Australian National University Administration

Performance Audit

Tabled 30 April 1997

Abbreviations

ANAO	Australian National Audit Office
ANU	Australian National University
BMG	Business Management Group
CAC	Commonwealth Authorities and Companies Bill
FAM	Financial and Accounting Manual
FMRUD	Financial Management Reporting User Documentation
HECS	Higher Education Contribution Scheme
IAO	Internal Audit Office
IAS	Institute of Advanced Studies
NH&MRC	National Health and Medical Research Council
PPP	Purchasing Policy and Procedures

Summary

1. The Australian National University (ANU) is unique among Australian universities as it was founded (in 1946) as Australia's only research oriented university with no undergraduate program. Undergraduate teaching began in 1960. The Council has the overall responsibility for the University and under the Council, the Boards for the Institute of Advanced Studies and Faculties guide the operations of Faculties, Research Schools and Research Centres.

2. Overall administrative support is provided by Central Administration. As well, the Faculties, Research Schools and Centres have administrative support areas that are responsible for activities such as the provision of secretarial services, purchasing and the maintenance of financial records.

Audit objective and criteria

3. The objective of the audit was to examine the effectiveness of key elements of the management and control frameworks established by ANU to support administration and the achievement of the ANU's objectives.

4. The ANAO established key criteria to assess the ANU's administrative procedures during the preliminary phase of the audit. The audit focused on an analysis of the administrative framework and, in particular, aspects of corporate governance that were identified as being central to good management; such as effective controls, transparent planning, regular reporting, and performance assessment.

5. The University is currently reviewing its organisational structure and, therefore, it was not examined during the audit.

Conclusion

6. The ANU has financial and control frameworks to assist the day-to-day administration of the University's activities, including:

- administrative guidelines that provide directions on a range of significant areas;

- an appropriate three year budget process and comprehensive financial reports to facilitate monitoring of performance against the budget;

- policies and procedures to maintain and manage infrastructure; and

- a sound internal review process.

7. The ANAO nevertheless considers that the effectiveness of particular aspects of the administration identified as being central to good management can be improved by:

- revising the guidelines for strategic planning to provide further advice on the individual elements which need to be included in the Plan to ensure each Research School, Faculty and Support Area strategic plan is compatible with the overall University Strategic Plan;

- reviewing strategic plans to ensure consistency with revised guidelines;

- developing guidelines to facilitate operational planning and establish operational plans and processes;

- developing appropriate administrative performance information for the University as a whole, Research Schools, Faculties and Support areas;

- clarifying guidance related to obtaining value-for-money, for example, in relation to the purchase of travel services;

- implementing effective asset management practices, such as whole-of-life asset management plans, that are fully integrated with the strategic plans; and

- seeking open tenders to market test for the provision of consultancy services to the Internal Audit Office.

  8. The ANAO has made nine recommendations aimed at <u>further</u> improving the efficiency and effectiveness of the ANU administration.

ANU response

9. The ANU welcomes the Report and considers it timely, arriving as the University re-examines the manner in which it generally manages itself, its existing internal administrative structures and appropriateness to the demands of the day and the processes and practices which surround its functioning.

10. The University accepts the thrust of the recommendations of the report. However, it has framed its response in a cautious manner because administrative structures and responsibilities are being changed to reflect the emerging needs of planning and governance. The ANU has indicated that the outcomes of the Government initiated Review of Higher Education (the West Review), could affect dramatically the funding and structure of the University sector of post-secondary education.

11. It has further indicated that the financial pressures on the University has caused a refocus clearly on academic imperatives the speed with which change can be implemented is entirely dependent on the ability to divert shrinking resources to reshape administrative processes.

Key Findings

Planning and Reporting

11. The ANU has developed strategic plans for the period 1995-2004 for the University as a whole, Research Schools, Faculties and the Central Administration. Guidelines have also been developed to establish a framework for the strategic plans. However, these guidelines do not provide adequate guidance on the individual elements of the framework of the plan including the characteristics of organisational and business objectives and strategies, systems and other controls, monitoring and review and performance assessment; as well as the necessary linkages between these and other aspects of the ANU's corporate governance.

12. While the Strategic Plan for the overall University provides the various and diverse areas of the University with clear, general directions and priorities, the strategic plans for the individual Research Schools and Faculties do not facilitate meaningful assessment and reporting against the plan.

13. Operational plans exist for areas within Central Administration. These relate to maintenance, infrastructure development and capital management. However, there are no formal operational plans relating to the administrative activities at the Research Schools and Faculty level. The ANAO has recommended that the University develops guidelines detailing the requirements for operational plans and develops formal operational plans that are directly linked to the strategic plans.

