ANAO auditors inspect a hydroponics facility.

Fees

Under section 14 of the Auditor-General Act, audit fees are based on a scale determined by the Auditor-General. The audit fees calculated for financial statement audits are based on a cost-recovery model using accrual-based costing to determine an hourly charge-out rate for each staff category. The costing model takes into account all relevant costs, including the attribution of overhead costs. The audit fees for each financial statement audit are disclosed in the annual financial statements of each entity audited by the ANAO.

Non-corporate Commonwealth entities that were governed by the PGPA Act in 2014–15 will disclose the notional cost (fee) for auditing their financial statements as advised by the ANAO. Notional cost recovery involves accounting for the costs of performing the service without actually billing the recipient.

Corporate Commonwealth entities and Commonwealth companies and their subsidiaries are liable to pay fees for the audit of their financial statements by the ANAO in 2014–15. The ANAO receives such payments as administered receipts on behalf of the Government. The revenue is not used to fund the operations of the ANAO but is paid directly into Consolidated Revenue. The revenue and receipts are reported as administered activities in the ANAO annual financial statements.

The principle inherent in these arrangements is that the Parliament should appropriate funds directly to the ANAO for its essential auditing responsibilities, and the ANAO should not be dependent on audit fee income to fund its operations.

An entity may request additional assurance audit services that involve the payment of fees to the Auditor-General under section 20(2) of the Auditor-General Act. Revenue from such payments is retained by the ANAO.

Assurance reviews

In addition to performance audits and financial statement audits, the Auditor-General may undertake other assurance activities. These generally consist of reviews undertaken by agreement with the auditee, either at the request of the auditee or in response to requests from stakeholders such as ministers or parliamentary committees.

Major projects report

Since 2007–08, the ANAO has conducted an annual assurance review of the Defence Materiel Organisation's yearly report on major Defence equipment acquisition projects (major projects). This arrangement was initiated and supported by parliamentary committees as part of a cooperative effort to improve transparency and public accountability for major Defence acquisitions.

The intention was for the ANAO to report on up to 30 selected major projects. In the seventh and most recent report, Audit Report No.14 2014–15 *2013–14 Major Projects Report*, the ANAO reported on 30 projects. The report is summarised in Appendix 2.

The major projects review is based on guidelines endorsed by the JCPAA and the Auditor-General's review scope, and is not as extensive in terms of evidence gathering as the scope of a performance audit.

The 2014–15 major projects report will be the eighth annual report to Parliament and will report on 25 projects. It will build on previous reports, further enabling longitudinal analysis of Defence major acquisition projects. (On 1 July 2015, the Defence Materiel Organisation ceased to be a separate Commonwealth entity and was merged with the Department of Defence, becoming the Capability Acquisition and Sustainment Group.)

Other assurance engagements

Other assurance engagements provide assurance to entities and other third parties on selected matters outside the scope of the annual financial statement audit.

Ministers or entities can request the ANAO to review activities on a cost-recovery basis, and a number of entities seek reviews or audits of their half-year financial statements as part of their corporate governance arrangements. ANAO services also include grant acquittal certificates, assurance on performance information and other special purpose engagements.

In addition to its work on Defence major acquisition projects, the ANAO conducted 53 other assurance engagements during 2014–15 (a decrease from 74 in 2013–14). The decrease was mainly due to a reduction in special purpose engagements relating to a range of entities, including Medibank Private Limited, ASC Ship Building, the Future Fund, and the Commonwealth Superannuation Corporation.

DEVELOPMENTS IN PUBLIC SECTOR FINANCIAL REPORTING AND AUDIT

Ongoing developments in financial reporting and auditing frameworks continue to drive changes in the financial reporting responsibilities of public sector entities and the ANAO's audit methodology. The ANAO assists entities through client seminars and publications that explain new developments.

The most significant change to Australian Accounting Standards, effective from 2014–15, is the new standard AASB 1055 *Budgetary Reporting*. This standard requires almost all not-for-profit public sector entities to identify and explain any major variances between the amounts originally budgeted for the financial year and actual outcomes.

There are ongoing initiatives by Australian and international standard-setters to reduce the volume and complexity of disclosures in financial statements to make them more useful to users. In 2014, the Australian Accounting Standards Board (AASB) published a staff paper, *To Disclose or Not to Disclose: Materiality is the Question*, proposing ways in which entities could remove unnecessary clutter from their financial statements. More recently, the AASB amended AASB 101 *Presentation of Financial Statements* to clarify that entities are only required to disclose information that is relevant to users of their financial statements. The amendments apply to reporting periods beginning on or after 1 January 2016.

The ANAO supports initiatives that reduce the compliance workload of Australian Government entities and make financial statements easier to read, while preserving sufficient disclosures to satisfy the needs of Parliament. The ANAO better practice guide *Public Sector Financial Statements: High-quality Reporting Through Good Governance and Processes*, published in March 2015, includes a discussion and

associated examples designed to assist entities to improve the presentation of financial statements.

Further changes to the financial reporting framework are expected over the next few years, as projects by Australian and international accounting standard-setters lead to new accounting standards for the public and private sectors. Projects specific to the public sector include fair value disclosures; reporting of service performance information; and new accounting requirements for grants, taxes and appropriations. Projects aimed primarily at the private sector, but with public sector implications, include the continuing initiative to improve the quality of disclosures, and major revisions to lease accounting.

In April 2015, the Australian Auditing and Assurance Standards Board released proposals that would enhance the value of an auditor's report by including within it key matters about how the audit was performed. Key audit matters are those that, in the auditor's professional judgement, were of most significance in the audit of the financial statements. Such a change may also assist intended users to understand the entity and the areas of significant management judgement in the financial statements. This change is proposed to apply from 15 December 2016 to audits of listed entities' financial statements and also in circumstances where the auditor otherwise decides or is required by law to communicate key audit matters in the auditor's report.

The ANAO will give consideration to applying those standards to the audits of the more material Australian Government entities.

PROGRAM 1.2—PERFORMANCE AUDIT SERVICES

Performance audits

The ANAO's performance audit activities commonly involve the audit of all or part of an entity's operations and will usually consider the extent to which intended outcomes are being achieved, whether processes can be undertaken more effectively or efficiently, and the extent of compliance with relevant legal and policy frameworks. The ANAO reports to Parliament on areas where improvements can be made to aspects of public administration and makes specific recommendations to assist public sector entities to improve their program management performance.

Performance audits may also involve multiple entities and examine common aspects of administration or the joint administration of a program or service. In 2014–15, cross-entity audits covered topics such as procurement, business continuity management and fraud control.

The Auditor-General Act authorises the Auditor-General to conduct a performance audit of any Commonwealth entity or Commonwealth company or their subsidiaries. The Auditor-General may only conduct a performance audit of a Commonwealth entity or Commonwealth company that is a government business enterprise if the JCPAA requests the audit.

The Act also authorises the Auditor-General to conduct a performance audit of a Commonwealth partner in certain circumstances. Commonwealth partners include contractors and state and territory bodies that have received money to achieve a Commonwealth purpose and have agreed to use the money in achieving that purpose or have entered into a contract that relates to that purpose. Audits of Commonwealth partners that involve state or territory governments must be requested by the JCPAA or the responsible minister.

Audit focus areas in 2014–15

Performance audits undertaken in 2014–15 involved 29 entities and covered a range of areas of public administration, including service delivery, grants management, regulation and procurement.

The ANAO identifies subjects for audit through its planning processes. In addition, the Auditor-General receives requests to conduct audits and investigations.

The following requests either were included within the scope of existing work or became the subject of an audit or review in 2014–15:

- The Joint Standing Committee on Electoral Matters made a request in relation to the Australian Electoral Commission's implementation of previous audit recommendations. The ANAO responded by initiating a series of three audits. The report of the second of these, *Audit Report No.4 2014–15 Second Follow-up Audit into the Australian Electoral Commission's Preparation for and Conduct of Federal Elections*, was tabled in November 2014. The third audit is ongoing.
- Senator the Hon Simon Birmingham made a request in relation to the Clean Technology Investment Program. *Audit Report No.11 2014–15 The Award of Grants under the Clean Technology Programs*, was tabled in December 2014.
- Mr Alex Hawke MP requested that an audit of the Early Years Quality Fund be considered in the light of the findings of a review by the Government. *Audit Report No.23 2014–15 Administration of the Early Years Quality Fund*, was tabled in February 2015.

- The Secretary of Defence and the Chief of the Defence Force requested an audit of the disposal of military equipment. Audit Report No.19 2014–15 *Management of the Disposal of Specialist Military Equipment*, was tabled in February 2015.
- The Treasurer, the Hon Joe Hockey MP, made a request in relation to the development of the Defence eHealth System. Audit Report No.27 2014–15 *Electronic Health Records for Defence Personnel*, was tabled in March 2015.
- The Senate Economics References Committee made a request in relation to the Australian Securities and Investments Commission’s use of enforceable undertakings. Audit Report No.38 2014–15 *Administration of Enforceable Undertakings*, was tabled in June 2015.
- The Hon David Feeney MP made a request in relation to the Safer Streets Programme. Audit Report No.41 2014–15 *The Award of Funding under the Safer Streets Programme*, was tabled in June 2015.
- Senator the Hon Penny Wong made a request in relation to the appointment of the head of the Secretariat for the National Commission of Audit. The ANAO published its response to the request on its website.
- The Hon Anthony Albanese MP made a request in relation to the Australian Government funding for the East West Link project in Victoria. An audit is currently underway.

Issues identified in 2014–15

In 2014–15, 49 performance audits were tabled, involving all portfolios and 29 public sector entities. The range of topics covered by performance audit reports conveys the diversity of Australian Government programs and services. Appendix 2 includes a summary of each performance audit tabled during the year.

While the audits tabled in 2014–15 identified elements of sound public administration across a range of activities, they also highlighted common recurring issues and shortcomings. Some key areas for improvement in administration are outlined in Table 3.

TABLE 3: COMMON AREAS FOR IMPROVEMENT IDENTIFIED IN PERFORMANCE AUDITS, 2014–15

Element of performance	Areas for improvement
Performance assessment and a focus on planned outcomes	Meaningful performance measures were not well developed in a number of programs. As a result, the ability to measure and report on program effectiveness and provide informed policy advice to government was constrained.
Consistency with policy frameworks for grants and procurements	The ANAO has observed improvement in grants management and procurement. However, audits continue to identify cases where practices were not consistent with important aspects of the relevant frameworks and requirements. There was also scope to improve the advice provided to government on the design of grant programs and to decision-makers on the approval of individual grants.
Risk-based compliance management	The extent to which risk-based approaches for managing compliance activities have been adopted, and the maturity of the approaches, varied. Effective approaches are important to enable entities to target limited resources at higher risks and lighten compliance coverage on lower areas of risk (consistent with the Government’s deregulation agenda).
Sound administrative practices	Effectiveness, efficiency, and accountability were affected in a number of cases by shortfalls in generally accepted administrative practices, such as quality assurance, record keeping, and internal guidance material.

Number, duration and cost of performance audit reports

Table 4 shows the average cost and length of time taken to complete performance audits in the past three financial years.

TABLE 4: NUMBER, COST AND DURATION OF PERFORMANCE AUDIT REPORTS, 2012–13 TO 2014–15

Year	Number of performance audits		Time taken to complete reports (months)		Cost per report (\$'000) ^a	
	Target	Result	Average	Range	Average	Range
2014–15	49	49	11.2	6.4–21.4	520	202–860
2013–14	50	50	12.1	2.4–26.6	500	200–900
2012–13	52	51	11.4	2.9–21.2	390	200–700

a Cost is calculated on a nominal cost-recovery basis using an accrual-based costing model.

Responses from audited entities

The ANAO's performance audits make recommendations to improve the administration, accountability and service delivery performance of audited entities. Entities are not required to agree to the recommendations of performance audits. However, where an entity has agreed to a recommendation, implementation of that recommendation should be timely and in line with its intended outcome to achieve the benefits envisaged.

Table 5 provides details of the extent to which entities have agreed with ANAO performance audit recommendations in the past three financial years.

TABLE 5: AGREEMENT TO RECOMMENDATIONS IN PERFORMANCE AUDIT REPORTS, 2012–13 TO 2014–15

Year	Recommendations (no.)	Recommendations fully agreed (%)	Recommendations agreed with some qualification (%)	Recommendations not agreed (%)
2014–15	122	91.0	7.0	2.0
2013–14	113	94.3	5.2	0.5
2012–13	98	99.0	1.0	0.0

Better practice guides

The ANAO published three better practice guides in 2014–15, replacing existing guides on financial reporting, public sector audit committees and the implementation of policy initiatives. In particular, those replacement guides take account of changed requirements arising from the introduction of the PGPA Act.

Better practice guides are designed to assist entities to form a view of which practices to use. The guides are not mandatory and should be interpreted and customised in the context of each entity's own particular circumstances. The new guides are summarised in Table 6.

TABLE 6: BETTER PRACTICE GUIDES PUBLISHED IN 2014–15

Title	Description
<p><i>Successful Implementation of Policy Initiatives</i></p> <p>15 October 2014</p>	<p>All governments expect their policies to be implemented on time, on budget and to expectations. For that to occur, implementation considerations must be a fundamental part of all stages of policy development.</p> <p>This better practice guide was first released in 2006, and was updated in 2014 in collaboration with the Department of the Prime Minister and Cabinet.</p> <p>The guide takes into account recent experience in implementing policy initiatives and provides advice on how to use that experience to strengthen performance in the future.</p>
<p><i>Public Sector Audit Committees: Independent Assurance and Advice for Accountable Authorities</i></p> <p>3 March 2015</p>	<p>Audit committees play an important role in the governance framework of organisations in both the public and private sectors. A distinguishing feature of audit committees is their independence from management. Audit committees are an important source of assurance and advice to entities' Accountable Authorities on key aspects of entities' operations, but are not substitutes for entities' management controls and accountabilities.</p> <p>This better practice guide updates and replaces the ANAO's 2011 <i>Public Sector Audit Committees</i> better practice guide, and reflects the requirements of the <i>Public Governance, Performance and Accountability Act 2013</i> (PGPA Act) and PGPA Rule section 17, 'Audit committee for Commonwealth entities'. The guide addresses a number of issues, including the range of functions and responsibilities that may be undertaken by the audit committee of a Commonwealth entity; shared committee arrangements; and sharing of resources between entities. Part 3 of the guide includes a number of checklists and other material for use by committees and entity management. The guide complements the ANAO's better practice guide <i>Public Sector Internal Audit</i>, published in September 2012.</p>
<p><i>Public Sector Financial Statements: High-quality Reporting Through Good Governance and Processes</i></p> <p>3 March 2015</p>	<p>Effective financial management is critical to public sector entities being able to meet their policy and service delivery responsibilities. An important aspect of financial management and stewardship is the preparation and publication of annual audited financial statements in entities' annual reports. The environment in which entities are required to prepare their annual financial statements continues to be a challenging one, with issues that need to be dealt with including ongoing enhancements to accounting standards, changes to the Government's financial framework, and resource pressures.</p> <p>This better practice guide updates and replaces the previous edition, issued in June 2013. The guide reflects the requirements of the PGPA Act and includes a discussion (and associated examples) on more informative financial reporting and some of the implications of a shared services environment for the preparation of an entity's financial statements.</p> <p>While much of this guide provides practical guidance relating to the preparation of financial statements, it is recognised that the underpinning management and internal control regimes need to be functioning effectively for an entity's financial statements to comply with legislative and policy requirements, and that they need to be produced in a timely manner.</p>

SHARED COMPONENTS

Assistance to Parliament

The ANAO supports the work of Parliament by providing independent assurance and opinion, including information and assistance, to ministers, shadow ministers and other parliamentarians and to parliamentary committees, particularly the JCPAA. This includes briefings on audit reports and the contribution that the implementation of audit recommendations can make to improvements in public administration.

Joint Committee of Public Accounts and Audit

The purpose of the JCPAA is to hold Commonwealth agencies to account for the lawfulness, efficiency and effectiveness with which they use public moneys.

Among its responsibilities, the committee considers the operations and resources of the ANAO. The committee is also required to review all ANAO reports which are tabled in Parliament and to report the results of its deliberations to both houses of Parliament.

Officers of the ANAO attend private briefings and public hearings as part of the JCPAA's review of audit reports. The JCPAA completed three reviews of the Auditor-General's reports in 2014–15:

- *Report 445: Review of Auditor-General Reports Nos 10–31 (2013–14)* was tabled on 22 September 2014 and reviewed the following audit reports in detail:
 - Audit Report No.21 2013–14 *Pilot Project to Audit Key Performance Indicators*
 - Audit Report No.25 2013–14 *Management of the Building Better Regional Cities Program*
 - Audit Report No.26 2013–14 *Medicare Compliance Audits*
 - Audit Report No.27 2013–14 *Integrity of Medicare Customer Data*
- *Report 447: Review of Auditor-General Reports Nos 32–54 (2013–14)* was tabled on 2 March 2015 and reviewed the following audit reports in detail:
 - Audit Report No.42 2013–14 *Screening of International Mail*
 - Audit Report No.43 2013–14 *Managing Compliance with Environment Protection and Biodiversity Conservation Act 1999 Conditions of Approval*
 - Audit Report No.48 2013–14 *Administration of the Australian Business Register*
 - Audit Report No.50 2013–14 *Cyber Attacks: Securing Agencies' ICT Systems*
 - Audit Report No.52 2013–14 *Multi-Role Helicopter Program*
- *Report 448: Review of the 2013–14 Defence Materiel Organisation Major Projects Report* was tabled on 25 May 2015 and commented on Audit Report No.14 2014–15 *2013–14 Major Projects Report*.

The reports are available for download from the Parliament of Australia website, www.aph.gov.au.

The JCPAA also conducted an inquiry into the operations of the Parliamentary Budget Office. The terms of reference of the JCPAA's *Report 446: Review of the Operations of the Parliamentary Budget Office* take into account the findings and recommendations of Audit Report No.36 2013–14 *The Administration of the Parliamentary Budget Office*.

Other parliamentary committees

Parliamentary committees other than the JCPAA may also conduct reviews which require representatives from the ANAO to appear or provide written submissions. In 2014–15, representatives of the ANAO made 27 appearances before and submissions to parliamentary committees, which was consistent with expectations.

The increase from 22 appearances and submissions in 2013–14 reflects the continued and respected contribution of the ANAO in informing Parliament on a wide range of matters relating to the performance of the public sector.

National representation

As part of its objective to further the profession of public sector auditing, the ANAO engages with state and territory audit offices and relevant Australian professional associations.

Australasian Council of Auditors-General

The Auditor-General is a member of the Australasian Council of Auditors-General, which comprises the Auditor-General for Australia and the Auditors-General for each Australian state and territory, Fiji, New Zealand and Papua New Guinea. The council's objective is to promote public sector auditing in the Australasian region through exchanges of experiences and ideas, training initiatives, and cooperation.

The ANAO contributes to the council's work by attending business meetings, preparing discussion papers, participating in information exchanges, undertaking an annual benchmarking survey, and conducting peer reviews and training courses.

In 2014–15, staff from the ANAO were active on a number of the council's subcommittees, including the:

- Audit Quality Assurance Panel
- Interjurisdictional Information Systems Audit Group
- Performance Audit Group.

Executive memberships

A number of ANAO staff have roles outside the ANAO as part of the ANAO's broader contribution to the auditing and accounting profession, including the following executive staff:

- Executive Director Carla Jago is the public sector representative on the Audit Advisory Committee of Chartered Accountants Australia and New Zealand.
- Executive Director Peter Kerr is the ACT State President of CPA Australia.

Information services

In addition to providing independent assurance to the Parliament, the ANAO supports and advises audit clients on matters that complement its primary role and fall within its area of expertise.

As part of this work the ANAO conducts client seminars to advise on topical and emerging issues, with a focus on improved financial reporting. Client seminars cover changes in financial reporting requirements affecting Australian Government entities. Three seminars, which over 90 per cent of participants rated as 'useful', were delivered in a web-based format in 2014–15.

During the year, ANAO staff accepted invitations to speak to Australian Government entities and other bodies on topical matters and issues arising from audit reports and better practice guides. More information on those presentations is in Appendix 3.

The ANAO periodically publishes two newsletters to inform entities on audit-related items of general interest and to provide technical accounting and auditing information:

- *AUDITFocus* captures lessons from audit work that are likely to be of general interest and application to entities. One edition was published in 2014–15.
- *Opinions* provides entities with information on developments in financial reporting together with details of the ANAO's recent performance audit activity and better practice guides. Four editions were published in 2014–15.

Both newsletters are available from the ANAO's website, www.anao.gov.au.

The ANAO maintains a web-based portal to support accounting firms providing contract audit services. The website provides contractors with access to relevant ANAO policies, templates and technical guidance material.

International representation and support to developing nations

During the year the ANAO maintained its commitment to engagements that contribute to public sector auditing internationally and support developing nations.

Supreme audit institutions and international visitors

The ANAO is a member of the International Organization of Supreme Audit Institutions (INTOSAI), which is dedicated to promoting the exchange of audit and financial management information among its member nations and providing a network for the international public sector audit community.

The ANAO also contributes to the activities of two INTOSAI regional organisations:

- the Asian Organization of Supreme Audit Institutions (ASOSAI)
- the Pacific Association of Supreme Audit Institutions (PASAI).

Engagement with other supreme audit institutions (SAIs) allows the ANAO to share knowledge and information and contribute to international dialogue about best practice public administration and developments in public sector auditing.

The ANAO also responds to requests from SAIs directly, including by hosting delegations, providing information and participating in surveys.

During 2014–15, the ANAO also:

- contributed to a global survey on capacity-building experiences
- provided briefings to delegations from the Vietnamese National Assembly's Committee on Financial and Budgetary Affairs and the Investment and Planning Ministry, the Indonesian Ministry of Finance and National Development Planning Agency, the Taiwanese Department of Planning, and the Lao National Assembly Economy, Planning and Finance Committee
- hosted visits from the Chinese National Audit Office, the Kenyan Office of the Auditor-General and the United Kingdom National Audit Office

- participated in the INTOSAI Working Group on IT Audit, including by sending a representative to Poland
- participated in the INTOSAI Working Group on Environmental Auditing, including by sending a representative to the Philippines
- contributed to the ASOSAI Research Project on Fraud and Corruption
- sent a representative to attend the PASAI Congress in Samoa
- sent representatives to China to participate in the Seminar on the Audit and Evaluation of the Implementation of Financial Regulatory Policies
- invited two representatives from the Chamber Accounts of East Timor to participate in the ANAO Performance Audit Skills for New Analysts workshop.

The Auditor-General contributes to developing and maintaining these relationships by personally participating in international activities. In 2014–15, the Auditor-General:

- visited the Auditor-General of Papua New Guinea to discuss continued cooperation
- attended the thirteenth ASOSAI Assembly, in Malaysia
- attended the Global Audit Leadership Forum, in New Zealand.

Development cooperation

Through a strategic partnership agreement with the Department of Foreign Affairs and Trade, the ANAO participates in Australia's international aid program to assist and support other SAIs to build their institutional capacity. The agreement recognises the Australian Government's strategic whole-of-government approach to enhancing good governance as an integral part of meeting development challenges, reducing poverty and protecting Australia's national interests. The ANAO participates in Australian Government programs in Indonesia and Papua New Guinea.

INDONESIA

The Australia Indonesia Government Partnerships Fund (GPF) is a whole-of-government program that facilitates and strengthens government-to-government partnerships and policy dialogue between Australia and Indonesia, in the pursuit of economic and public sector development. Through the program, the ANAO provides assistance to contribute to strengthening the performance and financial statement audit capacity of the Indonesian Board of Audit (BPK).

The ANAO's activities under the GPF program align with key focus areas for strengthening public sector governance, such as institutional leadership engagement; senior management engagement; and technical assistance. A senior ANAO staff member is deployed to the BPK to offer performance audit support and advice.

Operating within the GPF program framework, the ANAO looks for innovative ways to assist the BPK to strengthen the technical and managerial aspects of its performance auditing and financial auditing. In 2014–15, the ANAO's activities included:

- assistance with financial statement auditing, focusing on the technical aspects of auditing financial statements prepared on an accrual basis (this assistance included input from the Audit Office of New South Wales)
- sharing of knowledge of ANAO and Audit Office of New South Wales approaches to reporting and contract-out auditing

- › engagement by senior leadership to discuss key priorities for the partnership and sharing of knowledge on approaches to the continued development of public sector auditing
- › work to strengthen the BPK's quality assurance framework for performance audit
- › assistance with performance audits, including the delivery of workshops to BPK regional office staff
- › participation of BPK representatives at the Australasian Council of Public Accounts Committees Biennial Conference and the Australasian Council of Auditors-General Biennial Meeting, both held in Adelaide.

PAPUA NEW GUINEA

The ANAO has maintained links with the Papua New Guinea Auditor-General's Office (AGO) since the 1970s. Previously, the ANAO participated in the Papua New Guinea–Australia Audit Office Twinning Scheme and the Strongim Gavman Program (SGP). In 2014–15 these programs were merged into one new program, ANAO PNG Twinning and SGP.

The twinning component of the program aims to assist the AGO by providing strategic support and advice, as well as direct technical assistance and skills development to AGO officers.

The SGP component is a whole-of-government engagement in which Australian Government agencies provide capacity development assistance and advice to counterpart Papua New Guinea Government agencies. Its overarching goal is to assist the Papua New Guinea Government to strengthen the performance of key public sector agencies. The ANAO has been providing advisers to the AGO through the program since 2004.

Two senior ANAO staff members are currently based in the AGO: a senior adviser to the Auditor-General and a performance audit adviser. In addition, during 2014–15:

- › AGO officers participated in the graduate programs of the Audit Office of New South Wales.
- › AGO managers were placed in the Queensland Audit Office.
- › The ANAO assisted the AGO to develop IT systems and applications to improve financial audit capability.
- › Senior managers discussed forward planning for the partnership.

Stakeholder satisfaction

Feedback from stakeholders assists the ANAO to improve the quality and effectiveness of its audit services, providing an insight into the effectiveness of current practice and informing the development of new audit practices and approaches.

Client surveys

The ANAO conducts an annual survey to gain feedback from entities on the conduct of the audit of their financial statements for the previous financial year. The report on the conduct of the audit of 2014–15 financial statements presented the views of 168 entities (a response rate of 82 per cent, showing a decline compared to 89 per cent in 2013–14). The survey results were positive and showed that 95 per cent of respondents acknowledged that ANAO services added value (consistent with 96 per cent in 2013–14) and 93 per cent acknowledged that ANAO staff had the required understanding and skills to perform their audits (broadly consistent with 97 per cent in 2013–14).

After each performance audit report is tabled, the ANAO seeks feedback on the audit process by means of a survey and an interview with the responsible manager of the audited entity. The survey is completed by an independent firm of consultants engaged by the ANAO. Key matters on which feedback is sought include the audit process; audit reporting; and the value of the ANAO's performance audit services more generally. The response rate from auditees surveyed for the 2014–15 reporting period was 80 per cent, in line with 81 per cent in 2013–14. Overall, the client survey indicated that the results were positive. The proportion of respondents that acknowledged the value added by ANAO services was 84 per cent (unchanged from 84 per cent in 2013–14). The percentage of respondents that considered the auditors had demonstrated the professional knowledge and audit skills required to conduct the audit was 86 per cent (broadly consistent with 87 per cent in 2013–14).

Feedback from Parliament

The contribution of performance audit services to the work of Parliament is reflected, in part, in the ANAO's appearances before and submissions to parliamentary committees. Parliamentary committee reviews of audit reports give entities an impetus to implement audit recommendations and contribute to the overall improvement of public administration resulting from performance auditing. In 2014–15, various parliamentary committees drew on the work of the ANAO and referred to ANAO reports during hearings.

The ANAO also formally surveys parliamentary stakeholders once every two financial years. The survey that was due to be conducted in 2013–14 was postponed to allow new members and senators in the Forty-fourth Parliament sufficient time to familiarise themselves with the ANAO's reports and better practice guides. The survey was conducted in March 2015.

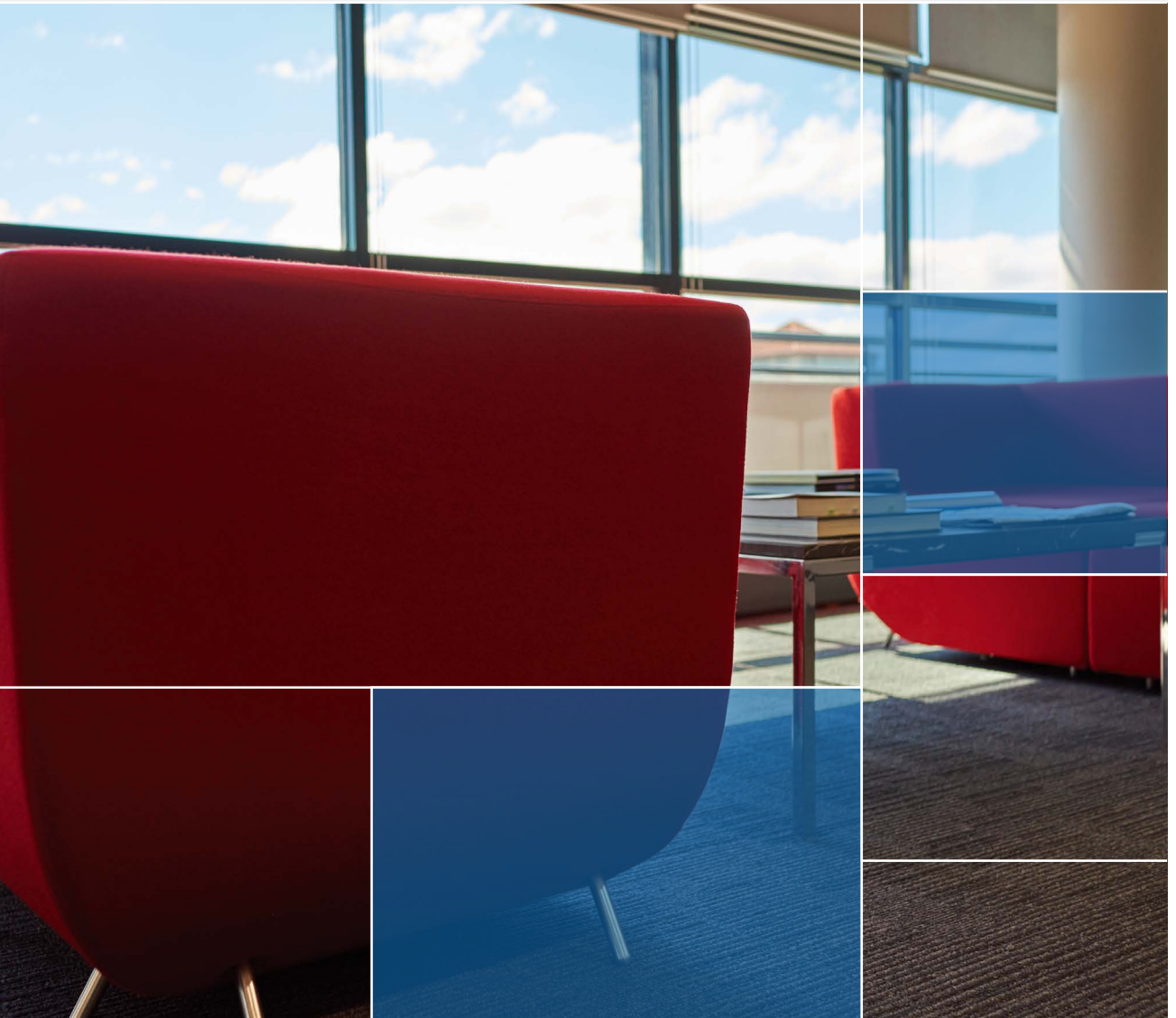
Overall satisfaction with the ANAO was 84 per cent, which is broadly consistent with the previous result of 86 per cent in 2011–12. The ANAO attracted solid ratings across the survey results, and particularly for the responsiveness of our staff (91 per cent) and the integrity of the office (91 per cent), which is a pleasing result.

The report made three recommendations for improvement, which are currently under consideration:

- developing and disseminating to parliamentarians (as well as to other stakeholders and the public) a short publication which summarises how ANAO audits have improved public sector administration over the past five to 10 years
- providing more support to audit teams so that audit reports communicate more effectively
- allocating more ANAO staff time to engagement with parliamentarians through non-JCPAA parliamentary committee processes.

PART 4

MANAGEMENT AND ACCOUNTABILITY



CORPORATE GOVERNANCE

The Australian National Audit Office (ANAO) has a structured governance framework that facilitates the effective management of business resources and other corporate activities to support the delivery of the ANAO's outcome.

Executive Board of Management

The Executive Board of Management assists the Auditor-General to meet his statutory responsibilities. The board is responsible for setting and monitoring the ANAO's strategic directions, overseeing key business opportunities and risks, and managing the ANAO's budget and workforce.



Back row from left: Ian Goodwin, Mitchell Frost, Mark Simpson, Tom Ioannou.
Front row from left: Michael Watson, Grant Hehir, Anya Moore, Andrew Pope. Absent: Steve Chapman.

The board meets each month. At 30 June 2015, the board's membership comprised:

- Grant Hehir (Chair), Auditor-General
- Steve Chapman, Deputy Auditor-General
- Ian Goodwin, Group Executive Director, Assurance Audit Services Group
- Michael Watson, Group Executive Director, Assurance Audit Services Group
- Tom Ioannou, Group Executive Director, Performance Audit Services Group
- Andrew Pope, Group Executive Director, Performance Audit Services Group
- Mark Simpson, acting Group Executive Director, Performance Audit Services Group
- Anya Moore, Executive Director, Corporate Management Branch
- Mitchell Frost, Chief Finance Officer.

The board has established eight subcommittees, details of which are set out below.

From 10 February to 30 June 2015, Ian Goodwin, Group Executive Director, Assurance Audit Service Group, undertook the responsibilities of Steve Chapman, Deputy Auditor-General, on three board subcommittees and the Audit Committee.

Qualifications and Accounting Policy Committee

The Qualifications and Accounting Policy Committee provides a forum for staff responsible for financial statement audits to consult on difficult and contentious matters and, where necessary, deal with and resolve differences of opinion on audit-related matters. ANAO policy identifies the matters that must be referred to the committee. The committee engages with the Auditor-General on significant matters.

The committee met eight times in 2014–15. At 30 June 2015, its membership comprised:

- › Steve Chapman (Chair), Deputy Auditor-General
- › Ian Goodwin, Group Executive Director, Assurance Audit Services Group
- › Michael Watson, Group Executive Director, Assurance Audit Services Group
- › Puspa Dash, Executive Director, Professional Services Branch
- › John Jones, Executive Director, Assurance Audit Services Group
- › Jocelyn Ashford, Executive Director, Assurance Audit Services Group
- › David Gray, Executive Director, IT Audit (alternate member).

Relevant support staff attend the meetings as observers and provide secretariat support.

Information Strategy Committee

The Information Strategy Committee advises the Executive Board of Management on business systems, business risks and ICT strategic directions. The committee also provides strategic direction to the Information Technology Projects Governance Group.

The committee met four times in 2014–15. At 30 June 2015, its membership comprised:

- › Steve Chapman (Chair), Deputy Auditor-General
- › Ian Goodwin, Group Executive Director, Assurance Audit Services Group
- › Tom Ioannou, Group Executive Director, Performance Audit Services Group
- › Anya Moore, Executive Director, Corporate Management Branch
- › Gary Pettigrove, Chief Information Officer
- › Mitchell Frost, Chief Finance Officer
- › Lee Ward (Observer), Unisys Strategic Advisor.

Relevant support staff attend the meetings as observers and provide secretariat support.

Information Technology Projects Governance Group

The Information Technology Projects Governance Group is responsible for the implementation of all ICT projects and the alignment of IT service delivery with business requirements. The group reports to the Deputy Auditor-General and receives strategic direction from the Information Strategy Committee.

The group met 11 times in 2014–15. At 30 June 2015, the group's membership comprised:

- Anya Moore (Chair), Executive Director, Corporate Management Branch
- Tom Clarke, Executive Director, Performance Audit Services Group
- David Gray, Executive Director, Assurance Audit Services Group (IT Audit)
- Sean Benfield, Business Manager, Assurance Audit Services Group
- Sandra Lenarcic, Business Manager, Performance Audit Services Group
- Gary Pettigrove, Chief Information Officer
- Thomas Cho, Finance Manager
- Hanna Dean (Observer), Unisys Account Executive.

Relevant support staff attend the meetings as observers and provide secretariat support.

People and Capability Strategy Committee

The People and Capability Strategy Committee advises the Executive Board of Management on a range of people and capability matters. It oversees the development and implementation of the ANAO's People and Capability Investment Strategy 2012–15, which includes setting the strategic direction and priorities relating to workforce planning, people management, capability building, staff development and conditions of employment. The committee also makes decisions relating to people and employment framework matters, including setting parameters for the performance assessment scheme and remuneration model.

The committee met five times in 2014–15. At 30 June 2015, the committee's membership comprised:

- Steve Chapman (Chair), Deputy Auditor-General
- Ian Goodwin, Group Executive Director, Assurance Audit Services Group
- Mark Simpson, Group Executive Director, Performance Audit Services Group
- Anya Moore, Executive Director, Corporate Management Branch.

Relevant support staff attend the meetings as observers and provide secretariat support.

People and Capability Projects Governance Committee

The People and Capability Projects Governance Committee is a subcommittee of the People and Capability Strategy Committee. The committee monitors the implementation of projects and initiatives in the areas of workforce planning, recruitment, learning and development, people management and capability building. It also provides advice and guidance on human resources management matters.

The committee met seven times in 2014–15. At 30 June 2015, the committee's membership comprised:

- Anya Moore (Chair), Executive Director, Corporate Management Branch
- Phillip Sands, Executive Director, Assurance Audit Services Group
- Puspa Dash, Executive Director, Professional Services Branch
- Fiona Knight, Executive Director, Performance Audit Services Group

- › Sean Benfield, Business Manager, Assurance Audit Services Group
- › Sandra Lenarcic, Business Manager, Performance Audit Services Group
- › Christine King, Senior Director HR, Corporate Management Branch.

Relevant support staff attend the meetings as observers and provide secretariat support.

International Steering Committee

The International Steering Committee assists the Executive Board of Management by providing strategic oversight and coordination of the ANAO's capacity-building activities relating to Indonesia and Papua New Guinea. The committee is sponsored by the Deputy Auditor-General.

The committee meets quarterly with additional meetings as required; it met four times in 2014–15. At 30 June 2015, the committee's membership comprised:

- › Andrew Pope (Chair), Group Executive Director, Performance Audit Services Group
- › Ian Goodwin, Group Executive Director, Assurance Audit Services Group
- › Brandon Jarret, Executive Director, Assurance Audit Services Group
- › Puspa Dash, Executive Director, Professional Services Branch
- › Anya Moore, Executive Director, Corporate Management Branch
- › Mitchell Frost, Chief Finance Officer
- › Ben Sladic, Senior Director, Corporate Management Branch
- › Penelope Edwards, Director, Corporate Management Branch.

Relevant support staff attend the meetings as observers and provide secretariat support.

Security Committee

The Security Committee provides independent assurance and assistance to the Auditor-General and the Executive Board of Management on the ANAO's security framework.

Committee members hold monthly operational meetings. The committee met 11 times in 2014–15. At 30 June 2015, the committee's membership comprised:

- › Anya Moore (Chair), Executive Director, Corporate Management Branch
- › Ben Sladic, Agency Security Adviser
- › Robert Douros, Assistant Agency Security Adviser
- › Gary Pettigrove, Information Technology Security Adviser.

Quarterly security meetings are also held; relevant service group and support branch staff attend as observers. The Assistant Agency Security Adviser provides secretariat support.

Environmental Management Committee

The Environmental Management Committee monitors the implementation of the ANAO's Environmental Management Strategy.

The committee met four times in 2014–15. At 30 June 2015, the committee's membership comprised:

- Anya Moore (Chair), Executive Director, Corporate Management Branch
- Ben Sladic, Senior Director, Corporate Management Branch
- Peter Kerr, Executive Director, Assurance Audit Services Group
- Sonia Pragt, Director, Performance Audit Services Group
- Robert Douros, Operations Manager.

The Operations Manager provides secretariat support.

Audit Committee

The Audit Committee provides independent assurance and assistance to the Auditor-General on the ANAO's risk, control and compliance framework, and its financial statement responsibilities. Section 45 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and section 17 of the Public Governance, Performance and Accountability Rule 2014 set out the role of the audit committee for Commonwealth entities.

The Audit Committee met four times in 2014–15. During 2014–15, its membership comprised:

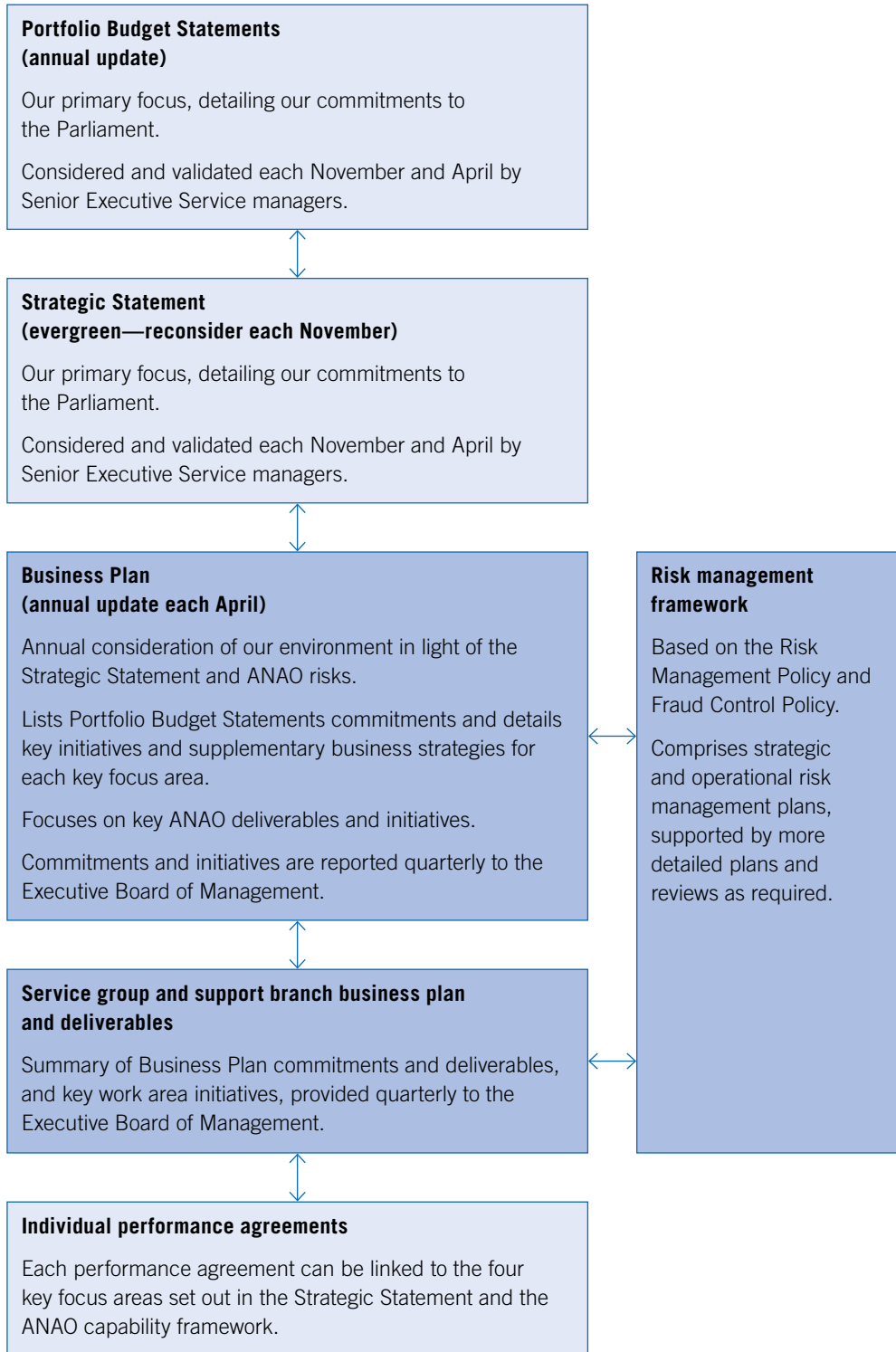
- Will Laurie (Chair), external independent member
- Steve Chapman, Deputy Auditor-General
- Ian Goodwin, Group Executive Director, Assurance Audit Services Group
- Brandon Jarrett, Executive Director, Professional Services Branch
- Stuart Turnbull, Executive Director, Performance Audit Services Group.

From 1 July 2015, the membership will change to include external independent members only. The Auditor-General, Deputy Auditor-General, Executive Director, Professional Services Branch, Chief Financial Officer, Chief Information Officer, Chief Internal Auditor or other management representatives may attend meetings as observers, as determined by the Chair.

Strategic planning framework

Key elements of the ANAO's strategic planning framework for 2014–15 are presented in Figure 3.

FIGURE 3: STRATEGIC PLANNING FRAMEWORK, 2014–15



Strategic Statement

The Strategic Statement sets out the four key focus areas and the values that will shape the achievement of the ANAO's goals and continue to strengthen the standing of the ANAO in pursuit of its vision. The key focus areas are:

1. Independent and responsive
2. Value-adding audit services
3. Capability to deliver world class services
4. Confidence in delivery of our services.

Business Plan

The annual Business Plan is produced each year with reference to the Strategic Statement. The plan outlines the ANAO's Portfolio Budget Statements commitments and key initiatives in support of the key focus areas.

Risk management framework

The ANAO's risk management framework comprises an overarching Risk Management Policy and Risk Management Plan. The Risk Management Plan, reviewed by the Audit Committee, underpins the ANAO's corporate governance framework. The plan complies with international standard ISO 31000:2009.

The ANAO's risk plans are reviewed and updated annually to identify risks associated with business objectives, at both strategic and operational levels. The annual review is designed to take into account any changes in the ANAO operating environment, including revised business requirements and changes in the control environment. In particular, the ANAO considers whether:

- > its vision and direction are appropriate
- > its services meet client needs and expectations
- > it has sufficient resources and capacity to deliver its services.

The ANAO's reputation for integrity and ethical behaviour is a highly valued corporate attribute, and all significant business risks identified in the Risk Management Plan are considered in the context of reputational risk.

The Executive Board of Management reviews any serious risk incidents each month, and any risk assessed as 'high' or above is monitored as a standard agenda item. Business risks are reviewed at least annually. There were no serious risk incidents in 2014–15, and all risks with controls in place were assessed as 'medium' or 'low'.

The ANAO takes part in the annual Comcover Risk Management Benchmarking Survey. In the 2015 survey, the ANAO achieved its target maturity rating of 'Integrated'. The average level of all survey participants in 2015 was 'Integrated', with 70 per cent of entities achieving risk management ratings of 'Systematic' or 'Integrated' and 21 per cent achieving ratings of 'Advanced' or 'Optimal'.

Emergency and business continuity plans

The ANAO has a comprehensive Business Continuity Plan which establishes policies, procedures and responsibilities to ensure the survival and continuation of key business activities in the event of a business disruption. Business continuity arrangements are tested annually with realistic simulations designed to test the working knowledge of members of the crisis management team.

Fraud control framework

The ANAO maintains a comprehensive fraud control framework, based on a Fraud Control Policy, a Fraud Risk Assessment and a Fraud Control Plan, in accordance with the Commonwealth Fraud Control Framework. The Fraud Control Plan is linked to the risk management framework and consolidates all fraud prevention and detection initiatives in one document.

Having particular regard to the risk to the ANAO's reputation should fraudulent activity occur, the ANAO periodically reviews its fraud control framework to take into account changes in its operating environment. The Fraud Control Policy, Fraud Risk Assessment and Fraud Control Plan are also reviewed at least every two years.

There were no incidents of fraud in 2014–15. All fraud risks were assessed and appropriate controls were in place.

The Auditor-General's fraud control certification follows.



Auditor-General for Australia



1 July 2015

Annual Report 2014-15 – Fraud Control Certification

I, Grant Hehir, Auditor-General for Australia, certify that I am satisfied that the Australian National Audit Office (ANAO) has:

- prepared fraud risk assessments and a fraud control plan;
- put in place appropriate fraud prevention, detection, investigation, reporting and data collection procedures and processes that meet the specific needs of the ANAO; and
- taken all reasonable measures to minimise the incidence of fraud.

A handwritten signature in cursive script that reads 'Grant Hehir'.

Grant Hehir

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19 National Circuit BARTON ACT 2600
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Information and Communications Technology Strategic Plan

The ICT Strategic Plan 2015–18 guides programs of work relating to the selection and management of information services and technology. It is linked to and identifies initiatives from the Business Plan that require technology support to facilitate the delivery of operational benefits.

In 2015–16, the ANAO will focus on progressing the business benefits of digital transition, auditor mobility improvements and business systems that enhance audit processes, productivity and outcomes.

Senior Executive Service conferences

Senior Executive Service (SES) conferences provide the executive and senior management with a forum to consider business issues and plan future strategic directions.

Two conferences were conducted for SES officers during 2014–15, in November 2014 and June 2015. The November 2014 conference focused on engagement with ANAO stakeholders and staff. The June 2015 conference focused on the development of a new ANAO corporate plan to meet the requirements of the PGPA Act.

Ethical standards and independence

The ANAO's commitment to high ethical and professional standards underpins the quality of its work. For audit professionals, professional independence is a central element of the quality of each audit. It is the avoidance of circumstances that could compromise any member of the audit team's capacity to act with integrity and exercise objectivity and professional scepticism.

The ANAO's independence policy requires staff and contractors engaged in audits to comply with the relevant provisions of APES 110 *Code of Ethics for Professional Accountants* relating to independence. In planning the audit, the audit team must identify and deal with any threats to independence, so that independence of mind and appearance is maintained throughout the audit.

There are also robust processes in place surrounding rotation of audit team members. As a general rule, ANAO policy places restrictions on key personnel being involved in auditing a significant public sector entity for more than seven years. Compliance with independence arrangements is reviewed during the annual quality assurance process.

During 2014–15, the ANAO's independence policy was revised to incorporate recommendations from a performance audit conducted by the ANAO's independent auditor in 2013, *Quality Control Around Financial Statements Audits*. The revisions improve the alignment between the policy and the requirements of APES 110 and provide additional clarity about the application of the policy. Independence training was provided to all staff involved in auditing.

Quality Assurance Framework

The Quality Assurance Framework of the ANAO is supported by policies and procedures that promote a culture which recognises that quality is essential in the conduct of audits.

The Auditor-General is ultimately responsible for the system of quality control in place for assurance engagements conducted by the ANAO. The Deputy Auditor-General is responsible for ensuring that the system of quality control satisfies the requirements of the ANAO Auditing Standards. The Deputy Auditor-General is assisted by the Group Executive Directors, who also report at least annually to the Executive Board of Management on audit quality and business

management matters. Internal and external reviews also provide important scrutiny and reference points on the effectiveness of the framework.

Based on the results of internal reporting to the Executive Board of Management and completed internal and external reviews, the Auditor-General is satisfied that the system of quality control functioned effectively in 2014–15.

Quality assurance reviews

The annual quality assurance reviews of the ANAO's audit and other assurance engagements are designed to provide the Auditor-General with assurance that these engagements comply with the ANAO Auditing Standards, relevant regulatory and legal requirements and the ANAO's policies, and that reports issued are appropriate in the circumstances. The financial statement and performance audit quality assurance programs are managed by the Professional Services Branch under the authority of the Deputy Auditor-General. The results of these programs are communicated to all audit staff, appraise the ongoing enhancement of audit policies and associated procedures, and support the development of the ANAO's learning and development program.

ASSURANCE AUDIT SERVICES GROUP

In 2014–15, as in previous years, the mix of financial statement audits selected for review comprised audits conducted utilising in-house resources and those undertaken by contracted firms. The quality assurance program found that the engagements reviewed had been undertaken in accordance with the Auditing Standards and the key ANAO policies, and did not identify issues that were indicative of systemic or repetitive deficiencies. Specific matters identified were subject to further analysis, with plans put in place to improve audit quality. Identified areas of improvement included sufficiency and appropriateness of audit evidence obtained and documented in the audit file, and the level of professional scepticism exercised by the auditors. Results from the quality assurance program were used to target staff training and refine audit methodology policy and procedure setting.

PERFORMANCE AUDIT SERVICES GROUP

The 2014–15 quality assurance program consisted of a review of five tabled performance audits. Consistent with past reviews, the results were positive, with the audits reviewed substantially complying with the Auditing Standards and the ANAO policies. Improvements were evident in a number of areas, including the extent and documentation of supervisory review and the use of audit test programs. Areas identified where improvements were warranted included the documentation of audit evidence to support all audit findings and the project management of audits.

Internal audit

Internal audit provides an independent and objective audit and advisory service which is designed to add value and improve the ANAO's operations. The service is provided by a contracted specialist firm (Protiviti). A systematic and disciplined approach is taken to evaluate and improve the effectiveness of risk management, control and governance processes.

In 2014–15, the ANAO's internal auditor completed reviews of:

- > budget management
- > workforce planning

- › learning and development
- › implementation of the PGPA Act
- › IT security.

Reviews of the following matters were in progress at 30 June 2015:

- › contract management
- › project budget management
- › annual compliance with the Protective Security Policy Framework
- › annual compliance with financial controls.

External scrutiny

The ANAO's operations, processes and reports are periodically subjected to independent external review.

External audits

Part 7 of the *Auditor-General Act 1997* provides for the appointment of an independent auditor who undertakes the audit of the ANAO's financial statements and carries out selected performance audits. The independent auditor position is a part-time statutory appointment for a period of at least three years and not more than five years.

Mr Peter van Dongen, National Managing Partner, Assurance, PricewaterhouseCoopers, was appointed as the independent auditor in June 2014.

The ANAO received an unmodified auditor's report on its financial statements for the year ended 30 June 2015.

Judicial and administrative decisions

No decisions made by a court or administrative tribunal or by the Australian Information Commissioner had an impact on the operations of the ANAO in 2014–15.

Reports on operations

Information on parliamentary committee reports involving the ANAO in 2014–15 is provided in the 'Shared components' section of Part 3 of this annual report.

The ANAO was not the subject of any agency capability reviews or reports by the Commonwealth Ombudsman in 2014–15.

Transparency reporting

The *Corporations Legislation Amendment (Audit Enhancement) Act 2012* introduced measures to ensure that Australian audit practice maintains a standard in line with international best practice. They included new regulations for annual transparency reporting by auditors.

Although the ANAO is not subject to the transparency reporting requirements for private sector audits that are specified in the Act, the ANAO has embraced the principles of transparency reporting. Table 7 summarises the requirements that are relevant to the ANAO, and shows where the required information is presented in this annual report.

TABLE 7: TRANSPARENCY REPORTING

Prescribed information ^a	Coverage in the annual report
Description of the auditor's legal structure and ownership	The 'Role' section of Part 2 details the legislative framework for the roles of the Auditor-General and the ANAO. Refer to page 6.
Description of the auditor's governance structure	The 'Corporate governance' section of Part 4 details the corporate governance framework of the ANAO. Refer to pages 32–44.
Description of the auditor's internal quality control system	The 'Quality Assurance Framework' section of Part 4 details the ANAO's internal quality framework and internal audit and quality assurance arrangements. Refer to pages 41–43.
Statement on the effectiveness of the auditor's internal quality control system in the reporting year	The 'Quality Assurance Framework' section of Part 4 includes the Auditor-General's statement on the effectiveness of the internal quality control system. Refer to page 42.
The name of each body that is authorised to review the auditor, and the date of the most recent review of the auditor conducted by each body	The 'External scrutiny' section of Part 4 details the bodies that are authorised to review the work of the ANAO and the external review conducted during the year. Refer to page 43. The 'Shared components' section of Part 3 describes external reviews of the ANAO's audits by parliamentary committees. Refer to pages 25–26.
The names of the bodies for which the auditor conducted an audit in the reporting year	Appendix 2 details all reports tabled in the Parliament by portfolio during 2014–15 and includes all performance audits undertaken. Refer to pages 98–125. In addition, the year-end report to Parliament on audits of financial statements lists all entities for which financial statement audits were conducted during 2014–15.
Statement about the auditor's independence practices in the reporting year, including the date on which the auditor most recently conducted an internal review of its independence compliance	The 'Ethical standards and independence' section of Part 4 details the ANAO's independence framework for audit professionals. Refer to page 41.
Statement about the policy that the auditor follows regarding the amount and nature of professional education that members of an audit team must undertake during the reporting year	The 'Learning and development' section of Part 4 details the ANAO's education framework for audit professionals. Refer to page 51.
Financial information for the auditor for the reporting year	The 'Financial summary' section of Part 2 provides an overview of the ANAO's financial results. Refer to page 9. Part 5 includes commentary on the ANAO's financial performance, as well as the ANAO's audited financial statements. Refer to pages 62–94.
Information on the basis for remuneration of the auditor's senior managers	The 'Pay and conditions' section of Part 4 details the ANAO's arrangements for performance assessment and performance pay and senior executive remuneration. Refer to pages 50–51.

a Based on the items set out in Schedule 7A of the Corporations Regulations 2001.

MANAGEMENT OF HUMAN RESOURCES

Investing in the capability of staff to deliver world-class audit services is an ongoing priority for the ANAO. As an organisation of professional staff, the ANAO is committed to developing knowledge, skills and expertise and recognising and rewarding excellent performance. This includes providing a supportive and collaborative work environment through sound people management approaches.

Workforce planning

Workforce planning is a critical component of the ANAO's broader business planning framework. Workforce planning priorities impact on our recruitment, learning and development and performance initiatives. Through our annual business planning, the strategic priorities flow on to service groups and branches, which refer to them when developing their operational workforce plans to meet their particular requirements.

To inform the development of workforce priorities, the ANAO relies on a detailed analysis of qualitative and quantitative information from a range of sources, such as human resources metrics, exit surveys, staff surveys and staff focus groups. Assessment of 'people risks' with the potential to affect the ANAO's ability to attract and engage skilled staff is an important element of its approach.

At least twice a year, the Executive Board of Management receives reports on workforce planning which include an in-depth analysis of the state of the ANAO's workforce capability.

Recruitment

The ANAO gives priority to attracting and retaining excellent people, particularly in the competitive market for skilled audit staff.

Challenges to attraction and recruitment include:

- competition with public and private sector assurance and auditing services
- the requirement for all staff to have at least baseline security clearances.

Vacancies

In 2014–15, the ANAO advertised and conducted 18 individual ongoing recruitment rounds: five single positions, 13 bulk rounds and the annual graduate program.

On average, the office received six applications per position for single vacancies, and 19 applications per position for bulk rounds (excluding the graduate program, which attracted 901 applications). Measured from the closing date for applications to the date of the delegate's decision, the average recruitment process took 27 working days to complete for single positions and 37 working days for bulk rounds.

The ANAO also conducted 32 individual non-ongoing recruitment rounds, which resulted in 29 non-ongoing arrangements, four temporary higher duties arrangements and one temporary transfer.

The ANAO implemented the interim recruitment arrangements which applied across the Australian Public Service (APS) in 2014–15.

Staff induction

The ANAO is committed to ensuring that its induction processes assist new staff to become productive and integrated members of the organisation in as short a time as practicable. Effective induction of new starters is also a key factor in retaining staff.

All new employees are automatically assigned to complete the ANAO's e-Induction course within their first week of employment. To supplement the online course, all new starters participate in a face-to-face induction workshop. Human resources staff and senior staff members from other areas deliver the workshops, which are held every three months.

Graduate and undergraduate programs

The ANAO's graduate program is open to university students who are completing their final year of study or have completed a degree within the past five years. During the 12-month program, the graduates undertake:

- an intensive learning and development program, including technical, people management and general training and skill development
- one short-term rotation (of six to eight weeks) within the organisation, to enhance their overall development and give them an appreciation of the ANAO's broader operations.

In 2015, the ANAO recruited 15 graduates: five were placed in the Assurance Audit Services Group, eight were placed in the Performance Audit Services Group, and two joined the IT Audit Branch.

The ANAO's undergraduate employment program provides paid part-time practical work experience to people studying accounting at universities in Canberra. During 2014–15, one student took part. The ANAO continued to foster productive relationships with the Australian National University, the University of Canberra, CPA Australia and the Institute of Chartered Accountants in Australia to recruit students for the program.



Participants in the ANAO's 2015 graduate program with the former Auditor-General, Ian McPhee AO PSM. From left: Emily James, Grace Mingkaje, Rachael Kalmanidis, Cathy Heales, Shireesti Chand, Mashrur Kabir, Ian McPhee, Belinda Robson, Hannah Conway, Brendon Gittins, Eric Morova, An Nguyen, Alison Millea, Lisa Elkner and Ashish (Ashley) Bajpai.

Indigenous recruitment

The ANAO's Diversity Strategy 2013–16 includes measures for recruiting, developing and retaining Indigenous employees. The strategy sets a target of 2.7 per cent Indigenous representation to be achieved by 2015. At 30 June 2015, the ANAO had one employee (less than 1 per cent of staff) who self-identified as Indigenous.

The ANAO collaborates with other Australian Government agencies so that it can better meet the employment needs of Indigenous Australians. The ANAO participates in the Australian Public Service Commission's Pathways recruitment initiatives for Indigenous graduates, and in the Indigenous Australian Government Development Program.

Retention

The skilled people who work at the ANAO are highly valued, both within the ANAO and in the professional marketplace. To retain and motivate skilled and experienced staff, high priority is placed on showing them that they are valued, including by rewarding exceptional service and acting on feedback about the ANAO's performance as an employer.

Staff turnover

Staff turnover at the ANAO is higher than in other APS agencies, and is more in line with turnover in the accounting profession. Since the introduction of the interim APS recruitment arrangements in October 2013, the ANAO's staff turnover has dropped significantly. With the relaxing of the interim recruitment arrangements from 1 July 2015, turnover is expected to rise in 2015–16.

Overall staff turnover in 2014–15 was 13 per cent of total ongoing staff. This represents an increase in the turnover rate since 2013–14, when the result was 9 per cent. Table 8 provides details of staff gains and losses.

TABLE 8: GAINS AND LOSSES (ONGOING STAFF), 2012–13 TO 2014–15

	Moves to other departments	Resignations	Medical retirements	Voluntary redundancies	Retirement/ Other losses	Total losses	Gains
2014–15	21	20	–	–	7	48	23
2013–14	8	20	–	–	5	33	25
2012–13	13	20	–	1	10	44	55

Table 9 highlights the differences in length of tenure across the various classifications for ANAO staff.

TABLE 9: AVERAGE LENGTH OF TENURE BY CLASSIFICATION (ONGOING STAFF) AT 30 JUNE, 2013 TO 2015

Classification	Average length of tenure (years)		
	2015	2014	2013
Australian Public Service 1–3 ^a	11.2	7.0	8.5
Australian Public Service 4–6	4.1	3.6	3.7
Executive Level 1–2	7.1	6.9	6.4
Senior Executive Service	11.6	12.1	12.6
All staff	6.3	5.5	5.8

a Graduates in their first year of service are excluded from APS 1–3 classifications.

Awards and recognition

The ANAO supports an awards system that recognises and rewards individual staff and teams who make a significant contribution to achieving its business objectives, including in such areas as client service, people management, business management, and audit management and innovation.

Across the ANAO, the National Australia Day Council's Australia Day Achievement Medallions are celebrated in January and the Auditor-General's Annual Awards for Outstanding Achievement are celebrated in May. The third component of the awards system, the Auditor-General's Certificate of Appreciation, is celebrated throughout the year at service group and branch levels.

Table 10 lists the recipients of achievement awards and medallions in 2014–15.

TABLE 10: RECIPIENTS OF AWARDS IN 2014–15

Award	Recipient	Reason
Auditor-General's Annual Awards for Outstanding Achievement	Roger Cobcroft	For his timely delivery of the better practice guide <i>Public Sector Financial Statements</i> , which is highly regarded by various stakeholders.
	Russell Coleman	For his timely delivery of the better practice guide <i>Public Sector Financial Statements</i> , which is highly regarded by various stakeholders.
	Kristian Gage	For his timely delivery of the better practice guide <i>Public Sector Financial Statements</i> , which is highly regarded by various stakeholders.
	Grace Guilfoyle	For her ability to consistently produce a number of high-quality cross-entity procurement audits, for her generosity when working with ANAO colleagues and for developing strong client relationships within a broad range of entities.
	Muhammad Qureshi	For his consistent delivery of high-quality work on a variety of financial statement audits, most recently the National Disability Insurance Agency. Muhammad is a strong supporter of staff development and encourages his team to take on more challenging tasks.
	Fiona Sheppard	For her timely delivery of the better practice guide <i>Public Sector Financial Statements</i> , which is highly regarded by various stakeholders.
	Ben Sladic	For his consistent delivery of high-quality work within his various roles during the past 14 years at the ANAO.



Recipients of the 2015 Auditor-General's Annual Awards for Outstanding Achievement with the Auditor-General Grant Hehir. From left: Roger Cobcroft, Grace Guilfoyle, Kristian Gage, Fiona Sheppard, Russell Coleman, Muhammad Qureshi, Ben Sladic and Grant Hehir.

Award	Recipient	Reason
Australia Day Achievement Medallions	Bill Bonney	For his significant contribution to the ANAO over many years, where he has consistently demonstrated a high level of skill and professionalism, and for his involvement in professional development within the Performance Audit Services Group.
	Robert Douros	For his provision of high-quality services and the professional manner in which he has undertaken the role of Manager, Operations, overseeing building services, work health and safety, environmental management and protective security matters for the ANAO.
	Ian Goodwin	For his significant contribution and positive impact on practice management within the Assurance Audit Services Group and his high-level leadership and service to a wide range of clients.
	Joel Godwin	For his continued delivery of high-quality audit outcomes and his lead role in the successful implementation of the Teammate upgrade project, demonstrating the ANAO values of respect, integrity and excellence.
	Margaret Larkham	For her high-level administrative support to the Executive team over a number of years and for her cultivation of positive relationships, both within and external to the ANAO.
	Sarah Pratt	For her consistent delivery of high-quality audit work covering complex Indigenous policy matters and for her contribution to raising the profile of Indigenous issues in the ANAO, including through her leading role in the NAIDOC Week celebrations.



Australia Day Achievement Medallion recipients with the former Auditor-General Ian McPhee AO PSM. From left: Ian Goodwin, Joel Godwin, Robert Douros, Bill Bonney and Ian McPhee.

Staff satisfaction

The ANAO places great importance on feedback from its staff. Annual surveys provide an important source of information on staff expectations, views and perceptions about a range of matters, including job satisfaction, engagement, career advancement, and professional development. Survey results are evaluated to develop activities and initiatives that are reflected in key documents such as the People and Capability Strategy, the Business Plan and service group business plans.

In 2014–15, the ANAO used the Australian Public Service Commission's Employee Census to gauge staff satisfaction. The ANAO's response rate to this survey was 62 per cent of staff, a slightly lower result than the overall APS response rate of 68 per cent.

Key highlights of the responses from ANAO staff included:

- 96 per cent indicated that they were willing to put in extra effort to get a task or project completed
- 82 per cent indicated that they were motivated to do the best possible work that they could
- 77 per cent responded that they were proud to work for the ANAO
- 92 per cent acknowledged that the delivery and completion of tasks was important in the ANAO
- 89 per cent indicated that the ANAO provided effective access to learning and development
- 93 per cent received formal performance feedback
- 87 per cent considered that their work group was accepting of people from diverse backgrounds and 90 per cent felt that their supervisors were accepting of people from diverse backgrounds.

Pay and conditions

As at 30 June 2015, 25 SES staff were employed under common law contracts, while 325 non-SES staff were employed under the ANAO's enterprise agreement. Tables A1.1 to A1.3 in Appendix 1 provide details of the staffing profile.

Workplace Consultative Forum

The Workplace Consultative Forum plays an important role in facilitating consultation on a range of operational and strategic issues affecting staff in the workplace. The forum comprises three staff-elected representatives, three union representatives and three management-appointed representatives.

In 2014–15, the forum met formally on five occasions to discuss and consider a range of employment-related issues, including a review of human resources policies.

Performance pay

The ANAO's Performance Assessment Scheme provides for salary advancement for eligible staff. Graduates, casuals, non-ongoing staff with less than 12 months service and ongoing staff with less than six months employment during the performance cycle are not eligible for the financial benefits of the scheme.

In 2014–15, staff rated as ‘outstanding’ were eligible for a bonus of up to 6 per cent of salary. A total of \$0.364 million in performance bonuses was paid to eligible staff (\$0.286 million was paid in 2013–14). Aggregated information on performance pay is set out in Appendix 1, Table A1.4.

A summary of ratings for the reporting cycle is set out in Table 11.

TABLE 11: SUMMARY OF PERFORMANCE RATINGS FOR THE PERIOD ENDING 31 OCTOBER 2014

	Outstanding	More than fully effective	Fully effective	Requires development	Unsatisfactory	Total
ANAO Bands 4 and 5 (EL 1 and 2)	10	55	51	2	0	118
ANAO Bands 1 to 3 (APS 1–6)	5	86	96	6	0	193
Total	15	141	147	8	0	311
Proportion of total eligible staff	5%	45%	47%	3%		

APS = Australian Public Service, EL = Executive Level

Senior executive remuneration

The salary ranges for SES staff are determined having regard to public sector benchmarks, notably the annual APS remuneration survey. The nature of the work, specific skills and individual contributions to business outcomes are key factors in setting individual SES salaries. SES remuneration payments are set out under Note 11 of the financial statements.

Learning and development

In 2014–15, the APS interim recruitment arrangements provided the ANAO with an opportunity to review its strategic direction and future business requirements for learning and development, while maintaining its core offerings. The ANAO:

- › developed the ANAO Learning Strategy 2014–17
- › developed and implemented nine technical e-learning modules within the Assurance Audit Services Group and refreshed the existing corporate governance modules
- › designed a robust evaluation framework, which will be implemented in 2015–16
- › ran a ‘Building a Coaching Culture’ pilot program in two work areas
- › reviewed the ANAO’s Secondment Policy and placement opportunities
- › released an online, automated facility for applying for internal and external development activities and studies assistance.

The ANAO continued to invest in its Introduction to Management and Leadership programs for its APS, Executive Level and SES staff. The in-house Mentor Program, which includes training for mentors, information sessions and communities of practice, continued to be well regarded by staff. Also, assurance audit and professional services staff participated in a writing skills coaching program and workshops to build capability in this key area.

In 2015–16, the ANAO will undertake a full evaluation of its existing management and leadership programs and implement an evaluation framework to better measure and guide future learning activities. Under the auspices of an ongoing project, we will design and implement cost-effective training solutions that have application across the assurance and performance audit streams. A new performance management framework is being developed in consultation with staff, and will include a contemporary rewards and recognition policy. Our in-house e-learning platform will shift to the APS Shared Services Centre, and we will refine and roll out a refreshed coaching skills program based on a pilot program conducted in 2014–15.

Table 12 provides a summary of staff training and related expenditure over the past three financial years.

TABLE 12: DETAILS OF STAFF TRAINING, 2012–13 TO 2014–15

	2014–15	2013–14	2012–13
Direct expenditure on training	\$1,270,442	\$1,526,782	\$1,112,553
Total number of person-days spent by staff on eligible training programs	1,773	2,477	2,501

Professional qualifications and studies assistance

During 2014–15, the ANAO supported 72 staff members to undertake programs of professional and tertiary studies, including in courses offered by the Institute of Chartered Accountants in Australia, CPA Australia, the Institute of Internal Auditors, the ISACA Certified Information Systems Auditor program and the Australian Institute of Company Directors.

Table 13 lists the 18 staff members who successfully completed ANAO-supported studies during 2014–15.

TABLE 13: SUMMARY OF STUDIES COMPLETED BY STAFF MEMBERS IN 2014–15

Course	Staff member
Australian Institute of Company Directors (AICD) Company Directors Course	Jocelyn Ashford, Carla Jago, Brandon Jarrett, Phillip Sands, Ben Sladic
Bachelor of Commerce	Connal McInnes
Certificate IV in Government (Investigation)	Heather Rae
Certified Information Systems Auditor	John Harper, Jenny Lenard, Martin Riddell
CPA Australia Program	Jenny Lenard, Dunstan Vella, Amy Willmott
Graduate Certificate in Public Sector Management	Corinne Horton
Institute of Chartered Accountants in Australia Program	Amjad Chaudhri, Daniel Mobilia
Master of Financial Management	Sean Benfield, Evelyn Lee

The ANAO learning and development program supports ANAO staff to meet continuous professional development (CPD) requirements relating to their membership of professional accounting associations. For staff of the Assurance Audit Services Group this includes:

- support to complete 120 hours of CPD over a three-year period, with a minimum of 20 hours to be completed per financial year—this includes 10 hours of formal technical training in relevant areas such as financial statements auditing, accounting or legal frameworks
- a written declaration that they have complied with the CPD requirements for each financial year
- evaluation of training undertaken by staff against the learning and development curriculum.

Secondment and exchange program

The secondment and exchange program provides opportunities for staff to work in other organisations to enhance their skills and knowledge. Exchange placements provide a range of valuable experiences and are viewed as an important development opportunity by ANAO staff.

The diverse knowledge and experience of incoming program participants, as well as their potential to supplement the workforce during peak periods, bring many benefits to the ANAO.

Details of the organisations and individuals involved in the program in 2014–15 are outlined in Table 14.

TABLE 14: SECONDMENT AND EXCHANGE PROGRAM PARTICIPANTS IN 2014–15

Exchange type	Organisation	Participant
ANAO staff working in other organisations	Audit New Zealand	Jennifer Hutchinson, Thea Kim
	Auditor-General's Office of Papua New Guinea	Wayne Jones, Nicola Rowe, Greg Watson
	Indonesian Board of Audit (BPK)	Robert Holbert
Staff from other organisations working in the ANAO	Auditor-General's Office of Papua New Guinea	Fred Rocky, Ishmael Simon (2014) Eric Morova, Grace Mungkaje (2015)
	Staff hosted at other organisations on behalf of the ANAO	Audit Office of New South Wales
Queensland Audit Office		Maggie Kuli, Anne Toua

Work health and safety

As a 'person conducting a business or undertaking' under the *Work Health and Safety Act 2011*, the ANAO has a primary duty of care to ensure the health and safety of workers. The Auditor-General and all ANAO officers are accountable for work health and safety (WHS) outcomes and the actions taken to implement WHS policies and guidelines.

The ANAO is committed to ensuring that all workers are safe from injury and risk to health while at work and protecting the health and safety of workers and other people at or near the workplace. The ANAO integrates safe working practices into all areas of operations.

Managers consult and cooperate with staff and others to maintain a safe and healthy workplace and strive to attain WHS better practice. Managers and supervisors play an important role in implementing ANAO health and safety policies and practices.

Health and safety management arrangements

The Workplace Health and Safety Committee is responsible for monitoring and reviewing WHS policies and practices and advising the ANAO on WHS matters. The committee is chaired by the Executive Director, Corporate Management Branch, and its members are the ANAO's health and safety representatives. During 2014–15, the committee met three times.

Health and safety representatives are nominated and elected by ANAO staff in accordance with WHS policies. In addition to attending committee meetings, they perform quarterly walkthroughs of their workgroups and provide further WHS support. All health and safety representatives are required to attend appropriate, accredited training.

Initiatives

WHS is promoted throughout the ANAO. A dedicated site on the intranet includes support material for ANAO 'officers' (as defined by the Work Health and Safety Act), managers and staff, including information on general WHS awareness and roles and responsibilities.

During 2014–15, the ANAO provided workshops to all staff on changes to the *Safety, Rehabilitation and Compensation Act 1988*, particularly the new information regarding bullying and harassment. The ANAO also provided ongoing support by offering ergonomic work station assessments to all staff and new starters, and completing 56 ergonomic work station assessments. All staff were also offered influenza vaccinations and health assessments.

Incidents

There were no notifiable incidents reported in 2014–15 under the Work Health and Safety Act. The ANAO was not subject to any WHS investigations that related to business or undertakings, nor did the ANAO receive any notices given under Part 10 of the Work Health and Safety Act.

Employee Assistance Program

The Employee Assistance Program provides access to free confidential professional counselling services to assist staff and their families with any personal or work-related problems, and offers guidance and advice to managers on staff management. The services can be accessed locally and by staff on secondments to other audit offices overseas.

Staff and managers are encouraged to use the program. It is promoted as part of the induction for new staff and included in a regular feature in the monthly staff newsletter. Information on the program can be accessed from the ANAO's intranet.

The service was used by 25 staff, including 20 who used the service for the first time, in 2014–15. Members of staff and their families used the service for both work-related and personal circumstances, with counselling support being predominantly for non-work related matters.

Workplace diversity

The ANAO is committed to promoting and supporting social inclusion, equity and diversity in the ANAO, and achieves this by actively building a working environment that supports and encourages staff who have a range of skills and life experiences and different cultural and social backgrounds.

The ANAO's Workplace Diversity Strategy 2013–16 assists the ANAO to:

- promote awareness of workplace diversity within the ANAO
- develop and maintain a highly skilled, diverse and effective workforce where all employees are valued, encouraged and provided with opportunities to develop to their potential
- develop a supportive workplace culture which allows ANAO employees to balance their work and personal life
- provide a discrimination and harassment free workplace
- embed workplace diversity principles in all employment processes, particularly recruitment and selection.

Workplace diversity profile

Table 15 provides details of the representation of relevant workplace diversity groups in the ANAO.

TABLE 15: MEMBERS OF WORKPLACE DIVERSITY GROUPS, 30 JUNE 2015

	Women	NESB1	NESB2	ATSI	PWD
APS 1 and undergraduates	0	1	0	0	0
APS 2–3 and graduates	26	4	3	0	1
APS 4–5	47	16	13	0	1
APS 6–EL 1	79	17	12	1	4
EL2–SES Band 3	50	7	4	0	4
Total	202	45	32	1	10
Proportion of total staff ^a	58%	13%	9%	<1%	3%
Proportion of total staff on 30 June 2014 ^b	56%	16%	8%	<1%	<1%

APS = Australian Public Service, EL = Executive Level

Note: As self-reported by staff on commencement with the ANAO.

a The total number of staff for 2014–15 was 350, including operative and inoperative staff.

b The total number of staff for 2013–14 was 374, including operative and inoperative staff.

Key: NESB1: Non-English speaking background, overseas born.

NESB2: Non-English speaking background, first-generation Australian.

ATSI: Aboriginal or Torres Strait Islander.

PWD: People with disability.

The ANAO had targets in place to increase the representation of people with disability in its workforce to 3 per cent by 2015. That target was achieved: the proportion of staff increased to 3 per cent in 2014–15 from 0.3 per cent in 2013–14.

The ANAO's workforce is characterised by the strong representation of employees from culturally and linguistically diverse backgrounds. In 2014–15, 22 per cent of the ANAO's workforce identified as coming from such backgrounds, which is significantly above the APS average of 16 per cent. The ANAO workforce is also on average younger than the broader APS workforce, although it includes a cohort of mature staff with significant length of service.

Contact officers

A network of diversity contact officers champions diversity across the ANAO, with a focus on building a positive workplace culture, and provides informal and confidential support to staff members who are seeking assistance and guidance on harassment and bullying issues. The diversity contact officers met four times in 2014–15, to share information, discuss developments and devise a future program of activities.

OTHER MANAGEMENT ISSUES

The management activities and services that support the ANAO's audit functions are undertaken in line with government policies and better practice.

Assets management

The ANAO's assets management policy is set out in the Auditor-General's Instructions and supporting financial management procedures. High-value assets are subject to whole-of-life management, including formal tendering for acquisition, scheduled maintenance, and detailed accounting of disposal or return at the end of the useful life of the asset. The ANAO's asset management practices are designed to protect the interests of the Australian Government.

Purchasing and procurement

The ANAO's procurement guidelines are set out in the Auditor-General's Instructions and supporting financial management procedures, which are derived directly from the Commonwealth Procurement Rules. All purchasing is bound by the financial management procedures under the underlying principle of value for money and is routinely the subject of internal audit. In addition, all contractual performance is subject to evaluation. The ANAO's formal Procurement Plan is updated when circumstances change. The ANAO's procurement practices are designed to protect the interests of the Australian Government.

Consultants

All tenders and contractual arrangements undertaken in 2014–15 were carried out in accordance with the Commonwealth Procurement Rules.

The ANAO's standard form tender documents, including contracts, accord with the Auditor-General's Instructions. Where necessary, staff can readily adapt those documents to suit specific circumstances.

The ANAO's tender evaluation processes are designed to be fair and equitable and to enable potential suppliers to compete for ANAO business. Before proceeding to a substantive evaluation, the ANAO undertakes a check against all mandatory requirements that are listed in the tender documentation.

The ANAO uses consultants on a needs basis for a variety of tasks. The most common uses of contracted consultants include the application of expert professional skills to:

- investigate or diagnose a defined issue or problem
- carry out defined research reviews or evaluations
- provide independent advice, information or creative solutions
- provide specialised services, including assistance with the development and/or implementation of purpose-built IT systems, and legal advice.

The ANAO also participates in a number of collaborative procurement arrangements with other agencies, such as the Creative and Digital Communication Services Panel, led by the Department of Human Services, and the Legal Services Multi-Use List, run by the Attorney-General's Department.

The major competitive tendering and contracting activities in 2014–15 were to obtain professional skills to assist with certain financial statement and performance audits.

During 2014–15, 13 new consultancy contracts were entered into involving total actual expenditure of \$0.554 million (including GST). In addition, nine ongoing consultancy contracts were active during 2014–15, involving a total actual expenditure of \$0.525 million (including GST).

No contracts in excess of \$10,000 (including GST) or standing offers were exempted by the Auditor-General from being published on AusTender on the basis that they would disclose exempt matters under the *Freedom of Information Act 1982*.

The ANAO held no contract to the value of \$100,000 or more that did not provide for the Auditor-General to have access to the contractor's premises.

Annual reports contain information about actual expenditure on contracts for consultancies. Information on the value of contracts and consultancies is available on the AusTender website, www.tenders.gov.au.

Advertising and market research

The ANAO did not undertake media advertising campaigns and therefore did not make any payments to advertising agencies in 2014–15. The ANAO did not make any payments to direct mail organisations or polling organisations.

Payments over \$12,565 (including GST) to market research organisations and media advertising organisations, incurred in the course of audit and assurance reviews, are set out in Table 16.

TABLE 16: PAYMENTS OVER \$12,565 (INCLUDING GST) TO ADVERTISING AGENCIES, MARKET RESEARCH ORGANISATIONS, POLLING ORGANISATIONS, DIRECT MAIL ORGANISATIONS AND MEDIA ADVERTISING ORGANISATIONS, 2014–15

Organisation	Service provided	Payments (\$)
ORIMA Research (market research organisation)	Online survey to assist assurance audit	41,085
	Online survey to assist performance audit	22,450
	Online survey to assist performance audit	28,242
	Online survey to assist performance audit	29,618
	Parliamentary survey	53,966

Grant programs

The ANAO does not administer any grant programs.

Environmental protection and biodiversity conservation

Section 516A of the *Environment Protection and Biodiversity Conservation Act 1999* requires that Australian Government entities include a section detailing their environmental performance and contribution to ecologically sustainable development (ESD) in their annual report.

Contribution to ecologically sustainable development

While the ANAO does not have any specific responsibility for administering ESD provisions, its audit reports make an indirect contribution by improving accountability and providing independent assessments of Australian Government programs to Parliament.

In 2014–15, the ANAO produced five reports on the administration of programs that have a direct influence on environmental outcomes:

- Audit Report No.10 2014–15 *Administration of the Biodiversity Fund Program*
- Audit Report No.18 2014–15 *The Ethanol Production Grants Program*
- Audit Report No.19 2014–15 *Management of the Disposal of Specialist Military Equipment*
- Audit Report No.29 2014–15 *Funding and Management of the Nimmie-Caira System Enhanced Environmental Water Delivery Project*
- Audit Report No.34 2014–15 *Administration of the Natural Disaster Relief and Recovery Arrangements by Emergency Management Australia.*

Environmental strategy

The ANAO has developed an internal environmental strategy based on an Environmental Policy that outlines governance arrangements for the environmental management system and environmental responsibilities, monitoring and reporting. The Environmental Management Committee oversees the implementation of the strategy.

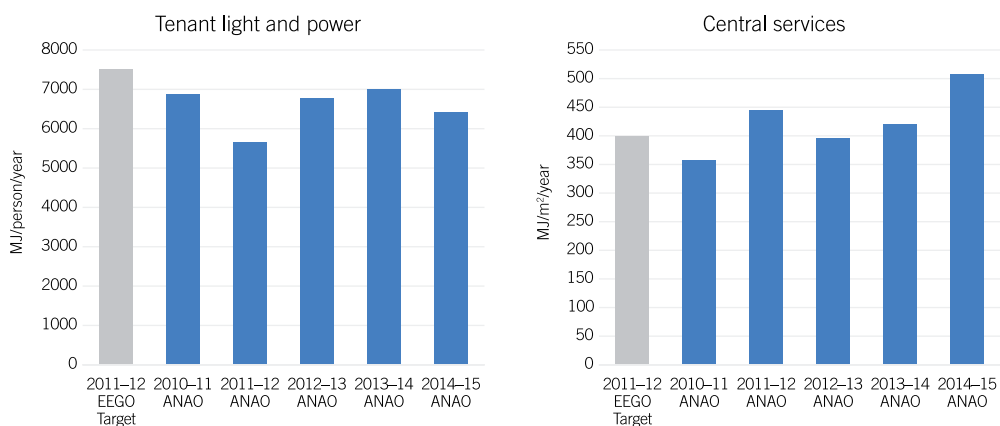
Effect of activities on the environment

The ANAO monitors its energy and water usage and waste management, as core indicators of the effect of its activities on the environment.

ENERGY

Figure 4 compares the ANAO's tenant light and power use and central services with the Energy Efficiency in Government Operations (EEGO) target figures.

FIGURE 4: TENANT LIGHT AND POWER AND CENTRAL SERVICES, 2010–11 TO 2014–15



EEGO = Energy Efficiency in Government Operations; MJ = megajoules

Note: Tenant light and power figures are calculated by dividing the energy used in the ANAO's tenanted areas by the average number of occupants for the past financial year. Central services figures are calculated by dividing the energy used to run the building's plant machinery by the number of tenanted square metres.

The Australian Government's EEGO policy sets energy intensity targets of 7,500 megajoules per person per year for tenant light and power, and 400 megajoules per square metre per year for central services.

During 2014–15, tenant light and power use averaged 6,414 megajoules per person, which was 1,086 megajoules per person below the target of 7,500 megajoules. The ANAO's central services energy usage was 508 megajoules per square metre. This was an increase of 86 megajoules per square metre compared to the result for 2013–14.

The ANAO holds regular discussions with the lessor of its Barton office with the aim of improving the overall environmental performance of the premises.

WATER

Based on occupied building floor area, the ANAO's building water use intensity was 0.59 kilolitres per square metre in 2014–15. This was an increase of 0.08 kilolitres per square metre compared with the result for 2013–14. This result equates to a 4-star National Australian Built Environment Rating System (NABERS) water rating, which is considered 'Good Performance'.

WASTE

Table 17 provides details of the disposal of the ANAO's waste.

TABLE 17: WASTE, QUANTITY AND DISPOSAL, 2013–14 TO 2014–15

Type of waste	Disposal method	Quantity (tonnes)	
		2014–15	2013–14
Co-mingled recyclable	Recycling	18.2	19.7
General	Landfill	10.7	7.4
Organic	Recycling	2.3	2.1
Paper	Recycling	11.4	9.0

Disability reporting

Since 1994, Commonwealth departments and agencies have reported on their performance as policy adviser, purchaser, employer, regulator and provider under the Commonwealth Disability Strategy. In 2007–08, reporting on the employer role was transferred to the Australian Public Service Commission's *State of the Service Report* and the *APS Statistical Bulletin*. These reports are available at www.apsc.gov.au. Since 2010–11, departments and agencies have not been required to report on these functions.

The Commonwealth Disability Strategy has been overtaken by the National Disability Strategy 2010–2020, which sets out a 10-year national policy framework to improve the lives of people with disability, promote participation and create a more inclusive society. A high-level two-yearly report will track progress against each of the six outcome areas of the strategy and present a picture of how people with disability are faring. These reports will be available from www.dss.gov.au.

Freedom of information

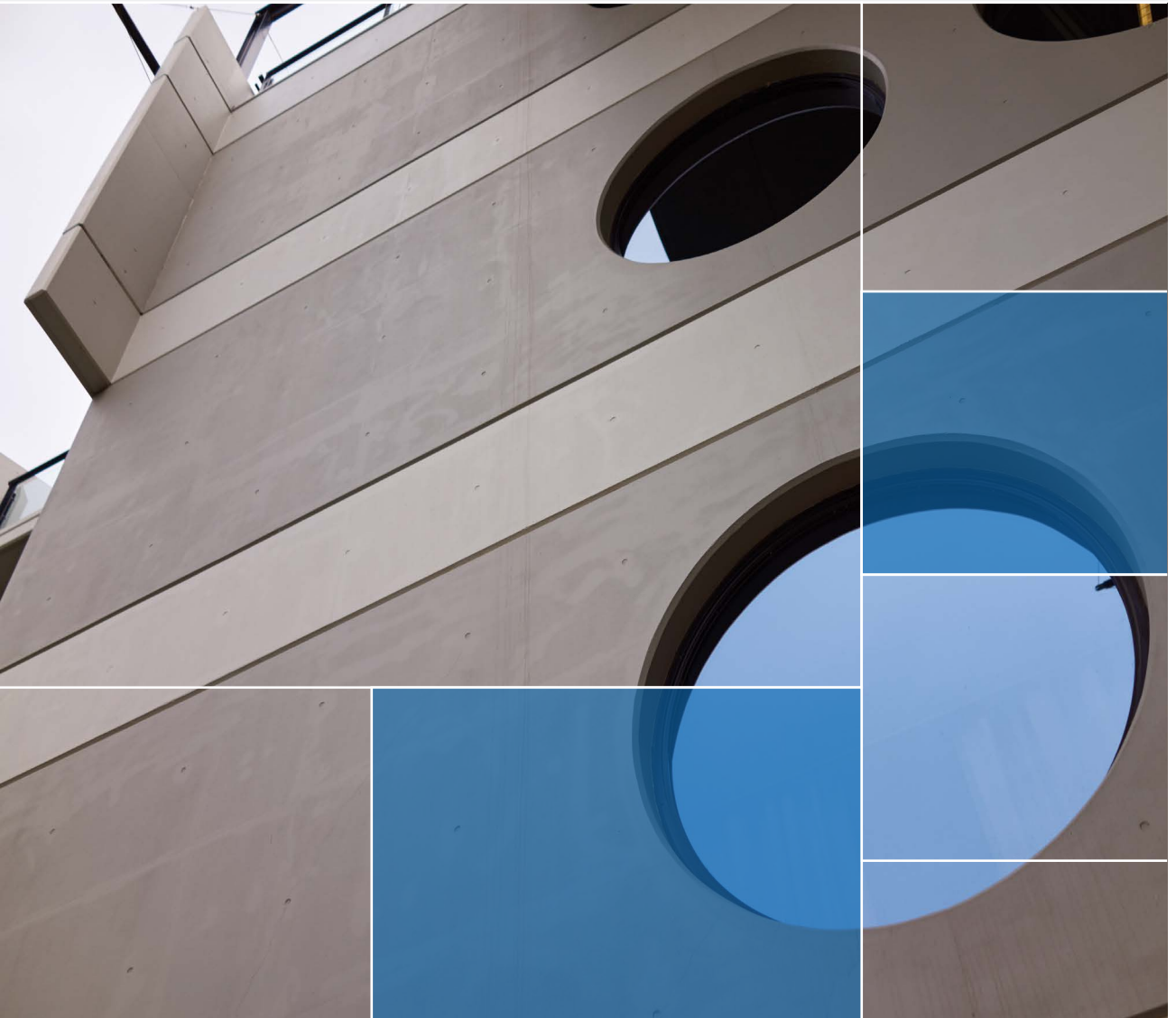
The Auditor-General Act 1997 provides the Auditor-General with an exemption from the provisions of the *Freedom of Information Act 1982*. Performance audits, assurance reviews and audit opinions are tabled in the Parliament and/or published on the ANAO's website, www.anao.gov.au.

Service charter

As the ANAO does not provide services directly to members of the public it does not have a service charter. However, the ANAO recognises that it provides a service to the community through the delivery of a range of audit services, and welcomes feedback. Comments and suggestions can be made via the ANAO website, www.anao.gov.au, or by phone on (02) 6203 7300.

PART 5

FINANCIAL RESULTS



FINANCIAL RESULTS

The operations of the Australian National Audit Office (ANAO) are largely funded through parliamentary appropriations. Revenue is also received from the provision of audit-related services, rental income, grant funding and other miscellaneous sources that are accounted for as agency revenue and retained for use by the ANAO.

In accordance with section 14 of the *Auditor-General Act 1997*, the ANAO charges fees for the audits of financial statements of corporate Commonwealth entities and companies and their subsidiaries. The revenue received is accounted as administered funds and paid directly into Consolidated Revenue.

Overview of financial performance

The ANAO's operating surplus increased to \$0.925 million for the year ending 30 June 2015 (from a surplus of \$0.444 million for the year ending 30 June 2014).

Expense impacts

Lower than anticipated expenditure was primarily due to lower salary expenses that resulted from audit staff vacancies during the year. Contractor arrangements were used to supplement the ANAO workforce and ensure that key deliverables were met, and the increased contractor costs were offset by efficiency measures across other supplier categories.

Revenue impacts

In 2013–14, the ANAO received \$0.722 million in funding to assist with financial statement audit workloads arising from the creation of new government entities, including the audit of the National Disability Insurance Agency. This funding ceased in 2014–15. The impact of this reduction, in combination with a 2.5 per cent efficiency dividend, resulted in an overall decrease in revenue from government of \$1.583 million.

The reduction in revenue was partially offset by an increase in own-source revenue of \$0.337 million, mainly generated through additional audit activities under section 20 of the *Auditor-General Act 1997*. The privatisation, abolition or mergers of a number of other public sector entities also allowed the ANAO to internally realign funding to meet various pressures on our audit programs.

Table 18 summarises the ANAO's financial position.

TABLE 18: SUMMARY OF FINANCIAL PERFORMANCE

	2014–15	2013–14	Variance	Variance
	\$'000	\$'000	\$'000	%
Statement of comprehensive income				
Total own source revenue	4,168	3,831	337	9
Total revenue from Government	73,403	74,986	(1,583)	(2)
Total expenses	76,646	78,373	1,727	2
Net surplus	925	444	481	108
Balance sheet				
Total assets	45,566	44,566	1,000	2
Total liabilities	19,114	19,990	(876)	(4)
Net assets	26,452	24,576	1,876	8
Equity	26,452	24,576	1,876	8

Agency resource statement

The agency resource statement provides additional information about the various funding sources that the ANAO may draw upon during the year. Table 19 details the resources available to the ANAO during 2014–15.

TABLE 19: AGENCY RESOURCE STATEMENT, 2014–15

	Actual available appropriations for 2014–15 \$'000	Payments made 2014–15 \$'000	Balance remaining 2014–15 \$'000
Ordinary annual services			
Departmental appropriation ¹	113,428	76,240	37,188
Total ordinary annual services	113,428	76,240	37,188
Special appropriations			
Auditor-General remuneration and expense— <i>Auditor-General Act 1997</i> , Schedule 1, sections 3 and 7	617	617	–
Total special appropriations	617	617	–
Total resourcing and payments	114,045	76,857	37,188

1 Appropriation Bill (No. 1) 2014–15, prior year departmental appropriation and section 31 receipts.

Expenses by outcome

Table 20 sets out the ANAO's summary of total expenses for Outcome 1.

TABLE 20: EXPENSES FOR OUTCOME, 2014–15

	Budget ¹ 2014–15 \$'000	Actual expenses 2014–15 \$'000	Variation 2014–15 \$'000
<i>Outcome 1: To improve public sector performance and accountability through independent reporting on Australian Government administration to Parliament, the Executive and the public.</i>			
Program 1.1: Assurance Audit Services			
Departmental expenses			
Departmental appropriation ²	47,544	45,244	2,300
Special appropriation	313	309	4
Expenses not requiring appropriation in the Budget year	1,068	1,000	68
Total for Program 1.1	48,925	46,554	2,371
Program 1.2: Performance Audit Services			
Departmental expenses			
Departmental appropriation	28,742	28,905	(163)
Special appropriation	313	308	5
Expenses not requiring appropriation in the Budget year	839	880	(41)
Total for Program 1.2	29,894	30,093	(199)
Total for Outcome 1	78,819	76,646	2,173
		2014–15	2013–14
Average staffing level (number)		336	349

1 Full year budget, including any subsequent adjustment made to the 2014–15 Budget.

2 Departmental appropriation combines 'Ordinary annual services (Appropriation Bill No. 1)' and 'Revenue from independent sources (s. 31)'.

FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

For the Australian National Audit Office

Report on the financial statements

I have audited the accompanying financial statements of the Australian National Audit Office for the year ended 30 June 2015, which comprise: the Statement of Financial Position, the Statement of Comprehensive Income, Statement of Changes in Equity, Cash Flow Statement, Schedule of Commitments, Administered Schedule of Comprehensive Income, Administered Reconciliation Schedule, Administered Cash Flow Statement for the year ended on that date, a Summary of Significant Accounting Policies, other explanatory notes and the statement by the Auditor-General and Chief Financial Officer.

Auditor-General's responsibility for the financial statements

The Auditor-General is responsible for the preparation of the financial statements that gives a true and fair view in accordance with the *Public Governance, Performance and Accountability Act 2013*, Australian Accounting Standards and for such internal control as is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with Australian Auditing Standards. Those standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Auditor-General, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

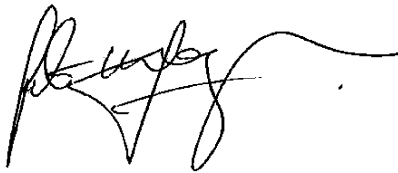
Independence

In conducting my audit, I have complied with the independence requirements of the Accounting Professional and Ethical Standards Board (*APES 110 – Code of Ethics for Professional Accountants*).

Auditor's opinion

In my opinion, the financial statements of the Australian National Audit Office:

- (a) give a true and fair view of the Australian National Audit Office's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
- (b) comply with the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* and Australian Accounting Standards including the Australian Accounting Interpretations.



Peter van Dongen
Independent Auditor

Appointed under Clause 1 of the Schedule 2 of the *Auditor-General Act 1997*

Sydney
3 September 2015

Australian National Audit Office**STATEMENT BY THE AUDITOR-GENERAL AND CHIEF FINANCE OFFICER**

In our opinion, the attached financial statements for the year ended 30 June 2015 comply with subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), and are based on properly maintained financial records as per subsection 41(2) of the PGPA Act.

In our opinion, at the date of this statement, there are reasonable grounds to believe that the Australian National Audit Office will be able to pay its debts as and when they fall due.

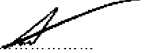
Signed.....



Grant Hehir
Auditor-General

3 September 2015

Signed.....



Mitchell Frost
Chief Finance Officer

3 September 2015

Australian National Audit Office
Statement of Comprehensive Income
for the year ended 30 June 2015

	Notes	2015 \$'000	2014 \$'000
NET COST OF SERVICES			
EXPENSES			
Employee benefits	4A	42,372	42,583
Suppliers	4B	32,393	33,754
Depreciation and amortisation	7A-D	1,853	2,016
Write-down and impairment of assets		28	20
Total expenses		76,646	78,373
OWN-SOURCE INCOME			
Audit services - government entities		2,085	2,005
International development funding - government entities		1,625	1,487
Rendering of services - external parties		286	167
Sub lease of office accommodation to a non-government entity		172	172
Total own-source income		4,168	3,831
Net cost of services		72,478	74,542
REVENUE FROM GOVERNMENT			
Departmental annual appropriations		72,786	74,367
Departmental special appropriations		617	619
Total revenue from Government		73,403	74,986
Surplus		925	444
OTHER COMPREHENSIVE INCOME			
Items not subject to subsequent reclassification to net cost of services			
Changes in asset revaluation surplus		(62)	-
Total other comprehensive income		(62)	-
Total comprehensive income		863	444

The above statement should be read in conjunction with the accompanying notes.

Australian National Audit Office
Statement of Financial Position
as at 30 June 2015

	Notes	2015 \$'000	2014 \$'000
ASSETS			
Financial assets			
Cash and cash equivalents		664	660
Trade and other receivables	6	38,684	36,560
Work in progress - audit related services		229	238
Total financial assets		<u>39,577</u>	<u>37,458</u>
Non-financial assets			
Leasehold improvements	7A,B	2,715	3,641
Plant and equipment	7A,B	1,494	1,271
Intangibles	7C,D	878	1,226
Prepayments		902	970
Total non-financial assets		<u>5,989</u>	<u>7,108</u>
Total assets		<u>45,566</u>	<u>44,566</u>
LIABILITIES			
Payables			
Suppliers		3,851	4,130
Operating lease incentives	8	639	836
Accrued salaries and other payables		1,633	1,317
Total payables		<u>6,123</u>	<u>6,283</u>
Provisions			
Employee provisions	9	12,991	13,707
Total provisions		<u>12,991</u>	<u>13,707</u>
Total liabilities		<u>19,114</u>	<u>19,990</u>
Net assets		<u>26,452</u>	<u>24,576</u>
EQUITY			
Contributed equity		10,585	9,572
Reserves		564	626
Retained surplus		15,303	14,378
Total equity		<u>26,452</u>	<u>24,576</u>

The above statement should be read in conjunction with the accompanying notes.

Australian National Audit Office
Statement of Changes in Equity
for the year ended 30 June 2015

	Retained surplus		Asset revaluation surplus		Contributed equity/capital		Total equity	
	2015	2014	2015	2014	2015	2014	2015	2014
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance	14,378	13,934	626	626	9,572	8,673	24,576	23,233
Comprehensive income								
Surplus for the period	925	444					925	444
Other comprehensive income	-	-	(62)	-	-	-	(62)	-
Total comprehensive income	925	444	(62)	-	-	-	863	444
Transactions with owners								
Contributions by owners								
Departmental capital budget	-	-	-	-	1,013	899	1,013	899
Total transactions with owners	-	-	-	-	1,013	899	1,013	899
Closing balance as at 30 June	15,303	14,378	564	626	10,585	9,572	26,452	24,576

The above statement should be read in conjunction with the accompanying notes.

Australian National Audit Office
Cash Flow Statement
for the year ended 30 June 2015

	Notes	2015 \$'000	2014 \$'000
OPERATING ACTIVITIES			
Cash received			
Appropriations for operating activities		76,094	75,420
Rendering of services		3,506	4,528
Net GST received		3,007	3,237
Total cash received		<u>82,607</u>	<u>83,185</u>
Cash used			
Employees		42,742	42,321
Suppliers		35,986	35,991
Receipts transferred to OPA		3,875	4,738
Total cash used		<u>82,603</u>	<u>83,050</u>
Net cash from operating activities	10	<u>4</u>	<u>135</u>
INVESTING ACTIVITIES			
Cash used			
Purchase of leasehold improvements		32	7
Purchase of plant and equipment		739	423
Purchase of intangibles		177	551
Total cash used		<u>948</u>	<u>981</u>
Net cash used by investing activities		<u>(948)</u>	<u>(981)</u>
FINANCING ACTIVITIES			
Cash received			
Contributed equity		948	857
Total cash received		<u>948</u>	<u>857</u>
Net cash from financing activities		<u>948</u>	<u>857</u>
Net increase in cash held		4	11
Cash and cash equivalents at the beginning of the reporting period		660	649
Cash and cash equivalents at the end of the reporting period¹		<u>664</u>	<u>660</u>

¹ As shown in the Statement of Financial Position.

The above statement should be read in conjunction with the accompanying notes.

Australian National Audit Office
Schedule of Commitments
as at 30 June 2015

2015	1 year to 5			Total \$'000
	<1 year \$'000	years \$'000	> 5 years \$'000	
Commitments Payable				
Operating leases ¹	4,141	9,448	170	13,759
Audit related contracts	11,000	4,456	-	15,456
IT related contracts	3,496	5,015	-	8,511
Other contracts	4,098	333	-	4,431
Total commitments payable	22,735	19,252	170	42,157
Commitments receivable				
Sublease rental income ²	47	-	-	47
GST recoverable	2,063	1,750	15	3,828
Total commitments receivable	2,110	1,750	15	3,875
Net commitments	20,625	17,502	155	38,282
2014	1 year to 5			Total \$'000
	<1 year \$'000	years \$'000	> 5 years \$'000	
Commitments Payable				
Operating leases ¹	4,012	13,294	234	17,540
Audit related contracts	12,718	8,920	-	21,638
IT related contracts	3,049	4,680	-	7,729
Other contracts	4,453	274	-	4,727
Total commitments payable	24,232	27,168	234	51,634
Commitments receivable				
Sublease rental income ²	192	48	-	240
GST recoverable	2,186	2,465	21	4,672
Total commitments receivable	2,378	2,513	21	4,912
Net commitments	21,854	24,655	213	46,722

Note: Commitments are GST inclusive where relevant.

¹ Operating leases included for 2014-15 are non-cancellable and comprise:

Nature of lease	General description of leasing arrangements
Lease for office accommodation	The ANAO has one current accommodation lease in the ACT. The lease commenced on 23 September 2008 for a period of 10 years and is for the ANAO's present accommodation in the ACT. There is an option to extend for a further 10 years and any increases in rent will be at a rate commensurate with the CPI. As part of the lease agreement, the ANAO received a contribution of \$1 million from the landlord towards refurbishment of the premises and release from any future make good obligations. These incentives are being recognised progressively over the lease as a reduction in rent expense.
Lease for data centre facilities	The ANAO leases a secure offsite facility for data storage and business continuity purposes. The lease commenced on 1 November 2012 for a period of 10 years with fixed rent increases of 4% until 2016. Any rental increases over the remaining lease will be at a rate commensurate with the CPI.

² Sublease income is rental income derived from the sublease of office accommodation at the ANAO's premises in the ACT. On 2 June 2014, an option was exercised under the sub-lease agreement, extending the sub-lease term until 30 September 2015.

The above schedule should be read in conjunction with the accompanying notes.

Australian National Audit Office
Administered Schedule of Comprehensive Income
for the year ended 30 June 2015

	Notes	2015 \$'000	2014 \$'000
OWN-SOURCE INCOME			
Non-taxation revenue			
Rendering of audit services - government entities		11,953	11,334
Total own-source income administered on behalf of Government¹		11,953	11,334

¹ Total comprehensive income is equal to total own-source income as there have been no administered expenses or movements in other comprehensive income.

The above schedule should be read in conjunction with the accompanying notes.

Administered Schedule of Assets and Liabilities
as at 30 June 2015

	Notes	2015 \$'000	2014 \$'000
ASSETS			
Financial assets			
Cash and cash equivalents		103	339
Trade receivables	14	4,297	3,899
Work in progress - audit related services		2,009	2,010
Total financial assets		6,409	6,248
Total assets administered on behalf of Government		6,409	6,248
LIABILITIES			
Payables			
GST payable		391	355
Total payables		391	355
Total liabilities administered on behalf of Government		391	355
Net assets		6,018	5,893

The above schedule should be read in conjunction with the accompanying notes.

Administered Reconciliation Schedule

	2015 \$'000	2014 \$'000
Opening assets less liabilities as at 1 July	5,893	5,935
Net contribution by services:		
Income	11,953	11,334
Transfers to the Australian Government:		
Transfers to the Official Public Account	(11,828)	(11,376)
Closing assets less liabilities as at 30 June	6,018	5,893

The above schedule should be read in conjunction with the accompanying notes.

Australian National Audit Office
Administered Cash Flow Statement
for the year ended 30 June 2015

	Notes	2015 \$'000	2014 \$'000
OPERATING ACTIVITIES			
Cash received			
Rendering of audit services		12,748	12,639
Total cash received		12,748	12,639
Cash used			
Net GST paid		1,156	1,154
Total cash used		1,156	1,154
Net cash flows from operating activities	15	11,592	11,485
Net increase in cash held		11,592	11,485
Cash and cash equivalents at the beginning of the reporting period		339	230
Cash to Official Public Account for:			
- Appropriations		11,828	11,376
Cash and cash equivalents at the end of the reporting period¹		103	339

¹ As shown in the Administered Schedule of Assets and Liabilities.

This schedule should be read in conjunction with the accompanying notes.

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

Note 1 - Summary of Significant Accounting Policies

1.1 Objectives of the ANAO

The Australian National Audit Office (ANAO) is an Australian Government not-for-profit entity. The objective of the entity is to assist the Auditor-General to carry out his duties and responsibilities under the *Auditor-General Act 1997* and other relevant legislation.

For the financial year ended 30 June 2015, the ANAO was structured to meet the following outcome:

- **Outcome 1:** To improve public sector performance and accountability through independent reporting on Australian Government administration to Parliament, the Executive and the public.

Through the conduct of financial statement audits and other services associated with the conduct of financial statement audits, the ANAO contributes to providing assurance to the Parliament, the Executive and the public.

Through the conduct of performance audits, the dissemination of better practice guides and the provision of direct and indirect assistance to the Parliament, the ANAO contributes to improving the efficiency and administrative effectiveness of the Australian Government public sector.

The continued existence of the ANAO in its present form and with its present programs is dependent on continuing funding by Parliament for the entity's administration and programs.

1.2 Basis of Preparation of the Financial Statements

The financial statements are general purpose financial statements and are required by section 42 of the *Public Governance, Performance and Accountability Act 2013*.

The financial statements have been prepared in accordance with:

- a) the Financial Reporting Rule for reporting periods ending on or after 1 July 2014; and
- b) Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements have been prepared on an accrual basis and in accordance with the historical cost convention, except for certain assets and liabilities at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

The financial statements are presented in Australian dollars and values are rounded to the nearest thousand dollars unless otherwise specified.

1.3 Significant Accounting Judgements and Estimates

In the process of applying the accounting policies listed in this note, the ANAO has made assumptions or estimates in the following areas that have the most significant impact on the amounts recorded in the financial statements:

- The fair value of property, plant and equipment is assessed at market value or depreciated replacement cost as determined by an independent valuer and is subject to management assessment between formal valuations; and
- Leave provisions involve assumptions based on the expected tenure of existing staff, patterns of leave claims and payouts, future salary movements and future discount rates.

No accounting assumptions or estimates have been identified that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next reporting period.

1.4 New Australian Accounting Standards

Adoption of New Australian Accounting Standard Requirements

The ANAO has elected to apply *AASB 2015-7 Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities* for this financial year, even though the Standard is not required to be applied until annual reporting periods beginning on or after 1 July 2016. AASB 2015-7 provides relief from disclosing quantitative information about significant unobservable inputs used in fair value, where property, plant and equipment is held for its current service potential rather than to generate future net cash inflows.

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

Note 1 - Summary of Significant Accounting Policies (Cont'd)

AASB 1055 *Budgetary Reporting* applies to reporting periods commencing on or after 1 July 2014 and requires the ANAO to disclose budgeted information, presented to Parliament in the Portfolio Budget Statements. The ANAO is also required to provide explanations of major variances between budgeted and actual amounts. The required disclosures have been included at Note 20.

Future Australian Accounting Standard Requirements

No new or revised pronouncements were issued by the Australian Accounting Standards Board prior to the finalisation of the financial statements which are expected to have a material financial impact on the ANAO in future reporting periods.

As a not-for-profit public sector entity, the ANAO is currently exempt from the requirements of AASB 124 *Related Party Disclosures*. For reporting periods commencing on or after 1 July 2016, AASB 124 will be extended to apply to all not-for-profit public sector entities and the ANAO will be required to disclose any related party transactions in accordance with the revised standard. Disclosure of comparative information is not required in the first year of application.

1.5 Revenue

The ANAO receives revenue from Parliamentary appropriations and the rendering of services. Revenue from rendering of services is recognised by reference to the stage of completion of contracts at the reporting date. The revenue is recognised when:

- a) the amount of revenue, stage of completion and transaction costs incurred can be reliably measured; and
- b) the probable economic benefits associated with the transaction will flow to the entity.

The stage of completion of contracts at the reporting date is determined by reference to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

Revenue from Government

Amounts appropriated for departmental operating activities for the year (adjusted for any formal additions or reductions and less Departmental Capital Budgets) are recognised as Revenue from Government when the ANAO gains control of the appropriation. Appropriations receivable are recognised at their nominal amounts.

1.6 Transactions with the Government as Owner

Equity Injections

Amounts appropriated which are designated as 'equity injections' for a year (less any formal reductions) and Departmental Capital Budgets (DCBs) are recognised directly in contributed equity in that year.

1.7 Employee Benefits

Liabilities for 'short-term employee benefits' (as defined in AASB 119 *Employee Benefits*) and termination benefits due within twelve months of end of reporting period are measured at their nominal amounts.

Leave

The liability for employee benefits includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of the ANAO is estimated to be less than the annual entitlement for sick leave.

The leave liabilities are calculated on the basis of employees' remuneration at the estimated salary rates that will apply at the time the leave is taken, plus the ANAO's employer superannuation contribution rates and applicable on-costs, to the extent that the leave is likely to be taken during service rather than paid out on termination.

The liability for long service leave has been determined by reference to FRR 24.1(a) using the shorthand method. The estimate of the present value of the liability takes into account attrition rates and pay increases though promotion and inflation.

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

Note 1 - Summary of Significant Accounting Policies (Cont'd)

Superannuation

The ANAO's staff are members of the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS), PSS accumulation plan (PSSap) or other elected defined contribution schemes.

The CSS and PSS are defined benefit schemes for the Australian Government. The PSSap is a defined contribution scheme.

The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability is reported in the Department of Finance administered schedules and notes.

The ANAO makes employer contributions to the employees' superannuation scheme at rates determined by an actuary to be sufficient to meet the current cost to the Government, and accounts for the contributions as if they were contributions to defined contribution plans.

The liability for superannuation recognised as at 30 June represents outstanding contributions for the final fortnight of the year.

1.8 Leases

Operating lease payments are expensed on a straight-line basis, which is representative of the pattern of benefits derived from the leased assets.

1.9 Financial Assets

Cash and cash equivalents

Cash is recognised at its nominal amount. Cash and cash equivalents include:

- a) cash on hand; and
- b) deposits on demand in bank accounts.

Receivables

Trade receivables are classified as 'loans and receivables' and recorded at face value less any impairment. Trade receives are recognised where the ANAO becomes party to a contract and has a legal right to receive cash. Loans and receivables are assessed for impairment at the end of each reporting period. Allowances are made when collectability of the debt is no longer probable. Trade receivables are derecognised on payment.

1.10 Financial Liabilities

Supplier and other payables are recognised at amortised cost. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced). Supplier and other payables are derecognised on payment. Supplier payables are settled within 30 days.

1.11 Contingent Liabilities and Contingent Assets

The ANAO had no quantifiable or unquantifiable contingent assets or liabilities as at 30 June 2015 (2014: nil).

1.12 Acquisition of Assets

Purchases of non-financial assets are initially recognised at cost in the Statement of Financial Position, except for purchases costing less than \$4,000 (2014: \$2,000), which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total). The asset threshold was last revised on 1 July 1996. The new threshold has been set at a level so that resources continue to be devoted to managing the ANAO's strategic assets. Assets below the increased asset threshold currently recorded on the asset register will be written off at the expiration of their useful lives.

The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Financial assets are initially measured at their fair value.

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

Note 1 - Summary of Significant Accounting Policies (Cont'd)

1.13 Property, Plant and Equipment

Revaluations

Following initial recognition at cost, leasehold improvements and plant and equipment are carried at fair value. Carrying amounts are reviewed every year to determine if an independent valuation is required. The regularity of independent valuations depend upon the volatility of movements in market values for the relevant assets.

Revaluation adjustments were made on a class basis. Any revaluation increment was credited to equity under the heading of asset revaluation reserve except to the extent that it reversed a previous revaluation decrement of the same asset class that was previously recognised in the surplus/deficit. Revaluation decrements for a class of assets were recognised directly in the surplus/deficit except to the extent that they reversed a previous revaluation increment for that class. Upon revaluation, any accumulated depreciation is eliminated against the gross carrying amount of the asset.

Depreciation

Depreciable plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to the ANAO, using in all cases, the straight-line method of depreciation. Leasehold improvements are depreciated over the lesser of the estimated useful life of the improvement or the lease term.

Depreciation rates (useful lives), residual values and methods are reviewed at each reporting date.

Depreciation rates applying to each class of depreciable asset are based on the following useful lives:

	2015	2014
Leasehold improvements	Lease term	Lease term
Plant and equipment	3 to 100 years	3 to 100 years

Impairment

All assets were assessed for indications of impairment at 30 June 2015. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment loss recognised if the asset's recoverable amount is less than its carrying amount.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

1.14 Intangibles

The ANAO's intangibles comprise off-the-shelf software and associated enhancement costs. These assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Software is amortised on a straight-line basis over its anticipated useful life. The useful lives of the ANAO's software are 3 to 5 years (2014: 3 to 5 years).

All software assets were assessed for indications of impairment as at 30 June 2015. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment loss recognised if the asset's recoverable amount is less than its carrying amount.

1.15 Taxation

The ANAO is exempt from all forms of taxation except Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST).

Revenues, expenses and assets are recognised net of GST except:

- a) where the amount of GST incurred is not recoverable from the Australian Taxation Office; and
- b) for receivables and payables.

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

Note 1 - Summary of Significant Accounting Policies (Cont'd)

1.16 Work in Progress

Work in progress includes the total costs incurred on audit work yet to be completed less interim billings. It is valued at the amount expected to be recovered.

1.17 Reporting of Administered Activities

The ANAO charges an audit fee for the financial statement audits of corporate Commonwealth entities, companies and their subsidiaries subject to the *Public Governance, Performance and Accountability Act 2013*. These fees are based on a scale determined by the Auditor-General under section 14 of the *Auditor-General Act 1997*, calculated on the basis of a cost attribution model. Revenues from these audit fees are paid into the Official Public Account and are not available to the ANAO. The revenue and receipts associated with conducting these audits are treated as administered activities within the financial statements.

Administered revenues, expenses, assets, liabilities and cash flows are disclosed in the administered schedules and related notes. Except where otherwise stated below, administered items are accounted for on the same basis and using the same policies as for departmental items, including the application of Australian Accounting Standards.

Administered Cash Transfers to and from the Official Public Account

Revenue collected by the ANAO for use by the Government rather than the agency is administered revenue. Collections are transferred to the Official Public Account (OPA) maintained by the Department of Finance. These transfers to the OPA are adjustments to the administered cash held by the entity on behalf of the Government and reported as such in the schedule of administered cash flows and in the administered reconciliation schedule.

Note 2 - Events After the Reporting Period

Departmental

No events have occurred after balance date that should be brought to account or noted in the 2014-15 financial statements.

Administered

No events have occurred after balance date that should be brought to account or noted in the 2014-15 financial statements.

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

Note 3: Net Cash Appropriation Arrangements

	2015	2014
	\$'000	\$'000
Total comprehensive income less depreciation/amortisation expenses		
Total comprehensive income less depreciation/amortisation expenses previously funded through revenue appropriations ¹	2,716	2,460
Plus: depreciation/amortisation expenses previously funded through revenue appropriation	<u>(1,853)</u>	<u>(2,016)</u>
Total comprehensive income - as per the Statement of Comprehensive Income	<u>863</u>	<u>444</u>

¹ From 2010-11, the Government introduced net cash appropriation arrangements: revenue appropriations for depreciation/amortisation expenses have ceased. Entities now receive a separate capital budget provided through equity appropriations. Capital budgets are appropriated in the period when cash payment for capital expenditure is required.

Note 4: Expenses

	2015	2014
	\$'000	\$'000
Note 4A: Employee Benefits		
Wages and salaries	32,344	32,293
Superannuation:		
Defined contribution plans	2,542	2,679
Defined benefit plans	3,119	3,286
Leave and other entitlements	4,089	4,109
Other employee expenses	<u>278</u>	<u>216</u>
Total employee benefits	<u>42,372</u>	<u>42,583</u>
Note 4B: Suppliers		
Goods and services		
Contractors and consultants	19,446	20,391
Information and communication technology	3,824	3,970
Travel	1,167	1,248
Professional development	1,271	1,527
Printing	402	479
Other	<u>2,438</u>	<u>2,539</u>
Total goods and services	<u>28,548</u>	<u>30,154</u>
Goods and services are made up of:		
Provision of goods – external parties	290	280
Rendering of services – government entities	1,072	912
Rendering of services – external parties	<u>27,186</u>	<u>28,962</u>
Total goods and services	<u>28,548</u>	<u>30,154</u>
Other suppliers		
Operating lease rentals – external parties:		
Minimum lease payments	3,071	3,068
Contingent rentals	368	294
Workers compensation expenses - government entity	<u>406</u>	<u>238</u>
Total other suppliers	<u>3,845</u>	<u>3,600</u>
Total suppliers	<u>32,393</u>	<u>33,754</u>

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 for the year ended 30 June 2015

Note 5: Fair Value Measurements

Valuation Technique and inputs for level 3 fair value measurements

	Fair value		Level ¹	Valuation Technique	Significant Inputs ²
	2015 \$'000	2014 \$'000			
Non-financial assets					
Plant and equipment	1,494	1,271	3	Cost / Market	* Useful life * adjusted prices of second hand equipment * market transactions for second hand equipment
Leasehold improvements	2,715	3,641	3	Cost	* Lease term
Total non financial assets	4,209	4,912			

¹ Level 3 measurements use inputs to estimate fair value where there are no observable market prices for the assets being valued.

² The future economic benefits of the ANAO's plant and equipment and leasehold improvements are not primarily dependent on their ability to generate cash flows. The ANAO has not disclosed quantitative information about the significant unobservable inputs for the level 3 measurements in these classes.

All property, plant and equipment is measured at fair value in the Statement of Financial Position. On 30 June 2015, an independent valuer conducted the revaluations. When estimating fair value, market prices (with adjustments) were used where available. Where market prices were not available, depreciated replacement cost was used.

The fair value of leasehold improvements and plant and equipment, fell by \$50,657 and \$38,452, respectively. These reductions were taken to the asset revaluation reserve, except for \$27,215 in respect of plant and equipment which has been expensed, as revaluation increments held in the reserve relating to that asset class had been fully utilised.

A reconciliation of movements in leasehold improvements and plant and equipment has been included in Note 7.

Note 6: Trade and Other Receivables

	2015 \$'000	2014 \$'000
Appropriation receivable	36,524	35,276
Trade receivables - government entities	1,605	749
Trade receivables - external parties	8	24
GST receivable from the Australian Taxation Office	547	511
Total trade and other receivables	38,684	36,560
Trade and other receivables aged as follows:		
Not overdue	38,150	36,559
Overdue by:		
0 to 30 days	10	1
31 to 60 days	524	-
Total trade and other receivables	38,684	36,560

All receivables have credit terms of no greater than 30 days (2014: 30 days).

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

Note 7: Non-Financial Assets

Note 7A: Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment 2015

	Leasehold Improvements \$'000	Plant & equipment \$'000	Total \$'000
As at 1 July 2014			
Gross book value	5,417	2,088	7,505
Accumulated depreciation and impairment	(1,776)	(817)	(2,593)
Total as at 1 July 2014	3,641	1,271	4,912
Additions - by purchase	12	706	718
Revaluations and impairments recognised in other comprehensive income	(50)	(12)	(62)
Impairments recognised in the operating result	-	(28)	(28)
Depreciation expense	(888)	(443)	(1,331)
Total as at 30 June 2015	2,715	1,494	4,209
Total as at 30 June 2015 represented by:			
Gross book value	2,715	1,494	4,209
Total as at 30 June 2015 represented by:	2,715	1,494	4,209

No plant or equipment is expected to be sold or disposed of within the next 12 months.

Note 7B: Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment 2014

	Leasehold Improvements \$'000	Plant & equipment \$'000	Total \$'000
As at 1 July 2013			
Gross book value	5,417	1,701	7,118
Accumulated depreciation and impairment	(886)	(420)	(1,306)
Total as at 1 July 2013	4,531	1,281	5,812
Additions - by purchase	-	356	356
Reclassification from intangibles	-	49	49
Depreciation expense	(891)	(409)	(1,299)
Disposals	-	(6)	(6)
Total as at 30 June 2014	3,641	1,271	4,912
Total as at 30 June 2014 represented by:			
Gross book value	5,417	2,088	7,505
Accumulated depreciation and impairment	(1,776)	(817)	(2,593)
Total as at 30 June 2014	3,641	1,271	4,912

Australian National Audit Office
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 for the year ended 30 June 2015

Note 7: Non-Financial Assets (Cont'd)

Note 7C: Reconciliation of the Opening and Closing Balances of Intangibles 2015

	Computer software purchased \$'000	Total \$'000
As at 1 July 2014		
Gross book value	4,751	4,751
Accumulated amortisation and impairment	(3,525)	(3,525)
Total as at 1 July 2014	1,226	1,226
Additions - by purchase	174	174
Amortisation	(522)	(522)
Total as at 30 June 2015	878	878
Total as at 30 June 2015 represented by:		
Gross book value	4,925	4,925
Accumulated amortisation and impairment	(4,047)	(4,047)
Total as at 30 June 2015	878	878

No intangibles are expected to be sold or disposed of within the next 12 months.

Note 7D: Reconciliation of the Opening and Closing Balances of Intangibles 2014

	Computer software purchased \$'000	Total \$'000
As at 1 July 2013		
Gross book value	4,719	4,719
Accumulated amortisation and impairment	(3,084)	(3,084)
Total as at 1 July 2013	1,635	1,635
Additions - by purchase	371	371
Reclassification to plant & equipment	(49)	(49)
Amortisation	(717)	(717)
Impairments recognised in net cost of services	(14)	(14)
Total as at 30 June 2014	1,226	1,226
Total as at 30 June 2014 represented by:		
Gross book value	4,751	4,751
Accumulated amortisation and impairment	(3,525)	(3,525)
Total as at 30 June 2014	1,226	1,226

Note 8: Operating Lease Incentives

	2015 \$'000	2014 \$'000
Total operating lease incentives are expected to be settled in:		
No more than 12 months	196	196
More than 12 months	443	640
Total operating lease incentives	639	836

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

Note 9: Employee Provisions

	2015	2014
	\$'000	\$'000
Total employee leave provisions are expected to be settled in:		
No more than 12 months	4,459	5,744
More than 12 months	8,532	7,963
Total employee provisions	<u>12,991</u>	<u>13,707</u>

Note 10: Cash Flow Reconciliation

	2015	2014
	\$'000	\$'000
Reconciliation of net cost of services to net cash from operating activities:		
Net cost of services	(72,478)	(74,542)
Add revenue from Government	<u>73,403</u>	<u>74,986</u>
	925	444
Adjustments for non-cash items		
Depreciation / amortisation	1,853	2,016
Loss on disposal of assets	-	20
Impairments recognised in the operating result	28	-
Movements in assets and liabilities		
Assets		
(Increase) in trade and other receivables	(2,059)	(3,689)
Decrease / (increase) in prepayments	68	(113)
Decrease / (increase) in work in progress - audit related services	10	(20)
Liabilities		
(Decrease) / increase in supplier payables	(223)	1,429
Increase in accrued salaries and other payables	315	144
(Decrease) in operating lease incentives	(198)	(198)
(Decrease) / increase in employee provisions	(715)	102
Net cash from operating activities	<u>4</u>	<u>135</u>

Note 11: Senior Management Personnel Remuneration

	2015	2014
	\$	\$
Short-term employee benefits:		
Salary	6,011,701	5,997,308
Performance bonuses	298,500	253,388
Motor vehicle and other allowances	88,854	135,670
Total short-term employee benefits	<u>6,399,055</u>	<u>6,386,366</u>
Post-employment benefits:		
Superannuation	950,963	991,486
Total post-employment benefits	<u>950,963</u>	<u>991,486</u>
Other long-term benefits:		
Annual leave	450,171	431,240
Long-service leave	151,062	150,728
Total other long-term benefits	<u>601,233</u>	<u>581,968</u>
Total senior executive remuneration expenses	<u>7,951,251</u>	<u>7,959,820</u>

Notes:

1. The total number of senior management personnel that are included in the above table are 31 (2014: 33). The number includes senior executives who commenced, departed or were in a long term acting capacity during the reporting period. No new executive positions were created.

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

Note 12: Remuneration of Auditors

	2015	2014
	\$	\$
Fees for services provided		
Financial statement audit services	87,600	87,600
Performance audit services	<u>32,540</u>	<u>-</u>
Total	<u>120,140</u>	<u>87,600</u>

Under clause 1 of Schedule 2 to the *Auditor-General Act 1997*, Mr Peter van Dongen, a partner from the firm of PricewaterhouseCoopers, was appointed as Independent Auditor for the term 12 June 2014 to 1 January 2019. Mr van Dongen is appointed in a personal capacity and he performed no other services for the ANAO.

In 2014-15, the Independent Auditor commenced a performance audit of the ANAO's communication processes.

PricewaterhouseCoopers provides other services for the ANAO, including as contract auditor for the ANAO in certain circumstances, on commercial terms and arrangements.

Note 13: Financial Instruments

	2015	2014
	\$'000	\$'000
Note 13A: Categories of Financial Instruments		
Financial Assets		
Loans and receivables:		
Cash and cash equivalents	664	660
Trade receivables	6 <u>1,613</u>	<u>773</u>
Total carrying amount of financial assets	<u>2,277</u>	<u>1,433</u>
Financial Liabilities		
At amortised cost:		
Suppliers	<u>3,851</u>	4,130
Total carrying amount of financial liabilities	<u>3,851</u>	<u>4,130</u>

The fair values of the financial assets and liabilities approximate their carrying amounts. The ANAO derived no interest income from financial assets in either the current and prior year.

Note 13B: Credit Risk

The ANAO is exposed to minimal credit risk with the maximum exposure arising from potential default of a debtor. This amount is equal to the total amount of receivables for services of \$1,613,058 (2014: \$773,175).

Note 13C: Liquidity Risk

The ANAO has sufficient available financial assets to meet all financial liabilities at 30 June 2015.

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

Note 14: Administered - Trade Receivables

	2015	2014
	\$'000	\$'000
Financial statement audit fees - government entities	4,297	3,899
Total trade receivables	4,297	3,899
Trade receivables were aged as follows:		
Not overdue	3,976	3,404
Overdue by:		
0 to 30 days	286	495
More than 90 days	35	-
Total trade receivables	4,297	3,899

Credit terms for goods and services are net 30 days (2014: 30 days).

Note 15: Administered - Cash Flow Reconciliation

	2015	2014
	\$'000	\$'000
Reconciliation of net cost of services to net cash from operating activities:		
Net contribution by services	11,953	11,334
Movement in assets and liabilities		
Assets		
(Increase) / decrease in trade receivables	(398)	787
Decrease / (increase) in work in progress - audit related services	1	(565)
Liabilities		
Increase / (decrease) in GST payable	36	(71)
Net cash from operating activities	11,592	11,485

Note 16: Administered - Financial Instruments

	2015	2014
	\$'000	\$'000
Note 16A: Categories of Financial Instruments		
Financial Assets		
Loans and receivables:		
Cash and cash equivalents	103	339
Trade receivables	4,297	3,899
Total carrying amount of financial assets	4,400	4,238

The net fair value of the financial assets approximate their carrying amounts. The ANAO derived no interest income from financial assets in either the current and prior year.

Note 16B: Credit Risk

The administered activities of the ANAO are exposed to minimal credit risk with the maximum exposure arising from potential default of a debtor. This amount is equal to the total amount of trade and other receivables of \$4,296,787 (2014: \$3,899,312).

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 for the year ended 30 June 2015

Note 17: Appropriations

Note 17A: Annual Appropriations (Recoverable GST exclusive)

	2015	2014
	\$'000	\$'000
Ordinary Annual Services		
Annual Appropriation	73,799	75,266
Receipts retained under PGPA Act - Section 74	3,694	-
Receipts retained under FMA Act - Section 31	-	4,468
Total appropriation	77,493	79,734
Appropriation applied (current and prior years)	76,240	75,375
Variance¹	1,253	4,359

¹ Variance in the 2013-14 financial year was mainly due to the operating result excluding depreciation (refer note 3) and an increase in trade payables.

Note 17B: Departmental Capital Budgets (Recoverable GST exclusive)

	2015	2014
	\$'000	\$'000
Departmental Capital Budget		
Annual Departmental Capital Budget ¹	1,013	899
Payments for non-financial assets ²	(948)	(981)
Variance³	65	(82)

¹ Departmental Capital Budgets are appropriated through Appropriation Acts (No.1,3,5). They form part of ordinary annual services, and are not separately identified in the Appropriation Acts. For more information on ordinary annual services appropriations, please see Table A: Annual appropriations.

² Payments made on non-financial assets include purchases of assets and expenditure on assets which has been capitalised.

³ In 2013-14 the ANAO utilised unspent Departmental Capital Budget from prior years. The remaining unspent Departmental Capital Budget at 30 June 2014 was \$324,000.

Note 17C: Unspent Annual Appropriations (Recoverable GST exclusive)

	2015	2014
	\$'000	\$'000
Authority		
DEPARTMENTAL		
Appropriation Act (No. 1) 2013-14	-	35,936
Appropriation Act (No. 1) 2014-15	37,188	-
Total	37,188	35,936

Note 17D: Special Appropriations (Recoverable GST exclusive)

Authority ³	Type	Purpose	Appropriation applied	
			2015	2014
			\$'000	\$'000
Auditor-General Act 1997, Schedule 1 sections 3 and 7	Unlimited Amount	Remuneration of the Auditor-General	617	619
Total			617	619

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

Note 18: Special Accounts

The 'Services for Other Entities and Trust Moneys' Special Account was established on 26 June 2012 under *Financial Management and Accountability (Establishment of SOETM Special Account – ANAO) Determination 2012/06*.

The purpose of the Services for Other Entities and Trust Moneys Special Account is to:

- (a) disburse amounts held on trust or otherwise for the benefit of a person other than the Commonwealth;
- (b) disburse amounts in connection with services performed on behalf of other governments and bodies that are not FMA Act agencies; and
- (c) to repay amounts where an act or law requires or permits the repayment of an amount received.

The Special Account had a nil balance as at 30 June 2015 (2014: nil) and has not been used during the current or previous financial year.

Note 19: Net Cost of Outcome Delivery

	Outcome 1		Total	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Departmental				
Expenses	76,646	78,373	76,646	78,373
Own-source income	4,168	3,831	4,168	3,831
Administered				
Expenses	-	-	-	-
Own-source income	11,953	11,334	11,953	11,334
Net cost of outcome delivery	60,525	63,208	60,525	63,208

Net costs shown include intra-government costs that are eliminated in calculating the actual budget outcome.

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

Note 20: Budgetary Reports and Explanations of Major Variances

The following tables provide a comparison of the original Budget as presented in the 2014-15 Portfolio Budget Statements (PBS) to the 2014-15 final outcome as presented in accordance with Australian Accounting Standards for the ANAO. The Budget is not audited.

The ANAO provides high level commentary of major variances between budget and actual amounts. Major variances are those deemed relevant to an analysis of ANAO's performance and are not focused merely on numerical differences between the budget and actual amounts.

Note 20A: Departmental Budgetary Reports

Statement of Comprehensive Income
for the year ended 30 June 2015

	Actual 2015 \$'000	Budget ¹ 2015 \$'000	Variance ² 2015 \$'000
NET COST OF SERVICES EXPENSES			
Employee benefits	42,372	44,717	(2,345)
Suppliers	32,393	32,195	198
Depreciation and amortisation	1,853	1,907	(54)
Write-down and impairment of assets	28	-	28
Total expenses	76,646	78,819	(2,173)
OWN-SOURCE INCOME			
Audit services - government entities	2,085	1,500	585
International development funding - government entities	1,625	1,800	(175)
Rendering of services - external parties	286	-	286
Sub lease of office accommodation to a non-government entity	172	200	(28)
Total own-source income	4,168	3,500	668
Net cost of services	72,478	75,319	(2,841)
REVENUE FROM GOVERNMENT			
Departmental annual appropriations	72,786	72,786	-
Departmental special appropriations	617	626	(9)
Total revenue from Government	73,403	73,412	(9)
Surplus / (Deficit)	925	(1,907)	2,832
OTHER COMPREHENSIVE INCOME			
Items not subject to subsequent reclassification to net cost of services			
Changes in asset revaluation surplus	(62)	-	(62)
Total other comprehensive income	(62)	-	(62)
Total comprehensive income	863	(1,907)	2,770

¹ As presented in the Prime Minister & Cabinet's 2014-15 Portfolio Budget Statements.

² Explanations of major variances are as follows:

Affected line items	Explanation of major variances
Employee Benefits Expense	Audit staffing vacancies throughout the year were higher than budgeted. Contractor arrangements were used to supplement the ANAO workforce and ensure key deliverables were met.
Suppliers	Increased costs resulting from the use of additional contractor arrangements to supplement the ANAO workforce during the year were offset by efficiency measures across other supplier categories and savings realised through adjustments in Government structures.
Audit services - government entities	Audit services income relates to fees charged for audits by arrangement. Income from this source is subject to volatility based on the volume and scope of requests each year. The actual income in 2014-15 varied to budget primarily due to an increased scope for a number of Commonwealth entity audits.

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

Note 20: Budgetary Reports and Explanations of Major Variances (Cont'd)

Statement of Financial Position
as at 30 June 2015

	Actual 2015 \$'000	Budget ¹ 2015 \$'000	Variance ² 2015 \$'000
ASSETS			
Financial assets			
Cash and cash equivalents	664	649	15
Trade and other receivables	38,684	33,994	4,690
Work in progress - audit related services	229	219	10
Total financial assets	<u>39,577</u>	<u>34,862</u>	<u>4,715</u>
Non-financial assets			
Leasehold improvements	2,715	2,831	(116)
Plant and equipment	1,494	1,737	(243)
Intangibles	878	1,262	(384)
Prepayments	902	857	45
Total non-financial assets	<u>5,989</u>	<u>6,687</u>	<u>(698)</u>
Total assets	<u>45,566</u>	<u>41,549</u>	<u>4,017</u>
LIABILITIES			
Payables			
Suppliers	3,851	2,952	899
Operating lease incentives	639	638	1
Accrued salaries and other payables	1,633	1,114	519
Total payables	<u>6,123</u>	<u>4,704</u>	<u>1,419</u>
Provisions			
Employee provisions	12,991	13,607	(616)
Total provisions	<u>12,991</u>	<u>13,607</u>	<u>(616)</u>
Total liabilities	<u>19,114</u>	<u>18,311</u>	<u>803</u>
Net assets	<u>26,452</u>	<u>23,238</u>	<u>3,214</u>
EQUITY			
Contributed equity	10,585	10,585	-
Reserves	564	626	(62)
Retained surplus	15,303	12,027	3,276
Total equity	<u>26,452</u>	<u>23,238</u>	<u>3,214</u>

¹ As presented in the Prime Minister & Cabinet's 2014-15 Portfolio Budget Statements.

² Explanations of major variances are as follows:

Affected line items	Explanation of major variances
Trade and other receivables, Retained surplus	The appropriation receivable was higher than budgeted primarily due to the surplus result in 2014-15. Trade receivables were higher due to timing of receipts from other Commonwealth entities.

Australian National Audit Office
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 for the year ended 30 June 2015

Note 20: Budgetary Reports and Explanations of Major Variances (Cont'd)

Statement of Changes in Equity
 for the year ended 30 June 2015

	Retained surplus		Asset revaluation		Contributed		Total equity		Variance 2015 \$'000
	Actual 2015 \$'000	Budget ¹ 2015 \$'000	Actual 2015 \$'000	Budget ¹ 2015 \$'000	Actual 2015 \$'000	Budget ¹ 2015 \$'000	Actual 2015 \$'000	Budget ¹ 2015 \$'000	
Opening balance	14,378	13,934	626	626	9,572	9,572	24,576	24,132	(444)
Comprehensive income									
Surplus for the period	925	(1,907)					925	(1,907)	(2,832)
Other comprehensive income	-	-	(62)	(62)	-	-	(62)	-	62
Total comprehensive income	925	(1,907)	(62)	(62)	-	-	863	(1,907)	(2,770)
Transactions with owners									
Contributions by owners									
Departmental capital budget	-	-	-	-	1,013	1,013	1,013	1,013	-
Total transactions with owners	-	-	-	-	1,013	1,013	1,013	1,013	-
Closing balance as at 30 June	15,303	12,027	564	626	10,585	10,585	26,452	23,238	(3,214)

¹ As presented in the Prime Minister & Cabinet's 2014-15 Portfolio Budget Statements.

Australian National Audit Office
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the year ended 30 June 2015

Note 20: Budgetary Reports and Explanations of Major Variances (Cont'd)

Cash Flow Statement
for the year ended 30 June 2015

	Actual 2015 \$'000	Budget ¹ 2015 \$'000	Variance 2015 \$'000
OPERATING ACTIVITIES			
Cash received			
Appropriations for operating activities	76,094	77,260	(1,166)
Rendering of services	3,506	3,650	(144)
Net GST received	3,007	3,089	(82)
Total cash received	82,607	83,999	(1,392)
Cash used			
Employees	42,742	44,717	(1,975)
Suppliers	35,986	35,632	354
Receipts transferred to OPA	3,875	3,650	225
Total cash used	82,603	83,999	(1,396)
Net cash from operating activities	4	-	4
INVESTING ACTIVITIES			
Cash used			
Purchase of leasehold improvements	32	-	32
Purchase of plant and equipment	739	651	88
Purchase of intangibles	177	362	(185)
Total cash used	948	1,013	(65)
Net cash (used by) investing activities	(948)	(1,013)	65
FINANCING ACTIVITIES			
Cash received			
Contributed equity	948	1,013	(65)
Total cash received	948	1,013	(65)
Net cash from financing activities	948	1,013	(65)
Net increase in cash held	4	-	4
Cash and cash equivalents at the beginning of the reporting period	660	649	11
Cash and cash equivalents at the end of the reporting period	664	649	15

¹ The figures presented in the Prime Minister & Cabinet's 2014-15 Portfolio Budget Statements were presented net of GST flows and cash transfers to the Official Public Account. The budget figures have been adjusted to include GST flows and transfers to the Official Public Account for comparative purposes.

Australian National Audit Office
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
 for the year ended 30 June 2015

Note 20: Budgetary Reports and Explanations of Major Variances (Cont'd)

**Note 20B: Administered
 Budgetary Reports**

Administered Schedule of Comprehensive Income
 for the year ended 30 June 2015

	Actual 2015 \$'000	Budget ¹ 2015 \$'000	Variance ² 2015 \$'000
OWN-SOURCE INCOME			
Non-taxation revenue			
Rendering of audit services - government entities	11,953	12,650	(697)
Total own-source income administered on behalf of Government	11,953	12,650	(697)

Administered Schedule of Assets and Liabilities
 as at 30 June 2015

	Actual 2015 \$'000	Budget ¹ 2015 \$'000	Variance ² 2015 \$'000
ASSETS			
Financial assets			
Cash and cash equivalents	103	-	103
Trade receivables	4,297	4,686	(389)
Work in progress - audit related services	2,009	1,445	564
Total financial assets	6,409	6,131	278
Total assets administered on behalf of Government	6,409	6,131	278
LIABILITIES			
Payables			
GST payable	391	426	(35)
Total payables	391	426	(35)
Total liabilities administered on behalf of Government	391	426	(35)
Net assets	6,018	5,705	313

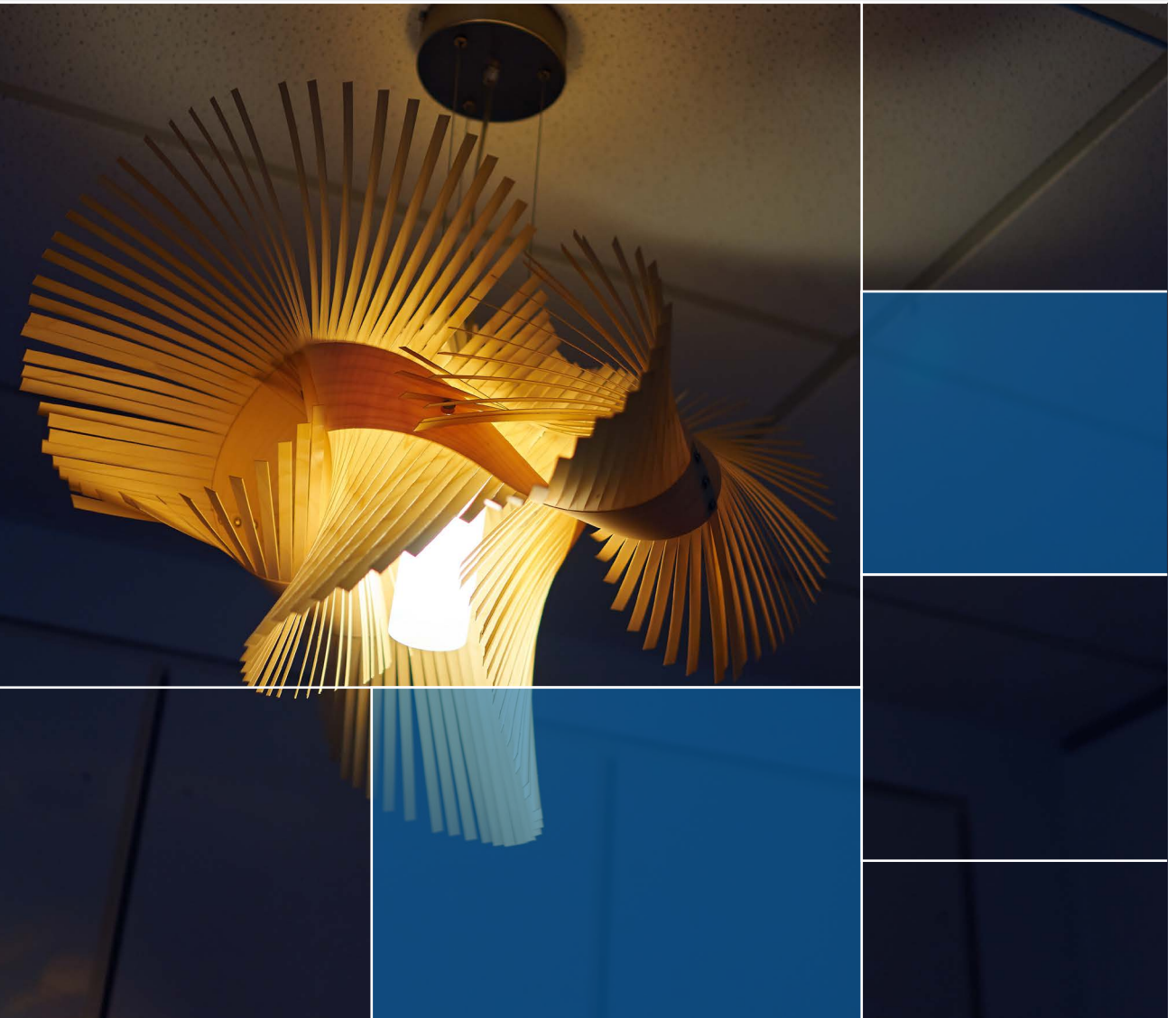
¹ As presented in the Prime Minister & Cabinet's 2014-15 Portfolio Budget Statements.

² Explanations of major variances are as follows:

Affected line items	Explanation of major variances
Rendering of audit services, Trade receivables	Actual revenue was lower than budgeted as a result of Government decisions to cease, privatise or consolidate Commonwealth entities during the year.

PART 6

APPENDIXES



APPENDIX 1—STAFFING STATISTICS

TABLE A1.1: STAFFING PROFILE AT 30 JUNE, 2014 AND 2015

Classification	2015	2014
SES Band 3	1	1
SES Band 2	6	6
SES Band 1	22	21
EL 2	78	76
EL 1	57	61
APS 6	69	62
APS 5	51	46
APS 4	36	61
APS 3	13	17
APS 2	3	4
APS 1 (Undergraduate)	1	3
Graduate	13	16
Total	350	374

APS = Australian Public Service, EL = Executive Level, SES = Senior Executive Service

Note: Includes all staff employed by the ANAO, including operative and inoperative staff. Inoperative staff are defined as staff who are absent from work for more than 13 weeks.

TABLE A1.2: PAID OPERATIVE STAFF (EMPLOYED UNDER THE *PUBLIC SERVICE ACT 1999*) AT 30 JUNE, 2014 AND 2015

Location	2015			2014		
	Audit	Non-audit	Subtotal	Audit	Non-audit	Subtotal
ACT	270	55	325	290	58	348
Total	270	55	325	290	58	348

Note: Excludes 25 inoperative staff as at 30 June 2015. Inoperative staff are defined as staff who are absent from work for more than 13 weeks.

TABLE A1.3: PAID FULL-TIME, PART-TIME AND NON-ONGOING STAFF AT 30 JUNE 2015

Classification	Full-time		Part-time		Non-ongoing		Total	
	M	F	M	F	M	F	M	F
SES Band 3	1	0	0	0	0	0	1	0
SES Band 2	5	1	0	0	0	0	5	1
SES Band 1	10	10	0	2	0	0	10	12
EL 2	36	26	2	9	2	1	40	36
EL 1	21	27	1	8	0	0	22	35
APS 6	24	27	0	10	2	4	26	41
APS 5	20	23	1	1	2	1	23	25
APS 4	15	15	1	3	0	1	16	19
APS 3	0	9	0	1	0	3	0	13
APS 2	1	0	0	1	0	0	1	1
APS 1 (Undergraduate)	0	0	0	0	1	0	1	0
Graduate	2	11	0	0	0	0	2	11
<i>Subtotal</i>	<i>135</i>	<i>149</i>	<i>5</i>	<i>35</i>	<i>7</i>	<i>10</i>	<i>147</i>	<i>194</i>
Total		284		40		17		341

APS = Australian Public Service, EL = Executive Level, SES = Senior Executive Service

Note: Includes operative and inoperative paid staff, but excludes nine unpaid staff who were on leave without pay.
Inoperative paid staff are defined as staff who are absent from work for more than 13 weeks on paid leave.

TABLE A1.4: PERFORMANCE PAYMENTS IN 2014–15

Classification	Number	Total (\$)	Average (\$)	Minimum (\$)	Maximum (\$)
SES	25	289,500	11,580	8,000	19,000
EL 2	8	46,179	5,772	3,433	9,000
EL 1	3	13,453	4,484	3,297	5,083
APS 6	3	9,661	3,220	3,004	3,654
APS 5	2	5,998	2,999	2,666	3,332
APS 4	–	–	–	–	–
APS 1–3	–	–	–	–	–
Total	41	364,791			

APS = Australian Public Service, EL = Executive Level, SES = Senior Executive Service

APPENDIX 2 – SUMMARY OF REPORTS TABLED

Single-agency reports are listed by portfolio, and within each portfolio by report number. Cross-portfolio reports are listed following the single-portfolio reports.

Agriculture

Administration of the Imported Food Inspection Scheme performance audit (No.49)

The objective of the audit was to assess the effectiveness of the Department of Agriculture's (Agriculture's) administration of the Imported Food Inspection Scheme (IFIS).

The audit concluded that Agriculture's planning for compliance monitoring was informed by food risk assessments prepared by Food Standards Australia New Zealand; regulatory activity took into account the compliance history of producers; and actions taken were proportionate to the level of risk presented. Further, inspections were underpinned by a staff capability program, a broad range of procedural guidance material and regular management verification of activities, and food testing was conducted by independently accredited laboratories. The department had also recently commenced initiatives to make its regulatory activities more client focused and consistent through the re-organisation of business processes and deployment of new technologies. While accepting that any border inspection regime for imported food will necessarily be risk based, there was scope to improve aspects of Agriculture's administration of IFIS and strengthen the delivery of regulatory activities under the scheme.

The ANAO made three recommendations designed to provide greater assurance over the implementation of prescribed inspection rates; improve the management of inspection-related activities and investigations; and enhance performance monitoring and reporting arrangements.

Attorney-General's

Administration of the Indigenous Legal Assistance Programme (No.22)

The objective of the audit was to assess the effectiveness of the Attorney General's Department's (AGD's) administration of the Indigenous Legal Assistance Programme (ILAP). Relative to other Australians, Indigenous people are considered to face particular barriers when accessing law and justice services, including financial capacity barriers, language barriers, and barriers associated with mainstream services being less culturally sensitive or not delivering services to more remote parts of Australia. Since 2011, funding through ILAP has enabled funded service providers to deliver a cumulative total of 604,519 legal assistance services, or an average of 201,506 per year. Over the same period, ILAP funding has enabled these service providers to operate an average of 84 outlets each year to provide services. However, research undertaken by a range of government and non-government bodies indicates generally that the level of unmet demand for Indigenous legal assistance services is higher than the supply of those same services.

AGD's management of ILAP has matured since it assumed responsibility for the program in 2004, and while the current management framework is reasonable overall for the nature and size of the program, improvements can be made. AGD has put in place a range of approaches to promote consistent national management of ILAP; however, work could be done to strengthen and improve the effectiveness of those approaches.

The ANAO made one recommendation aimed at improving the AGD's performance measurement and reporting framework.

Administration of the Natural Disaster Relief and Recovery Arrangements by Emergency Management Australia (No.34)

The objective of the audit was to assess the effectiveness of the Attorney-General's Department's administration of the terms of the Natural Disaster Relief and Recovery Arrangements (NDRRA) Ministerial Determination. Under the NDRRA, the Commonwealth provides financial and other assistance to help alleviate the burden on states and to support the provision of urgent assistance to disaster affected communities. Over the past decade, the Australian Government has spent around \$8 billion on post-disaster relief and recovery. Another \$5.7 billion is expected to be spent over the forward estimates for past natural disaster events.

The audit concluded that Emergency Management Australia (EMA), the area within the department that is responsible for administering the NDRRA Determination, had not been alert to clear signals that the NDRRA framework required tightening. Its claims verification and assurance processes had also not adequately protected the Commonwealth's interests, including by placing too much reliance on state vetting and sign-offs. The result had been millions of dollars of ineligible claims being reimbursed to the states at the Commonwealth's expense. However, EMA had been reluctant to accept criticism of its approaches. A much more active and disciplined approach to EMA's administration of NDRRA was required so that payments were limited to those items the Australian Government intended to cover, given the significant quantum of funding that is involved.

The ANAO made two recommendations aimed at: the development of a more robust framework to govern the provision of financial assistance under NDRRA; and stronger controls being implemented by EMA to increase the level of assurance over the veracity of NDRRA payments to the states.

The Award of Funding Under the Safer Streets Programme (No.41)

The objective of the audit was to assess the effectiveness of the award of funding under the Safer Streets programme. The Safer Streets programme was to deliver effective solutions that targeted local crime hot spots and anti-social behaviour through grants focused on retail, entertainment and commercial precincts.

The audit concluded that the Safer Streets programme guidelines provided a reasonable basis for the implementation of the first funding round. However, there were a number of significant shortcomings in the Attorney-General's Department's implementation of processes for eligibility checking, application assessment and the subsequent provision of funding recommendations to the Minister for Justice. There were also shortcomings in the terms of the funding agreements that were signed by the department in relation to the approved projects. Overall, the department's assessment of applications and approach to advising the Minister were not sound having regard to the policy design for the Safer Streets programme, the requirements of the grants administration framework and recognised better practice.

The ANAO made five recommendations that relate to the development of procedural and related documentation that will lead to the adoption of sound administrative practices; implementation of eligibility checking processes that are well informed and address all relevant requirements; adoption of assessment practices that clearly and consistently address the extent to which candidates for funding can be considered to have satisfactorily met the programme selection criteria; provision of sound advice to decision-makers as to the merits of candidates for funding under grant programmes; and assurance that the terms of funding agreements signed with successful applicants clearly identify the specific deliverables for which grant funding was awarded.

Communications

There were no single-agency audit reports within the Communications Portfolio.

Defence

2013–14 Major Projects Report (No.14)

The objective of this report was to provide the Auditor-General's independent assurance over the status of 30 selected Major Projects, as reflected in the Statement by the Chief Executive Officer Defence Materiel Organisation (DMO), and the Project Data Summary Sheets (PDSSs), prepared by the DMO. Assurance from the ANAO's review of the preparation of the PDSSs is conveyed in the Auditor-General's Independent Review Report (included in Part 3), prepared pursuant to the guidelines endorsed by the Joint Committee of Public Accounts and Audit, which are contained in Part 4.

Part 1 contains ANAO analysis on the three key elements of the PDSSs—cost, schedule and progress towards delivery of required capability and, in particular, longitudinal analysis across these key elements of projects over time. Additional analysis on other elements of the PDSSs—for example, project maturity and elements excluded from the scope of the formal review—is also included in this part.

Further insights and context by the DMO on issues highlighted during the year are contained in Part 2 (although not included within the scope of the review by the ANAO).

The ANAO's review of the individual PDSSs, which are contained in Part 3, was conducted in accordance with the Australian Standard on Assurance Engagements (ASAE) *3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information* issued by the Australian Auditing and Assurance Standards Board.

Excluded from the scope of the ANAO's review was PDSS data on projects' budget adequacy, identification of risks and issues, measures of materiel capability delivery performance, and 'forecasts' of future dates and achievement of future outcomes. This information relates to future events and depends on circumstances that have not yet occurred or may not occur, or may be impacted by events that have occurred but have not yet been identified. Accordingly, the conclusion of this review does not provide any assurance in relation to this information.

While the ANAO's work is appropriate for the purpose of providing an Independent Review Report in accordance with ASAE 3000, our review of individual PDSSs is not as extensive as individual audits conducted by the ANAO, in terms of the nature and scope of issues covered and the extent to which evidence is required by the ANAO. Consequently, the level of assurance provided by this review in relation to the 30 major projects is less than that provided by the ANAO's program of audits.

In 2013–14, the result of the ANAO's assurance review of the 30 PDSSs was that nothing had come to the attention of the ANAO that caused the ANAO to believe that the information and data in the PDSSs, within the scope of the review, had not been prepared, in all material respects, in accordance with the guidelines.

Recruitment and Retention of Specialist Skills for Navy (No.17)

The objective of the audit was to examine the effectiveness of Navy's strategy for recruiting and retaining personnel with specialist skills. The effective delivery of Navy capability depends on Navy having available sufficient numbers of skilled personnel to operate and maintain its fleet of

sea vessels and aircraft, and conduct wide-ranging operations in dispersed locations. Without the right personnel, Navy capability is reduced. Navy's budget for 2014–15 included \$1.86 billion in employee expenses.

The audit concluded that, in its strategic planning, Navy had identified its key workforce risks and their implications for Navy capability. To address these risks Navy had continued to adhere to its traditional 'raise, train and sustain' workforce strategy; developed a broad range of workforce initiatives that complemented its core approach; and sought to establish contemporary workforce management practices. However, long-standing personnel shortfalls in a number of 'critical' employment categories had persisted, and Navy had largely relied on retention bonuses as a short- to medium-term retention strategy.

Navy had developed a broad range of workforce initiatives, some designed specifically to address workforce shortages in its critical employment categories. To date, Navy had primarily relied on paying retention bonuses and other financial incentives; recruiting personnel with prior military experience to work in employment categories with significant workforce shortfalls; and using Navy Reserves in continuous full time roles. Ongoing work was required for Navy to firmly establish a range of promising workforce management practices, including providing the right training at the right time; more flexible approaches to managing individuals' careers; and improving workplace culture, leadership and relationships. More flexible and tailored workforce management practices could help address the underlying causes of workforce shortfalls, particularly when the traditional approaches were not gaining sufficient traction.

The ANAO made two recommendations aimed at Navy: drawing on external human resource expertise to inform the development and implementation of its revised workforce plan; and evaluating the impact of retention bonuses on the Navy workforce to determine their future role within its overall workforce strategy.

Management of the Disposal of Specialist Military Equipment (No.19)

The objective of the audit was to assess the effectiveness of Defence's management of the disposal of specialist military equipment (SME). The audit examined Defence records of selected disposals that had occurred over the past 15 years, especially the period from 2005 to 2013, including records of actions in response to disposals not proceeding as intended. The Auditor-General agreed to commence a performance audit following a request from the Secretary of Defence and Chief of the Defence Force.

The audit concluded that, overall, Defence's management of SME disposals had not been to the standard expected as insufficient attention was devoted to achieving the best outcome for the Australian Government; reputational and other risks that arise in disposing of SME; managing hazardous substances; and adhering to Commonwealth legislation and policy for gifting public assets. The major disposals examined as part of the audit had a largely disappointing history. In the cases examined, disposals had generally taken a long time, incurred substantial and unanticipated costs, and incurred risks to Defence's reputation. The key message of the audit was that decision-making should be based on a broader understanding of the benefits, risks and costs of each disposal.

The ANAO made five recommendations aimed at strengthening Defence's SME disposals framework and practice through the review and consolidation of Defence's internal guidance on disposals; the identification for each future major disposal of a project manager with the necessary authority, access to funding through appropriate protocols and responsibility for completing that disposal; the collection of better cost information on each disposal; and reinforcement of Defence's conflict-of-interest and post-separation employment policies.

Electronic Health Records for Defence Personnel (No.27)

The objective of the audit was to examine the effectiveness of Defence's planning, budgeting and implementation of an electronic health records solution for Defence personnel (known as the Defence eHealth System (DeHS)). The Auditor-General agreed to commence a performance audit following a request from the Treasurer.

The audit concluded that, overall, Defence's planning, budgeting and risk management for the implementation of DeHS were deficient, resulting in substantial cost increases, schedule delay and criticism within government. During the initial phases of the project, Defence had not scoped and costed key components of the project; validated project cost estimates and assumptions; obtained government approval when required; followed a project management methodology; or adequately mitigated risk by adopting fit for purpose governance and coordination arrangements. Defence's planning and management of the initial phases of the DeHS project were well below the standards that might be reasonably expected by Defence's senior leadership, and exposed the department to reputational damage. The initial June 2009 budget of \$23.3 million increased almost five-fold to \$133.3 million by February 2014, in response to a different ICT hosting model and a better understanding of business needs. Further, Defence initially planned to develop DeHS as a mature system by December 2011, but did not complete the rollout until December 2014.

The ANAO identified significant weaknesses in the early stages of the project—relating to project planning and budgeting; and project management and implementation—which affected the overall project budget and timely implementation of outcomes. Following on from improvements in project management and implementation in the later stages of the project, an ongoing focus on system and business enhancements was required to realise the anticipated benefits of the system given the substantial investment made to date.

While Defence did not request supplementary funding from government, there was nevertheless an opportunity cost associated with Defence allocating significant additional funds to the project. Key lessons of the audit were the importance of properly scoping and planning complex ICT projects, and the importance of adequate coordination of internal resources and expertise.

The ANAO made two recommendations aimed at providing Defence with reasonable assurance that project proposals and cost estimates are reliable; and achieving benefits realisation for DeHS by standardising use of the system and implementing agreed functionality.

Materiel Sustainment Agreements (No.30)

The objective of the audit was to examine Defence's administration of Materiel Sustainment Agreements (MSAs) and the contribution made by MSAs to the effective sustainment of specialist military equipment. Effective sustainment of ships, aircraft and vehicles is necessary to maintain the preparedness of the Australian Defence Force (ADF) and enable the conduct of Defence operations. MSAs have been used since 2005 as customer–supplier agreements formalising the relationship between Defence and the Defence Materiel Organisation (DMO) for the sustainment of specialist military equipment. In 2014–15, some \$5.7 billion was to be expended through seven MSAs, incorporating 116 Product Schedules.

The audit concluded that over the past decade, Defence and the DMO had established and continued to refine a generally sound MSA framework to facilitate the management of sustainment activity for specialist military equipment. The framework had enabled the Defence Organisation to clearly identify roles and responsibilities at a functional level, and individual MSAs document funding, deliverables, risks and performance measures for each sustainment product. Further, the development and maintenance of the MSA framework had encouraged and facilitated

collaboration between Defence and the DMO at management and operational levels. The MSA framework had evolved over time, in light of practical experience and the risk appetite of the parties to individual agreements, and there was an ongoing role for Defence senior leadership to shape the direction of the framework so as to realise its full potential. There also remained scope for Defence to enhance its sustainment management through the implementation, use and refinement of newly developed performance measures.

The ANAO made two recommendations focused on the review of change management processes for Navy Product Schedules and their level of detail, to support more flexible management of MSAs and avoid undocumented workarounds in their administration; and clarifying the internal treatment of acquisition and sustainment funding.

Transport Services for Veterans (No.40)

The objective of the audit was to assess the effectiveness of the Department of Veterans' Affairs (DVA) administration of the Repatriation Transport Scheme (RTS)—specifically, travel reimbursement and the Booked Car Scheme. The RTS was introduced in 1986 to provide eligible veterans and their medically required attendants with financial assistance towards the cost of transport, meals and accommodation when travelling to approved medical treatment.

The audit concluded that DVA's procurement and delivery of services to veterans under the RTS had been generally effective. The department provided transport services to many thousands of veterans on a daily basis, had reported consistently good performance against its targets for processing travel claims, and received relatively few complaints relating to travel bookings arranged by the department. Further, DVA's procurement of transport providers in 2011–12 introduced a more competitive pricing structure across a national network of transport service providers, and the department had actively managed its contracts with transport providers to maintain service quality. However, there remained scope for improvement in the RTS control framework to enhance the level of confidence regarding the validity and accuracy of travel claims and bookings.

In the course of implementing online service improvements in 2012, DVA failed to implement planned risk mitigation measures to help maintain the integrity of travel claims under the scheme. A key lesson of the audit was the importance of senior management oversight and monitoring of planned implementation activities, and timely escalation when implementation risks emerge.

The ANAO made one recommendation focusing on the provision of management assurance relating to the implementation of agreed risk mitigation measures.

Central Administration of Security Vetting (No.45)

The objective of the audit was to examine whether Defence provides an efficient and effective security vetting service for Australian Government entities through the Australian Government Security Vetting Agency (AGSVA).

The audit concluded that the performance of the centralised vetting system established in October 2010 had been mixed, and key Australian Government expectations relating to improved efficiency and cost savings had not been realised. AGSVA was not ready to effectively provide whole-of-government vetting services in 2010 due to inadequate implementation planning, risk management and resourcing. While Defence had made progress since 2012 in its implementation of centralised vetting—by strengthening the management of vetting work, documenting its vetting procedures and applying additional human resources—AGSVA continued to fall well short of fully meeting its vetting responsibilities in a timely manner, and anticipated savings had been eroded.

There was scope for Defence to develop a clear pathway to strengthen AGSVA's capacity to deliver services, and improve quality control over aspects of vetting practice and decision-making.

The mixed performance of centralised vetting had its roots in an inadequate policy proposal developed in 2009, and AGSVA commenced operations on the back foot. A key lesson of the audit was that successful implementation of large system-level reform should be based on sound analysis and include a comprehensive risk analysis.

The ANAO made three recommendations intended to promote AGSVA's delivery of more effective and timely vetting services. The recommendations involve Defence strengthening its quality assurance of vetting processes and decisions, and developing a pathway to achieve agreed timeframes for processing and revalidating security clearances.

Administration of the Defence Home Ownership Assistance Scheme (No.50)

The objective of the audit was to assess the effectiveness of the administration of the Defence Home Ownership Assistance Scheme (DHOAS) by Defence and DVA.

The audit concluded that Defence had established arrangements to support the effective administration of DHOAS. These arrangements included the appointment and ongoing oversight of a Scheme Administrator (DVA) and DHOAS-approved home loan providers. There was, however, scope for both Defence and DVA to streamline the scheme's delivery and to better adhere to legislative approval mechanisms, strengthen compliance activities, and improve the measurement of the scheme's specific impacts. While there are some positive signs that the scheme is addressing its retention objective, a lack of data has impeded Defence's ability to measure the scheme's impact, relative cost-effectiveness and, by extension, its value for money.

The ANAO made three recommendations: two recommendations directed towards Defence and DVA to streamline the scheme's delivery and adhere to legislative approval mechanisms, and one recommendation directed towards Defence strengthening its monitoring and evaluation of the scheme's performance.

Australian Defence Force's Medium and Heavy Vehicle Fleet Replacement (Land 121 Phase 3B) (No.52)

The objective of the audit was to assess the effectiveness of Defence's management of the acquisition of medium and heavy vehicles, associated modules and trailers for the Australian Defence Force (ADF), focusing on acquisition processes between 2004 and early 2015. Land 121 is a multi-phased project to provide the ADF with new field vehicles and trailers to enhance ground mobility. Phase 3B of the project is to acquire 2,536 medium and heavy vehicles, and 2,999 modules, from Rheinmetall MAN Military Vehicles-Australia; and 1,582 trailers from Haulmark Trailers (Australia) at a budgeted cost of \$3.386 billion.

The audit concluded that Defence's initial tender process to acquire a replacement medium and heavy vehicle fleet was flawed, resulting in a failed tender and a second approach to market, which contributed to long delays in the acquisition of a modern medium and heavy vehicle capability for the ADF. Defence conducted a more effective tender resubmission process from 2008, but the process was protracted and Defence did not enter into contracts to supply the replacement fleet until July 2013. The aborted initial tender process and the time taken to finalise the tender resubmission process have delayed the scheduled achievement of Final Operational Capability by seven years to 2023. In the intervening period, Defence will continue to rely on an aged fleet of medium and heavy vehicles that is increasingly costly to operate, maintain and repair.

While Defence currently expects to deliver the project within budget, the audit illustrates the impact of protracted procurement and approval processes on both Defence and industry suppliers. The audit also underlined the benefits of early test and evaluation, which strengthens Defence's ability to identify and mitigate risks and provided informed advice for decision-makers.

The ANAO made one recommendation focusing on the development of contemporary guidance on the Basis of Provisioning for the acquisition of ADF specialist equipment, to provide greater certainty to Defence's assessments and advice on the type and quantity of materiel required to deliver a defined capability.

Education and Training

Administration of the Early Years Quality Fund (No.23)

The objective of the audit was to assess the effectiveness of the establishment, implementation and operation of the Early Years Quality Fund (EYQF) against the requirements of the *Early Years Quality Fund Special Account Act 2013* and the Commonwealth grants administration framework. The Australian Government committed \$300 million in March 2013 to establish the EYQF with the intended purpose of providing grants to long day care providers in order to supplement wage increases for childcare workers for a period of two years. The level of funding available meant that there would be significant competition for grants and the program would most likely be oversubscribed. In the event, the \$300 million funding cap was reached less than 13 hours after the application process commenced.

The audit concluded that successful implementation of policy initiatives requires early, informed and systematic consideration of implementation issues. Government departments have an important role in clearly drawing the attention of ministers to implementation risks so as to reduce the likelihood of downstream problems affecting service delivery or equity of access to programs. Such advice is particularly important in programs like EYQF where funding was capped and the risks of oversubscription were recognised. Key lessons arising from the implementation of the program include the importance of providing: frank, comprehensive and timely advice to ministers in relation to implementation risks and opportunities for mitigating these risks where possible; keeping stakeholders informed of developments, including when programs reach full capacity; and ensuring that in demand-driven grant programs, the program guidelines are followed to ensure, as far as possible, equity of access by applicants to available funds.

The ANAO made one recommendation intended to enhance the equity, transparency and accountability of future grant programs. The ANAO also observed that the key lessons arising from implementing the EYQF were relevant to other Commonwealth entities and were intended to inform the design and implementation of future programs.

Administration of the Australian Apprenticeships Incentives Program (No.31)

The objective of the audit was to assess the effectiveness of the (then) Department of Industry's administration of the Australian Apprenticeships Incentives Program (AAIP). The AAIP commenced in 1998 with the objective of contributing to the development of a highly skilled and relevant Australian workforce by providing personal benefits to eligible apprentices and incentives to their employers. From 1 July 2012 to the end of December 2014, total AAIP expenditure was approximately \$2.8 billion, comprising \$2.3 billion in financial assistance and \$0.5 billion in fees to Australian Apprenticeships Centres (AACs)—the program's contracted service providers.

The audit concluded that Industry's administration of the AAIP since 1 July 2012 was generally effective. Appropriate contract and program management arrangements were largely in place, and operated as intended. Notably, Industry's processes for monitoring the contracted performance of AACs were soundly based and well targeted. In 2012–13 and 2013–14, the combined totals of reported employers and apprentices assisted by the AAIP were in line with Industry's targets. Generally, AAIP payments from 1 July 2012 to 30 June 2014 examined by the ANAO accorded with the program's eligibility criteria and related policy conditions. The audit highlighted opportunities to further strengthen the AAIP's management and oversight arrangements, including more regular data analysis to help assess the integrity of apprenticeship records and identify incorrect payments, and the development of a structured evaluation framework to help assess program performance.

The ANAO made one recommendation to the Department of Education and Training—the administering department since 23 December 2014—aimed at improving the evaluation framework for AAIP.

Employment

Administration of the Fair Entitlements Guarantee (No.32)

The objective of the audit was to assess the effectiveness of the Department of Employment's administration of the Fair Entitlements Guarantee (FEG) scheme. Since 2000, the Australian Government has provided, through its employee entitlements scheme, financial support to protect eligible employees from losing their accrued employee entitlements, including unused annual leave, long service leave, redundancy pay and wages, when their employer's business fails. Through FEG and its predecessor schemes the Australian Government has distributed nearly \$1.5 billion in advances since January 2000. During 2013–14, the department received 16,246 claims for assistance. Of these claims, 11,255 were assessed as eligible, and the department distributed \$197 million to these claimants.

The audit concluded that the department's administration of the scheme had been mixed. While the department had effectively transitioned its delivery of the previous entitlements scheme, the General Employee Entitlements and Redundancy Scheme (GEERS), to operate in accordance with the new FEG legislation in early 2013, a subsequent change initiated in August 2013—aimed at aligning the claims assessment process with the new arrangements—had been poorly managed, resulting in a significant backlog of claims and lengthy delays for claimants in obtaining their FEG payments. Although the department has taken action to reduce this backlog and advised that this work will continue to be a priority in 2015, there are also opportunities for the department to make improvements to internal procedures to provide confidence that key compliance risks are being effectively managed. In particular, improvements to fraud control arrangements would address existing weaknesses and there is an opportunity to give greater focus to fraud prevention and detection. There would also be benefit in the department giving greater attention to periodic analysis and evaluation of the scheme's performance and how the scheme integrates with other government initiatives aimed at protecting employees and regulating business. This work would support advice provided to government on relevant policy issues and improve external reporting.

The ANAO made one recommendation. Observing that the department is taking action to resolve the backlog of existing claims, the recommendation is aimed at addressing identified issues associated with the FEG fraud controls and strengthening the department's management of fraud risk by increasing its focus on fraud prevention and detection.

Environment

Administration of the Biodiversity Fund Program (No.10)

The objective of the audit was to assess the effectiveness of the Department of the Environment's (Environment's) administration of the Biodiversity Fund program. The program, which was established as part of the Clean Energy Future package in July 2011, was a competitive, merit-based grants program, with an initial budget of \$946.2 million over six years from 2011–12 to 2016–17. The program was closed to new applicants in December 2013. At that time, around 330 projects had been funded through four funding rounds, with \$324 million in committed expenditure. There were also four discretionary grants funded under the program, with a total cost of \$7.65 million.

The audit concluded that Environment had established suitable arrangements for aspects of the administration of the Biodiversity Fund program, including a suitable governance framework, generally sound processes and procedures to underpin the complex grant assessment process, and funding agreements that supported the delivery of projects while protecting the Commonwealth's interests. There were, however, shortcomings in other aspects of the department's administration of the program in relation to the assessment of eligibility and implementation of the program's compliance strategy.

The ANAO made two recommendations directed at addressing these shortcomings.

Funding and Management of the Nimmie-Caira System Enhanced Environmental Water Delivery Project (No.29)

The objective of the audit was to assess the effectiveness of the arrangements established by Environment for the funding and management of the Nimmie-Caira System Enhanced Environmental Water Delivery Project.

The audit concluded that Environment had established a reasonable basis on which to assess the fair market value of the land and water entitlements, including by initially obtaining modelling from the Murray–Darling Basin Authority to confirm the reliability of the water supply over time; and subsequently obtaining advice from two private sector valuation firms, with additional scrutiny of this advice provided by the then Australian Valuation Office, to arrive at a fair market value of \$103.1 million (comprising \$44 million for the land and \$59.1 million for the water entitlements). The department had not sought an independent assessment of the premium (\$16.9 million) to be paid over and above the assessed fair market value to meet the fixed asking price of \$120 million for the land and water assets. Further, there was scope for the department to have subjected the remaining elements of the proposed project relating to offsets, project planning and management, and infrastructure configuration (valued at \$60.1 million) to greater scrutiny as part of the due diligence process. To date, progress on the project has been considerably slower than envisaged, with project implementation being pushed back by at least seven months, with critical project initiatives overdue. To realise the expected benefits from the project, including value for money from the acquisition of the land and water entitlements, close cooperation would be required between Environment and the NSW Office of Water—particularly in relation to managing the higher residual risks that remain.

The ANAO made two recommendations designed to improve engagement with stakeholders for the remainder of the Nimmie-Caira project and to strengthen project management arrangements in future intergovernmental projects of this nature.

Finance

Second Follow-up Audit into the Australian Electoral Commission's Preparation for and Conduct of Federal Elections (No.4)

The audit was undertaken in response to a request from the Joint Standing Committee on Electoral Matters for the Auditor-General to undertake audit activity relating to the Australian Electoral Commission's (AEC's) implementation of earlier recommendations made by the ANAO in Audit Report No.28 2009–10. The Committee's request for ANAO audit activity was made in light of the loss of 1,370 Western Australian Senate ballot papers at the 7 September 2013 Federal election.

The objective of the audit was to assess the adequacy and effectiveness of the AEC's implementation of the recommendations made in Audit Report No.28 2009–10 relating to a more strategic approach to election workforce planning; the suitability and accessibility of polling booths and fresh scrutiny premises; and the transport and storage of completed ballot papers, in respect of matters not fully addressed in ANAO Audit Report No.31 2013–14.

The audit concluded that, notwithstanding the advice provided to its audit committee, the AEC had not adequately and effectively implemented each element of recommendations 5, 6 and 7 from ANAO Audit Report No.28 2009–10. Some improvement was evident in relation to aspects of those recommendations, in particular more timely recruitment of election officials, and improved approaches to their training. However, the audit noted: there was little change evident between the 2007 and 2013 elections in how the AEC selected premises for voting and vote counting purposes; the AEC had yet to develop a workforce plan to assist with addressing the challenges associated with retaining, recruiting and training a large number of temporary election officials, and responding to continuing high levels of temporary staff turnover between elections; and the records of the recruitment of polling place staff for the 2013 election demonstrated that 34 per cent of people appointed to those roles had not been assessed as to their suitability; it was relatively common for people employed as election officials to have not completed some or all of the assigned training; and performance assessment ratings were not recorded for all election officials at either the 2010 or 2013 elections (compliance with this requirement was 87 per cent and 80 per cent respectively).

The ANAO made a further five recommendations to address identified shortcomings.

Administration of Travel Entitlements Provided to Parliamentarians (No.42)

The objective of the audit was to assess the effectiveness of the Department of Finance's (Finance's) administration of travel entitlements provided to parliamentarians.

The audit found that independent recommendations for substantive legislative and administrative reform developed to simplify current arrangements and safeguard the interests of the Commonwealth and parliamentarians, or alternative measures to address recognised fundamental issues with the framework, have not been actioned. As a result, the framework under which parliamentarians' non-remuneration entitlements are provided had continued to be complex and opaque, with travel entitlements recognised as representing one of the areas most affected by those factors. It is unsurprising, therefore, that the audit again highlighted the resulting challenges for parliamentarians, in effectively accessing entitlements; Finance, in terms of efficient and effective administration; and all parties, in promoting transparency and accountability for the public expenditure involved. In particular, there continued to be adverse implications for the ability of parliamentarians and their offices to understand and comply with the intended purposes of,

and any conditions or limitations on, individual entitlements, with associated implications for the capacity to provide reliable certifications in relation to that entitlements use.

In the absence of substantive reform, parliamentarians' entitlements will continue to be provided through a framework that has been the subject of only limited enhancements. As a consequence, there will continue to be a lack of transparency as to the purposes for which entitlements have been accessed, which can be expected to give rise to continued concerns that the framework is providing greater latitude to parliamentarians in their use of public money than might be expected in the public interest; and a heightened risk of parliamentarians being criticised for the judgements they individually make in relation to whether a particular use of publicly funded resources was within the terms of the relevant entitlement and represented an efficient, effective, economical and ethical use of public resources.

The ANAO made two recommendations directed towards supporting and reinforcing actions already taken by Finance to improve its administration of parliamentarians' entitlements under current arrangements. Recommendations of the April 2010 report of an independent 'root and branch' review of parliamentary entitlements (and subsequently supported by the Remuneration Tribunal), setting out a reform pathway for establishing a consistent, simple and transparent framework for providing parliamentarians with the 'tools of trade' required to undertake their respective duties, remain relevant. No government decisions not to implement those recommendations had been recorded in the five years since the 2010 report was finalised. Nor had any alternative proposals been adopted to address the fundamental issues associated with the current framework. In that context, ANAO did not make any further recommendations concerning the entitlements framework.

Foreign Affairs and Trade

Administration of the Export Market Development Grants Scheme (No.15)

The objective of the audit was to assess the effectiveness of the Australian Trade Commission's (Austrade's) administration of the Export Market Development Grants scheme, in providing incentives to small and medium Australian enterprises for the development of export markets. The Export Market Development Grants (EMDG) scheme aims to provide incentives to small and medium Australian enterprises for the development of export markets through reimbursement of up to 50 per cent of expenses incurred on eligible export promotion over \$15,000. The scheme provides eligible applicants with one grant per year up to a maximum of eight grants.

The audit concluded that Austrade had well established practices that supported the effective administration of the scheme. Nevertheless, there was scope to further strengthen aspects of Austrade's administration of the scheme, including risk management and fraud risk assessment processes and application assessment and quality assurance.

The ANAO made three recommendations designed to: improve risk management processes, including fraud risk assessments; clarify arrangements for managing changes to risk thresholds; and enhance the transparency of the application assessment process particularly in relation to manual adjustments to assessment activities, supported by the implementation of a quality assurance program to provide additional assurance in relation to the assessment of applications.

Delivery of Australia's Consular Services (No.21)

The objective of the audit was to assess the effectiveness of the Department of Foreign Affairs and Trade's (DFAT's) delivery of services to Australians travelling or residing abroad.

In 2013–2014, DFAT delivered 236,600 consular services (including providing consular assistance to 14,558 Australians in difficulty overseas) through 167 diplomatic posts, at a total program cost of \$76.2 million.

The audit concluded that, while DFAT had sound practices for the provision of most aspects of consular services, the rationale for, and documentation of, key decisions, such as those related to the provision of financial assistance, were inconsistent. There was also scope for DFAT to strengthen its oversight and coordination of the lessons that can be learned from consular crises and related contingency planning.

The ANAO made three recommendations aimed at strengthening the management and oversight of consular services, strengthening crisis preparations and response capabilities, and improving the transparency and reporting of consular service delivery.

Managing Australian Aid to Vanuatu (No.43)

The objective of the audit was to assess the effectiveness of DFAT’s management of Australian aid to Vanuatu. In 2014–15, Australia’s budget for Official Development Assistance to Vanuatu was \$60.4 million, the majority of which (\$41.9 million) was bilateral aid managed by DFAT. Bilateral aid is allocated across the program’s strategic objectives, in the areas of education, health, economic governance, infrastructure, law and justice, and disaster response.

The audit concluded that DFAT’s draft Aid Investment Plan for Vanuatu was consistent with Australia’s aid policy and the priorities of the Government of Vanuatu, as well as being sufficiently detailed to provide an understanding of the key elements of the program. DFAT had a well-defined process for designing individual aid initiatives, and investment designs were generally comprehensive. Also, DFAT had developed and maintained good relationships with key stakeholders, but acknowledged that mapping the large number of stakeholders and development programs being undertaken in Vanuatu would assist it to identify program gaps and overlaps, and guide the development and maintenance of key stakeholder relationships. There was scope for DFAT to strengthen its approach to planning and managing the program in some areas, principally its management of risk, and the monitoring and oversight of individual initiatives. There would also be benefit in DFAT developing, as part of the Aid Investment Plan process, performance indicators that allow it to measure and publicly report on the extent to which its objectives are being achieved.

The ANAO made two recommendations relating to DFAT’s strategic approach to aid investment planning and management, and its monitoring and oversight of individual initiatives.

Health

Implementation of Audit Recommendations (No.8)

The objective of the audit was to assess the effectiveness of the Department of Health’s (Health’s) monitoring and implementation of both ANAO performance audit and internal audit recommendations. The audit is one of a program of performance audits conducted in response to ongoing parliamentary interest in entities’ implementation of audit recommendations.

The ANAO found that 64 per cent of the audit recommendations examined had been adequately implemented and 36 per cent had been partially implemented, despite being closed on the department’s monitoring system. Health’s result of 64 per cent for adequate implementation was comparable to the combined average of the seven other departments that had been examined by the ANAO as part of this series of audits. Health’s arrangements for monitoring and reporting on the implementation of recommendations provided the audit committee with sufficient visibility

over reported action and significant implementation delays. However, elements of Health's arrangements could be improved; in particular by seeking appropriate assurance from responsible divisions to support requests for the closure of audit recommendations, and in the case of significant recommendations, considering the benefit of sign-off at the deputy secretary level.

The ANAO made one recommendation focusing on the introduction of measures to improve Health's internal processes for monitoring the implementation of audit recommendations, including the recording of expected deliverables and timeframes; requiring formal requests for extensions to implementation dates; seeking appropriate assurance of implementation before closing recommendations; and recording the basis of decisions to close audit recommendations as implemented.

Diagnostic Imaging Reforms (No.12)

The objective of the audit was to assess the effectiveness of Health's implementation of the Diagnostic Imaging Review Reform Package, some three years into the five-year reform period. Some 15 per cent of all Medicare outlays in 2014–15, approximately \$3.1 billion, were related to diagnostic imaging services such as X-ray, ultrasound, computed tomography (CT) and magnetic resonance imaging (MRI). The reform package, a 2011–12 Budget measure, was intended to help improve the accessibility, quality and sustainability of government-funded diagnostic imaging services and the overall sustainability of Medicare.

The audit concluded that some three years after the Budget measure was announced, Health's overall implementation of the reform package had mixed results. There had been an overall improvement in patient access to MRI services, including in regional areas. However, almost three times more MRI machines had been granted MBS-eligibility than originally estimated, and the cost to Medicare of expanded MRI access was likely to be more than double the original Budget estimate of \$94.5 million. Complementary initiatives intended to offset the cost of the MRI expansion had not been adequately planned or substantively implemented and the anticipated benefits had not been realised. As a consequence, the cost impact of MRI expansion was significantly greater than advised to government, with long-term implications for the Commonwealth Budget.

The ANAO made two recommendations aimed at improving the effectiveness of Health's full implementation of the remaining reform initiatives by 30 June 2016, focusing on assessing progress and developing an overall implementation plan.

Administration of the Fifth Community Pharmacy Agreement (No.25)

The objective of the audit was to assess the effectiveness of the development and administration of the Fifth Community Pharmacy Agreement (5CPA), and the extent to which the 5CPA met its objectives. Since 1990, the Australian Government has entered into successive five-year community pharmacy agreements, at a cost of over \$45 billion, to help maintain a national network of some 5,460 retail pharmacies as the primary means of dispensing Pharmaceutical Benefits Scheme (PBS) medicines to the public. The 5CPA was in effect between 2010 and 2015, co-signed by the Commonwealth and the Pharmacy Guild of Australia. The 5CPA provided for the Government to deliver some \$15.4 billion in funding, and to achieve \$1 billion in government savings. The 5CPA was developed and negotiated by Health, which had primary responsibility for its overall administration. The Department of Human Services, the Department of Veterans' Affairs (DVA) and the Pharmacy Guild also implemented aspects of the 5CPA.

While the ANAO did not examine the Pharmacy Guild's administration of 5CPA professional programs, the audit refers to aspects of its involvement relating to the development, negotiation and administration of the 5CPA.

The audit concluded that Health's administration of the 5CPA was mixed, and there was a limited basis for assessing the extent to which the 5CPA met its key objectives, including the achievement of \$1 billion in expected savings. The department developed and negotiated a complex agreement and related contracts with the Pharmacy Guild in a timely manner, enabling the 5CPA to be signed by the Health Minister and the Pharmacy Guild on 3 May 2010, prior to the expiry of the 4CPA on 30 June 2010. However, a number of government negotiating objectives for the 5CPA were only partially realised and there were shortcomings in key aspects of Health's administration at the development, negotiation and implementation phases.

The ANAO made eight recommendations aimed at improving the overall administration of the 5CPA and informing the development of the 6CPA, scheduled to come into effect from 1 July 2015. Seven recommendations were directed to Health, and related to the development of costings; improving the clarity of the next agreement and related public reporting; improved recordkeeping; and improving performance information. A further recommendation directed to Health, Human Services and DVA focused on improving the accuracy of Health's calculation of pharmacy remuneration for reporting and evaluation purposes.

Administration of the Medical Specialist Training Program (No.26)

The objective of the audit was to assess the effectiveness of Health's administration of the medical Specialist Training Program (STP). The STP provides grants to hospitals and other medical facilities or health organisations to employ specialist trainees (also known as registrars). The grants are intended to assist in addressing shortages of specialist health practitioners, particularly in regional and rural areas, by providing increased training opportunities outside of the traditional inner metropolitan teaching hospitals. From 1 July 2010 to 31 December 2014, total STP expenditure was \$379 million.

The audit concluded that Health had made substantial progress towards achieving the key STP targets and objectives, adopting a generally sound administrative approach which had improved over time. The STP training targets established in March 2010 had largely been met, with specialist medical college reports indicating that some 93 per cent of the target of 900 training positions had been filled, and some 89 per cent of funded training positions were located in non-traditional settings. However, in the 2014 grant funding round Health adopted an internal review and rescoring procedure which was not documented, and the department had not strictly adhered to the published selection criteria—an approach which affected the transparency and, to an extent, the equity of the assessment process when viewed in terms of the application form and other explanatory material that informed applicants' expectations about how grants would be selected.

The ANAO made one recommendation aimed at improving the transparency and equity of Health's grants administration.

Organ and Tissue Donation: Community Awareness, Professional Education and Family Support (No.33)

The objective of the audit was to assess the effectiveness of the Australian Organ and Tissue Donation and Transplantation Authority's (OTA) administration of community awareness, professional education and donor family support activities intended to increase organ and tissue donation. These activities were the focus of three out of nine COAG-endorsed national reform measures (measures 4, 5 and 6) announced in 2008.

The audit concluded that OTA had made reasonable progress in implementing measures 4, 5 and 6 of the national reform program, including the introduction of a Professional Education Package

and National Donor Family Support Service. OTA had also undertaken a range of initiatives aimed at increasing community awareness and education about organ and tissue donation and transplantation. Of particular note was OTA's approach to engaging with culturally and linguistically diverse communities, which was consultative and informed by relevant research. Similarly, OTA adopted an evidence-based approach to selecting the key message for its \$13.8 million national advertising campaign conducted from 2010 to 2012, which tracking research indicated achieved good outcomes against campaign benchmarks in its first phase. A key shortcoming across the three reform measures examined in this audit was the absence of suitable performance indicators and related targets to help assess the effectiveness of initiatives.

The ANAO made three recommendations aimed at OTA more actively facilitating collaboration among key stakeholders; improving the transparency of OTA's grants administration; and improving the consistency of support provided to donor families.

Immigration and Border Protection

Management of the Cape Class Patrol Boat Program (No.13)

The objective of the audit was to assess the effectiveness of the Australian Customs and Border Protection Service's (Customs') management of the Cape Class patrol boat (CCPB) program. In the May 2010 Federal Budget, the Government approved funding of \$573.6 million over 10 years (2010–11 to 2019–20) for the acquisition and operating costs of eight larger and more capable CCPBs to conduct patrols within the outer limits of Australia's maritime zones. The CCPBs were to progressively replace the existing fleet of eight Bay Class patrol boats between 2013 and 2015. The CCPBs were designed to provide increased range, endurance, sea handling abilities, surveillance and communications equipment, and accommodation for up to 50 transportees.

The audit concluded that Customs established sound arrangements to underpin the acquisition of the CCPB fleet. By September 2014, the first three vessels had been delivered in line with the agreed schedule and, where testing had been completed, to the established capability requirements. In this context, the complex vessel acquisition stage of the program was well managed by Customs. There were remaining risks relating to the ongoing support of vessel operations that required active management by Customs.

To support the ongoing management of the CCPB program, the ANAO made two recommendations for Customs: to develop a clear strategy to address expected CCPB operational funding shortfalls; and to develop an appropriate marine unit strategic workforce plan to address medium to longer term workforce requirements.

Administration of the Tariff Concession System (No.20)

The objective of the audit was to assess the Australian Customs and Border Protection Service's (Customs') administration of the Tariff Concession System (TCS). The TCS is intended to assist Australian industry and to reduce costs to the general community where the imposition of an import tariff serves no industry assistance purpose. To receive a duty concession under the TCS, an imported good must be covered by a current Tariff Concession Order (TCO). As at October 2014, there were over 15,000 current TCOs available for use by Australian importers, with around \$1.8 billion in revenue to the Commonwealth forgone in 2013–14.

The audit concluded that the TCS was supported by mature administrative arrangements that provided a sound basis for the assessment and management of TCOs, including the processing of TCO applications, objections and revocations, as well as the management of TCOs that were in

use. There were aspects of Customs administrative arrangements that could be further improved, including by developing a communications strategy for the TCS to maximise the effectiveness of communications and awareness raising activities and more clearly documenting TCO application assessment activities. Further, Customs was not well placed to determine whether its activities directed at managing TCS compliance, including education and awareness activities through to enforcement action, were effectively addressing the risks arising from TCO misuse.

The ANAO made three recommendations designed to further improve Customs' administration of the TCS and strengthen compliance monitoring arrangements.

Management of Interpreting Services (No.28)

The objective of the audit was to assess the effectiveness of the Department of Immigration and Border Protection's (DIBP's) delivery of high-quality interpreting services to its clients. The Translating and Interpreting Service (TIS), now known as TIS National, was established in 1991 to provide telephone and on-site interpreting assistance, through a brokerage service, on a twenty-four hour, seven day a week basis. TIS National is one of the largest public sector interpreting service providers, with almost 3,000 registered interpreters, covering approximately 170 languages and dialects.

The audit concluded that TIS National's delivery of interpreting services was effective in providing high-quality interpreting services to its clients. Managerial and technological improvements had been implemented to increase TIS National's competitiveness and to improve interactions with its clients. TIS National had also been innovative in implementing policies to increase the learning and development opportunities available to its interpreters and to enhance the professionalism of the interpreting industry. TIS National's operations had lacked a strategic focus, particularly in respect to TIS National's role as a government-owned service provider in a maturing interpreting industry. Also, the policy basis for the charging of fees for interpreting services required clarification and there was scope for DIBP to better prepare and support interpreters when deployed to DIBP's immigration detention facilities.

The ANAO made two recommendations directed towards determining the most appropriate financial arrangements for TIS National's services and for preparing and supporting interpreters prior to, during and post their deployment to the detention network.

Verifying Identity in the Citizenship Program (No.47)

The objective of the audit was to assess the effectiveness of DIBP's identity verification arrangements for applicants in the Citizenship Program. Given the rights and privileges founded in Australian citizenship, DIBP is expected to confer citizenship to only those applicants who fully satisfy the requirements established to support the integrity of the Citizenship Program. One such requirement contained in the *Australian Citizenship Act 2007* is that the minister must not approve a person becoming an Australian citizen unless satisfied of the person's identity.

The audit concluded that DIBP's processes to support identity verification were sound, but there were shortcomings in the implementation of these processes that limited the extent to which the department could be assured that its identity verification obligations for citizenship were being effectively fulfilled. Compliance with key steps in the verification process was inconsistent across DIBP's delivery network. The department's quality assurance program focused on administrative processes rather than the quality of decision-making. Consequently, its management had limited assurance as to the quality and integrity of identification processes. DIBP's guidance for decision-makers, while largely adequate, did not provide sufficient details with respect to the key elements that should be considered when verifying the identity of citizenship applicants. Further,

the program's key performance indicators focused on the volume of workload and did not include a measure of the quality of decisions to approve citizenship (despite decisions of this nature comprising the vast majority of decisions made).

The ANAO made five recommendations aimed at: strengthening arrangements for the consistent and appropriate verification of the identity of citizenship applicants at key stages of application processing; improving DIBP's quality assurance program; and developing key performance indicators for the quality of the department's decisions to approve applicants for citizenship.

Industry and Science

The Award of Grants under the Clean Technology Programs (No.11)

The objective of the audit was to assess the effectiveness and equity of the award of funding under the Clean Technology Investment Program (CTIP) and the Clean Technology Food and Foundries Investment Program (CTFFIP) in the context of the program objectives and the Commonwealth's grants administration framework. This audit also examined the specific matters raised with ANAO in relation to the CTIP by a senator in June 2013. The CTIP and CTFFIP were well received by industry, with 603 projects awarded nearly \$315 million in grant funding between February 2012 and October 2013. This result was achieved due to a range of factors, particularly the strong demand for funding and the significant level of assistance provided to applicants by the then Department of Industry.

The audit concluded that the approach taken to assessing applications had not sufficiently focused on maximising program objectives and treating applicants equitably, and did not sit comfortably with the Australian Government's grants administration framework. Specifically, the assessment and selection method employed did not require applications to be ranked based on assessed merit, despite a competitive grants program being the approach approved by the then government. Further, those responsible for assessing applications competing for funding were able to suggest, or make, changes to an application to improve the chances of success. In this respect, an important message from this audit was that there would be benefit in the department reconsidering the balance struck between assisting business to access funding opportunities and better practice grants administration principles and practices. Although it was intended that the programs would fund projects that delivered a significant reduction in carbon emissions intensity, projects offering low reductions were also successful. In addition, the use of grants to fund investment by industry in emissions reduction measures proved to be a relatively expensive approach to reduce carbon emissions.

The ANAO made four recommendations aimed at improving program design and governance arrangements; promoting equitable access to grant funding opportunities that operate through continuous application and assessment processes; improving the merit scoring approaches adopted for competitive, merits based grant programs; and adopting a stronger outcomes orientation when advising decision-makers on grant applications that should be approved for funding.

The Ethanol Production Grants Program (No.18)

The objective of the audit was to examine the effectiveness of the Department of Industry and Science's (Industry's) administration of the Ethanol Production Grants Program (EPGP), including relevant advice on policy development. The EPGP had five recipients between 2002 and its closure in July 2015, involving total expenditure of some \$895 million.

The audit concluded that, overall, Industry's administration of the EPGP since 2007–08, the period examined in this performance audit, had been generally effective. EPGP program arrangements were generally fit for purpose and largely consistent with the Australian Government's grants administration framework. The department also implemented a sound arrangement for monitoring grant recipients' compliance with key program requirements.

The Australian Government's decision to close the EPGP was informed by a consistent body of analysis and advice—provided to successive governments since the program's earliest days—drawing attention to shortcomings in the overall policy approach and the likelihood that program costs would exceed benefits. Prior to the EPGP's establishment and at key decision points, the administering department and the central coordinating agencies (the departments of the Prime Minister and Cabinet, Finance and Treasury) offered candid advice on value for money, drawing on past Australian and international experience and the findings of two key reviews (in 2008 and 2014) which had concluded that the benefits of the program were modest and had come at a high cost.

The ANAO did not make recommendations in the audit, as the EPGP was scheduled to close from 30 June 2015.

Infrastructure and Regional Development

The Design and Conduct of the Third and Fourth Funding Rounds of the Regional Development Australia Fund (No.9)

The objective of the audit was to assess the effectiveness of the design and conduct of the third and fourth funding rounds of the Regional Development Australia Fund (RDAF). RDAF was established as a nationally competitive, merit-based grants program and was open to applications from local government and eligible not-for-profit organisations. Under the four funding rounds held between 2011 and 2013, a total of \$575.8 million was approved to support 202 capital infrastructure projects across Australia. The ANAO had previously undertaken a performance audit of the first RDAF funding round (Audit Report No.3 2012–13).

The audit concluded that, while there had been some improvements since the previous funding rounds, there was not a clear trail through the various assessment stages adopted in rounds three and four to demonstrate that the projects recommended for funding, and those ultimately awarded funding, had the greatest merit in terms of the published program guidelines. This was a similar situation to that observed in ANAO's audit of the first RDAF funding round, showing that the agreed audit recommendations had not been implemented by the department and that inadequate attention had been given to relevant aspects of the grants administration framework. Such matters warrant greater attention by the Department of Infrastructure and Regional Development.

The most important message from this audit was that considerable work remains to be done to design and conduct regional grant programs in a way where funding is awarded, and can be seen to have been awarded, to those applications that demonstrate the greatest merit in terms of the published program guidelines. In this respect, a further similarity between the third and fourth RDAF rounds and the first round was that a relatively high proportion of approved projects had not been recommended for approval by the panel. Further, the records of the reasons for funding decisions taken contrary to panel advice generally provided little insight as to their basis and made no reference to the published selection criteria. This situation was particularly significant given that such decisions were largely at the expense of projects located in electorates held by the then Opposition.

The ANAO made three recommendations directed at improving the efficiency of two-stage grant application processes, the rigour of value with public money assessments, and the quality and clarity of advice provided to ministers to inform their decisions about the relative merits of proposals competing for grant funding.

Parliamentary departments

Managing Assets and Contracts at Parliament House (No.24)

The objective of the audit was to assess the effectiveness of the Department of Parliamentary Services' (DPS's) management of assets and contracts to support the operations of Parliament House. The DPS had been subject to considerable parliamentary scrutiny and criticism, particularly from the Senate Finance and Public Administration Legislation Committee (SFPALC) in relation to its management of Parliament House. From mid-2012 the then secretary commenced a process to 'transform' DPS. This process involved an organisational restructure, the recruitment of senior executives to key leadership roles, and the conduct of reviews of capability, processes, practices and systems across many major functions of the department, including asset and contract management.

The audit concluded that, while recognising that planned improvements were underway, at the time of the audit the department's processes did not exhibit the discipline required to provide assurance that assets and contracts were being effectively managed. There were particular concerns in relation to inadequate staff training and out-of-date guidance material; poor recordkeeping practices; weaknesses in DPS's systems underpinning both its asset management and contract management functions; and inconsistent work practices within these functions.

The ANAO made six recommendations relating to strengthening the department's asset (including heritage) management and contract management arrangements.

Prime Minister and Cabinet

Food Security in Remote Indigenous Communities (No.2)

The objective of the audit was to assess the effectiveness of the implementation by the Department of the Prime Minister and Cabinet (DPMC) of food security initiatives for remote Indigenous communities, predominantly in the Northern Territory. Improving access in these communities to a range of appropriate food, drink and grocery items is recognised as an important contributor to improving Indigenous people's health status. Responsibility for this initiative had only recently transferred to DPMC from the Department of Families, Housing, Community Services and Indigenous Affairs at the time the audit was conducted.

The audit concluded that the administration of the food security initiatives over time had been mixed. Of the five desired actions under the National Strategy for Food Security in Remote Indigenous Communities, only one action was completed, despite a timeframe for the completion of most actions by mid-2010. In relation to the licensing of community stores, licences had been awarded to 97 out of an expected 110 community stores. However, DPMC's current approach needed to be reviewed to be consistent with the tailored and risk-based approach of the *Stronger Futures in the Northern Territory Act 2012* and to improve the ability of the department to assess the effectiveness of the licensing scheme over time. The food security initiatives were predominantly focused on the supply of affordable and healthy food to remote communities through community stores. However, the policy objective of improved health is also influenced by

other factors and the food supply initiatives could usefully be supported by initiatives focused on education and behavioural change.

The ANAO made four recommendations to DPMC: providing options to the Australian Government in relation to the parts of the National Strategy that had yet to be completed; improving the effectiveness of its administration of the Community Stores Licensing Scheme, making requirements on stores consistent with the SFNT Act; better capturing, consolidating and using performance information to assess regulatory outcomes; and reviewing the grants assessment process to ensure consistency with published guidelines.

The Delivery of the Petrol Sniffing Strategy in Remote Indigenous Communities (No.35)

The objective of the audit was to assess the effectiveness of the management by DPMC of initiatives to supply low aromatic fuel (LAF) to Indigenous communities. The Petrol Sniffing Strategy (PSS) commenced in 2005 with the objective of reducing the incidence and impact of petrol sniffing. A key component of the strategy is the supply of low aromatic fuel which does not produce the same intoxicating effects as regular petrol. In 2010–11, funding was provided to support extra production capacity and for construction of bulk storage in northern Australia.

The audit found that negotiations for the construction of this facility were lengthy and the resulting delay meant that implementation of the expansion fell short of the Government's initial expectations. The facility was also more expensive than first anticipated, with the contracted cost of establishing the bulk storage facility being up to \$19.2 million (including GST)—exceeding the initial estimates of up to \$12.9 million. Following the establishment of storage facilities, additional production of LAF commenced in late November 2014 and DPMC anticipates that the annual volume of LAF produced in 2015–16 will double. As at January 2015, LAF was available in 138 sites associated with 78 Indigenous communities in Western Australia, Queensland, South Australia and the Northern Territory.

While the PSS has expanded, albeit more slowly than anticipated, there has been little information publicly reported on the effect that the supply of LAF has had on reducing the incidence of petrol sniffing in Indigenous communities. In view of the PSS's maturity, it is timely for DPMC to strengthen its PSS-related performance reporting by including a greater focus on assessing the impact of the PSS.

The ANAO made one recommendation to improve DPMC's accountability and reporting for the PSS.

Social Services

Administration of the Assistance for Isolated Children Scheme (No.36)

The objective of the audit was to assess the effectiveness of the Department of Human Services' (Human Services') administration of the Assistance for Isolated Children Scheme (AIC). Since 1973, the AIC has provided assistance to families with children who do not have reasonable daily access to an appropriate government school due to geographic isolation, a special education need or disability or other health related condition. AIC is administered by Human Services on behalf of the Department of Social Services (DSS). Between 2010–11 and 2013–14, AIC assisted over 51,000 students at a cost of some \$246 million.

The audit concluded that, overall, Human Services' administration of the scheme had been generally effective. AIC is a mature program with a relatively small customer base, and where possible the department had used its broader network of offices and existing administrative systems and processes to deliver the scheme, supplemented by mechanisms targeted to the

scheme's specific requirements. While the scheme had consistently met its single performance target—processing 70 per cent of new claims within 21 days—there remained scope for some refinement of administrative and review arrangements, including low-cost outreach activities to supplement existing information channels about the scheme; making better use of departmental customer surveys to more accurately assess satisfaction with the scheme; and considering opportunities to assist DSS to assess the program's achievements against policy objectives.

The ANAO did not make any recommendations in this audit report. However, this audit draws attention to the benefits of ongoing management attention to small and mature programs, to help maintain a focus on the cost-effectiveness and quality of their administration.

Management of Smart Centres' Centrelink Telephone Services (No.37)

The objective of the audit was to assess the effectiveness and efficiency of Human Services' management of Smart Centres' Centrelink telephone services. In 2013–14, the department handled 43.1 million telephone calls for Centrelink services—an average of around 800,000 calls per week—at a cost of some \$338 million. Smart Centres are undergoing a major reorganisation of work focused on achieving efficiencies and improved customer service, and Human Services has a long-term strategy to move most customer transactions from a personal service basis (conducted by telephone or face to face) to a self-managed basis. In the interim, the telephone remains a significant channel for customers seeking access to Centrelink services and assistance with online service channels.

The audit concluded that Human Services had made progress in its transition to revised delivery arrangements for Centrelink services through its Smart Centre and self-service initiatives, but continued to face challenges in managing a significant volume of telephone calls from Centrelink customers. While Human Services' data indicated that the overall target for all customer telephone services had been met in the last two years, the wait time to access Centrelink telephone services increased from well under 16 minutes in 2012–13 to over 16 minutes in 2013–14. From a customer perspective, the 16-minute wait time target for Centrelink telephone services is much higher than targets recently set for other telephony services provided by the department (Medicare services: less than or equal to 7 minutes; and Child Support Program: less than or equal to 3 minutes) as well as those set by other large Australian call centres. Centrelink customers also continued to experience high levels of call blocking (13.7 million calls in 2013–14) and call abandonment (around 30 per cent of calls that entered the telephone network), which can further impact on the customer experience.

The ANAO made three recommendations focusing on the implementation of a channel strategy to help deliver improved services across all customer service channels and a more coordinated approach to the management of call wait times; the application of the department's quality assurance mechanisms to all relevant staff in Smart Centres; and the review of target key performance indicators to better reflect the customer experience and to clarify the service standards that customers can expect.

Administration of the Australian Childhood Immunisation Register (No.46)

The objective of the audit was to examine the effectiveness of Human Services' administration of the Australian Childhood Immunisation Register (ACIR), a national register that records the immunisation details of children under the age of seven. ACIR contains information used for measuring and monitoring national (and regional) immunisation coverage rates for children, and is drawn on to inform parents and immunisation providers of a child's current immunisation status and history. In addition, information from ACIR is used to confirm a parent's eligibility for certain family assistance payments. As at 28 February 2015, some 2,263,857 children were registered on ACIR.

The audit concluded that Human Services' administration of ACIR had been generally effective. The department had generally met or exceeded performance targets established in its business agreement with the Department of Health, and maintained a range of communication channels to facilitate parents' and immunisation providers' access to child immunisation records. System controls to maintain the integrity of data on the register had been implemented and were generally operating as intended, although there remained scope to strengthen the ACIR quality and control framework. In particular, known impediments to the automated exchange of information between ACIR and other departmental ICT systems meant that the department had to manually reconcile certain records on a daily basis—an ongoing administrative overhead. Further, while information on the register could be added or revised on the basis of telephone advice from immunisation providers, there was no process for monitoring ACIR telephony services for quality control purposes, and the department had not clearly communicated its expectations on the key role played by parents and immunisation providers in maintaining the integrity of ACIR data holdings.

The ANAO made three recommendations aimed at strengthening the ACIR quality and control framework.

Treasury

Annual Compliance Arrangements with Large Corporate Taxpayers (No.5)

The objective of the audit was to assess the effectiveness of the Australian Taxation Office's (ATO's) administration of Annual Compliance Arrangements (ACAs) with large corporate taxpayers. ACAs, a voluntary arrangement, offer taxpayers potential benefits, such as greater practical certainty about their tax positions, concessional treatment for penalties and interest, and higher levels of accessibility to the ATO. The ATO sees ACAs as the premium cooperative compliance arrangement for large corporate taxpayers. ACAs are consistent with contemporary international practice of building cooperative relationships with those larger corporate taxpayers considered willing to meet their tax obligations and unlikely to be involved in aggressive tax planning practices. As at July 2014, there were 24 ACAs in place. Of these 18 were with large companies, five with state government departments, and one with an Australian government entity.

The audit found that the take-up of ACAs had been low, with many large corporate taxpayers preferring to be subject to alternative compliance approaches, due to the perceived relatively high administrative demands of ACAs. If ACAs are to maximise the participation of suitable large corporate taxpayers, it will be important for the ATO to reassess the extent of differentiation from alternative compliance approaches, taking into account the costs and benefits to taxpayers and to itself. Further, the ATO had not administered ACAs as effectively as it could have, with shortcomings in recordkeeping and oversight, meaning that the ATO could not readily demonstrate: the extent and outcomes of its efforts to gain assurance over taxpayers' governance arrangements; the number, nature and treatment of disclosures; or success in encouraging higher levels of compliance on the part of those large corporate taxpayers with an ACA.

The ANAO made two recommendations aimed at improving the design of ACAs, and the ATO's recording of taxpayers' disclosures of contentious tax positions and how they were dealt with through ACA processes.

Administration of Contact Centres (No.7)

The objective of the audit was to assess how effectively and efficiently the Australian Taxation Office (ATO) managed telephone contact centres as part of its overall service delivery strategy. Over recent years, almost half of the contact that clients have had with the ATO was telephone contact, with around 7.7 million calls answered in 2013–14.

The audit concluded that the ATO had managed contact centres effectively, with clients provided with reasonably ready access to a broad range of call services, and inbound calls handled in a manner that resulted in high levels of overall client satisfaction over a number of years. Nonetheless, some improvements could be made.

The ANAO made two recommendations aimed at better coordinating the management of the four key client communication channels, including contact centres, and improving reporting of contact centre performance.

Administration of Enforceable Undertakings (No.38)

The objective of the audit was to assess the effectiveness of the Australian Securities and Investments Commission's (ASIC's) administration of enforceable undertakings (EUs). The audit was undertaken following a request by the Senate Economics References Committee that the Auditor-General consider conducting an audit of ASIC's use of enforceable undertakings.

The audit concluded that, overall, ASIC had effectively administered the EUs it had negotiated and accepted. It had sound processes for each major step of the EU process: accepting EUs as the most appropriate regulatory tool; including terms in the undertaking that appropriately address the misconduct; and monitoring adherence to those terms and addressing any identified non-compliance. However, there was considerable scope to improve the recordkeeping processes supporting EU decisions and compliance monitoring, as documentation was inconsistent, dispersed across multiple systems and not always readily available. In addition, ASIC had not measured or reported on the effectiveness of EUs in achieving intended regulatory outcomes, including greater levels of voluntary compliance. Improved performance measurement and reporting was needed to better inform key stakeholders, including Parliament, of the effectiveness of ASIC's regulation.

The ANAO made two recommendations aimed at improving ASIC's measurement and reporting of the effectiveness of EUs, and its documentation of key decisions relating to EUs.

Promoting Compliance with Superannuation Guarantee Obligations (No.39)

The objective of the audit was to assess the effectiveness of the ATO's activities to promote employer compliance with Superannuation Guarantee obligations. The Superannuation Guarantee Scheme was introduced in 1992 to help Australians, particularly lower paid workers, enhance their incomes and improve their living standards in retirement. As the system matures, it is also expected to supplement or reduce reliance on the age pension. Total superannuation contributions for the year ending December 2014 were \$100.6 billion, of which employer contributions totalled \$77 billion.

The audit concluded that the ATO's administration of the Superannuation Guarantee Scheme had been generally effective, particularly having regard to the scale of the scheme and substantial flow of legislated revenue generated. Nevertheless, to better target its activities and more effectively promote employer compliance, the ATO should have gained a greater understanding of the levels of non-compliance with Superannuation Guarantee obligations across industry sectors and types of employers. This was important given the potential impact of noncompliance on the retirement income of employees, and the role of the scheme in reducing reliance on the age pension.

The ANAO made four recommendations related to better analysing non-compliance and further engaging with superannuation stakeholders; emphasising the ATO's enforcement role; better coordinating compliance activities within the ATO; and evaluating the effectiveness of compliance activities.

Administration of Capital Gains Tax for Individual and Small Business Taxpayers (No.51)

The objective of the audit was to assess the effectiveness of the ATO's administration of capital gains tax (CGT) for individual and small business taxpayers. Australia introduced a CGT system in 1985. In 2013–14, CGT receipts were around \$7.2 billion, which represented some 2.2 per cent of the \$321.7 billion total net tax collected by the ATO. The audit focused on CGT activities undertaken in the Small Business and Individual Taxpayers Business and Service Line.

The audit concluded that, while the ATO's approach to the administration of CGT is sound, there had been a heavy reliance on taxpayers' voluntary disclosures of CGT liabilities in their annual tax returns. Insufficient attention had been given to addressing the limited effectiveness of compliance activities for individual and small business taxpayers that had not met their CGT obligations. As a consequence, there had been a considerable reduction in the revenue raised from specific CGT compliance activities directed at individual and small business taxpayers in recent years.

The ANAO made one recommendation aimed at improving the effectiveness of CGT compliance strategies and activities for individual and small business taxpayers.

Cross-portfolio

Confidentiality in Government Contracts: Senate Order for Departmental and Agency Contracts (Calendar Year 2013 Compliance) (No.1)

The objective of the audit was to assess the appropriateness of the use and reporting of confidentiality provisions in Australian Government contracts for the 2013 calendar year reporting period.

The audit concluded that, consistent with previous audit findings, the intent of the Senate Order—to provide transparency in government contracting—was being addressed. There had been an overall improvement in relation to agencies' compliance with the timeliness of the tabling of ministers' letters and the publication of agency contract listings. While these results indicate that the intent of the Senate Order was being addressed, there remained scope for agencies to improve their identification of, and reporting on, the use of confidentiality provisions.

The report made two recommendations aimed at improving agencies' identification and reporting of the use of confidentiality provisions in government contracts, and to improve data capture and reporting of contract details on Senate Order contract listings and on AusTender.

Fraud Control Arrangements (No.3)

The objective of the audit was to examine selected entities' effectiveness in implementing entity-wide fraud control arrangements, including compliance with the requirements of the 2011 Commonwealth Fraud Control Guidelines, and the overall administration of the fraud control framework by the Attorney-General's Department (AGD). The selected entities were the Australian Trade Commission (Austrade), Comcare and the Department of Veterans' Affairs (DVA).

The audit concluded that the selected entities were generally compliant with the applicable mandatory requirements of the 2011 Guidelines in effect during the course of the audit, and had implemented a range of strategies and fraud control measures relevant to their specific circumstances. However, the selected entities' progress in transitioning to an approach emphasising prevention and a whole-of-entity focus on fraud control varied, with Comcare establishing an internal framework generally aligned with the 2011 Guidelines, while DVA and Austrade were at different stages of transition. AGD's overall administration of the fraud control framework was generally effective. However, there remained scope for improvement in the preparation of annual whole-of-government fraud and compliance reports to government, which had only been submitted on time to ministers on three occasions in the past 10 years.

The ANAO made one recommendation to AGD aimed at facilitating the timely preparation of the annual whole-of-government fraud and compliance reports to government.

Business Continuity Management (No.6)

The objective of the audit was to assess the adequacy of practices and procedures to manage business continuity in three Australian Government entities (the Department of Finance, the Civil Aviation Safety Authority and the Department of Social Services). The Protective Security Policy Framework provides entities with flexibility to establish a business continuity approach which is appropriate to their business requirements.

The audit concluded that each of the entities had established relevant governance structures, assessed risks, identified critical functions, services or assets, undertaken business impact analyses, and developed business continuity plans (BCPs). Each of the entities assessed their business continuity risk at an entity-wide level, and developed a business continuity management (BCM) program to manage their risk exposure. The program involved annual or biennial business impact analysis, development of BCPs, and testing of business continuity arrangements. Finance's arrangements were more mature and reflected incremental improvements made by the department over a number of years. However, while CASA's and DSS's approaches aligned with the Protective Security Policy Framework requirement to have a business continuity program, both entities should take a more structured and systematic approach to planning for, testing and responding to business disruptions.

The ANAO made three recommendations, aimed at entities: improving the identification and prioritisation of critical functions; taking a more systematic approach to reviewing their BCM arrangements after a disruption; and undertaking more regular and thorough testing of BCM arrangements.

Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2014 (No.16)

The *Auditor-General Act 1997* establishes the mandate for the Auditor-General to undertake financial statement audits of all Commonwealth entities and wholly owned and controlled Commonwealth companies.

This report provided a summary of the final audit results of the audits of the financial statements of the large majority of Australian Government entities, including the Consolidated Financial Statements for the Australian Government. For the 2013–14 financial year, the Auditor-General and senior staff delegated to issue audit opinions issued 251 unmodified auditors' reports. Fifteen of those reports contained a report on other legal and regulatory requirements relating to a risk of breaches of section 83 of the Constitution (payments are not made in accordance with conditions required by law), or the need to undertake risk assessments, in relation to payments from special

appropriations and special accounts. In addition, eight of the reports contained an emphasis of matter that drew the user's attention to a matter disclosed in the notes to the financial statements of the entity concerned.

The total number of significant and moderate audit findings in entities increased from 30 in 2012–13 to 32 in 2013–14. Issues common to a number of entities identified in ANAO final audits were in respect of: controls in entities' IT environments, such as the management of user access and the segregation of duties (these issues have been identified for a number of years); quality assurance and financial reporting, particularly the preparation of entity financial statements; and asset management processes, including the valuation of assets and the reporting of inventory.

The report noted a high level of compliance in relation to requirements for accounting for annual appropriations, special appropriations, annotated appropriations, special accounts and the investment of public moneys, except in relation to the risk of breaches of section 83 of the Constitution mentioned above.

The report also noted that, consistent with previous years, the large majority of entities' financial statements were completed within three months of the end of the financial year. This reflected positively on the priority entities gave to meeting their financial reporting responsibilities and on the financial stewardship of the public sector generally.

Interim Phase of the Audits of the Financial Statements of Major General Government Sector Entities for the year ending 30 June 2015 (No.44)

This report outlined the results of the interim audit phase of the 2014–15 financial statement audits of all portfolio departments and other major General Government Sector entities that collectively represent some 95 per cent of total General Government Sector revenues and expenses.

In reporting on the results of the interim phase of the ANAO's 2014–15 financial statement audits, the ANAO continued its practice of providing assurance to Parliament that the systems, controls and processes that were in place in major Australian Government entities were operating in a way that would allow entities to prepare financial statements for 2014–15 that present fairly their financial positions, financial performance and cash flows.

The results of the 2014–15 interim audits identified that the effectiveness of controls over finance and accounting processes in the majority of entities supported the production of reliable financial statement information, reflecting the general maturity of entities' control environments, demonstrated by a decrease in the number of moderate (Category B) findings. There was, nevertheless, a small increase in the number of significant (Category A) findings.

The 2014–15 audits continued to identify control weaknesses in a number of areas such as IT general and application controls, particularly the management of privileged and other user access to key financial business systems; non-financial asset management, including the timely capitalisation of assets to enable the accurate calculation of depreciation; the maintenance of complete and accurate asset registers and the appropriateness of impairment assessments; and the effectiveness of quality assurance and compliance processes.

In completing the audits of entities' 2014–15 financial statements, the ANAO will complete its assessment of the effectiveness of internal controls in each entity. The summary results of this work will be included in a report to the Parliament in December 2015.

Limited Tender Procurement (No.48)

The objective of the audit was to assess whether three selected entities had appropriately justified the use of limited tender procurement and whether processes adopted met the requirements of the Commonwealth Procurement Rules (CPRs), including the consideration and achievement of value for money.

The audit concluded that although limited tender procurement may provide a streamlined process, unless its use can be justified in accordance with the CPRs, it should not be regarded as an appropriate approach as it does not encourage competition among potential suppliers, thereby making it more difficult for entities to demonstrate the achievement of value for money and compliance with the CPRs. In addition, there were instances in two of the audited entities where either no justification was provided, or the recorded justification for limited tender procurements did not meet the conditions for limited tender specified in the CPRs. The ANAO also observed gaps in the planning of procurements in each of the audited entities.

Furthermore, consistent with previous ANAO audit findings, entities continue to inaccurately report contract information on AusTender. The ANAO's examination of a sample of 155 contract notices (reported on AusTender as having been conducted via limited tender), identified that 29 per cent of the contract notices had been misreported. Inaccurate reporting of contract details diminishes the transparency of Commonwealth procurement information.

The ANAO made two recommendations aimed at improving entity procurement practices in relation to the use of limited tender, including strengthening pre-approval compliance assurance mechanisms, and enhancing the accuracy of AusTender reporting.

APPENDIX 3 — ADDRESSES BY THE AUDITOR-GENERAL AND DEPUTY AUDITOR-GENERAL

TABLE A3.1: ADDRESSES BY THE AUDITOR-GENERAL AND DEPUTY AUDITOR-GENERAL, 2014–15

Name	Title of address	Forum	Place/date
Auditor-General			
Ian McPhee	<i>What does it mean to use public money well?</i>	Australian Government Leadership Network (Queensland) Annual Conference Panel Discussion	Brisbane 31 July 2014
	<i>Public Sector Administration—not walking too early to the winner's circle</i>	Risk Management Institution of Australasia 2014 National Conference	Brisbane 2 October 2014
	<i>Leveraging technology to enhance audit quality and effectiveness</i>	Sixth Asian Organisation of Supreme Audit Institutions Symposium	Kuala Lumpur, Malaysia 12 February 2015
	<i>Reflections on 10 years as Auditor-General for Australia</i>	Australasian Council of Public Accounts Committees Biennial Conference	Adelaide 16 April 2015
Deputy Auditor-General			
Steve Chapman	<i>Monitoring and enforcement actions relating to financial regulation</i>	Chinese National Audit Office and United States Government Accountability Office Joint Seminar: Audit and Evaluation of the Implementation of Financial Regulatory Policies	Nanjing, China 27 October 2014

APPENDIX 4 – CONTACT DIRECTORY

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PART 7

REFERENCES



ABBREVIATIONS LIST

AAD	Australian Antarctic Division of the Department of the Environment
AASB	Australian Accounting Standards Board
AGO	Papua New Guinea Auditor-General's Office
ANAO	Australian National Audit Office
APS	Australian Public Service
ASOSAI	Asian Organization of Supreme Audit Institutions
Auditor-General Act	<i>Auditor-General Act 1997</i>
BPK	Indonesian Board of Audit
CPD	continuous professional development
Defence	Department of Defence
EEGO	Energy Efficiency in Government Operations
ESD	ecologically sustainable development
GPF	Australia Indonesia Government Partnerships Fund
GST	goods and services tax
ICT	information and communications technology
INTOSAI	International Organization of Supreme Audit Institutions
IT	information technology
JCPAA	Joint Committee of Public Accounts and Audit
NABERS	National Australian Built Environment Rating System
PASAI	Pacific Association of Supreme Audit Institutions
PGPA Act	<i>Public Governance, Performance and Accountability Act 2013</i>
SAIs	supreme audit institutions
SES	Senior Executive Service
SGP	Strongim Gavman Program
WHS	work health and safety

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