14. The ANU does not currently have adequate performance information which facilitates the assessment of administrative performance for the University as a whole nor for individual Research Schools and Faculties. None of the elements of the Strategic Plan identifies administrative targets or benchmarks or any other element indicating success or shortcoming.

15. The ANU would benefit from the development of administrative performance measures which allow it to establish clearly and transparently whether the administrative processes are efficiently and effectively supporting the achievement of the University's academic and research goals.

16. Although guidelines for the organisation's Strategic Plan require reports on progress against the plan, to date, no such reports have been produced. The ANAO has recommended that the ANU takes effective action to reinforce the purposes of the guidelines and encourage their implementation particularly in reporting on progress against the Strategic Plan. However, the ANU will need to first address the development of appropriate performance information to enable reporting to be undertaken.

Financial and Control Frameworks

17. The ANU has financial and control frameworks to assist the day-to-day administration of the University's financial activities.

18. The University has several administrative guidelines which provide directions on a range of significant areas such as the creation and analysis of financial records, budget preparation and purchasing. Overall, the guidelines are concise, up-to-date, logically structured and, where appropriate, have an index and glossary making them easy to follow.

19. However, it was noted that the guidelines titled 'Purchasing Policies and Procedures' do not specifically address purchases occurring outside of existing ANU-wide contracts. This could be a contributing factor to University staff failing to obtain the best value-for-money when purchasing travel services. The ANAO has estimated that the ANU could save about $400 000 per year if all travel is arranged primarily through the University's preferred travel agent.

20. The ANU has an appropriate three year budget process and comprehensive financial reports are prepared on performance against the budget.

21. Asset management is an integrated element of the overall Strategic Plan for the University. However, at the operational level where funds are allocated for asset purchases and maintenance, there were no supporting asset acquisition, management and replacement plans in relation to the specific assets managed.

22. An area in which these plans would be of significant benefit is in vehicle fleet management. The ANAO's independent assessment of the vehicle fleet management indicated that a better planned approach would provide savings of at least $440 000 per year. The ANAO has made several recommendations to assist in the more effective planning and management of such assets.

23. The ANU is currently revising its governance arrangements in respect of internal audit. Separate charters have been developed for the operations of the Audit Committee and internal audit. These are expected to be endorsed by the Council in April 1997. These Charters will improve the effectiveness of current governance arrangements by giving the Internal Audit

Office direct access to the Council rather than operating indirectly **through** the Finance Committee.

24. The administrative arrangements relating to the engagement of consultants by the Internal Audit Office were not consistent with ANU's purchasing guidelines which require full and open competitive tendering for contracts in excess of $30 000.

25. The ANAO has recommended that ANU market tests the provision of consultancy services to the Internal Audit Office. This will help ensure that the University obtains the best value-for-money for these services.

26. The ANU is currently developing risk management plans across the University. Risk management is being reviewed at the highest level and appropriate processes are in place to develop manuals and provide the necessary training. The ANAO considers that there is considerable scope to enhance risk management plans during 1997 as an aid to effective corporate performance. As well, the ANU should ensure that they are closely integrated with strategic and operational plans.

ANU internal reviews

26. The ANU undertakes internal reviews which address a diverse range of strategic and administrative topics including senior administrative roles and responsibilities, student administrative procedures, energy use, maintenance and repairs.

26. The standard of the reviews examined by the ANAO was high. However, no group has the formal, overall responsibility for the development of a review program within the ANU. Reviews are initiated on a needs basis and are not formally integrated with the ANU's strategic planning process.

28. There would be benefits if review processes were formalised to ensure a university-wide approach and avoid uneven coverage of strategic and administrative activities. As well, direct and indirect costs need to be taken into account when determining the cost of reviews to ensure that these reviews add value and justify the expenditure through appropriate improvements to administration.

Recommendations

Set out below are the ANAO's recommendations with Report paragraph reference and ANU's abbreviated responses. More detailed responses and any ANAO comments are shown in the body of the report. The ANAO considers that the ANU should give priority to Recommendation Nos. 1, 2, 3, 4, 6 and 9.

Recommendation No.1 Para. 2.16	The ANAO recommends that, to ensure each Research School, Faculty and Support Area strategic plan is compatible with the overall University Strategic Plan, the ANU should:
	revise the guidelines for strategic planning to provide further advice on the individual elements which need to be included in the plan, such as: the characteristics of organisation and business objectives and strategies; system and other controls; monitoring and review; performance assessment; and the linkages between these and other aspects of the ANU's corporate governance; and

review all the strategic plans in the light of the revised guidelines.

ANU response: Agreed in principle.

Recommendation No.2 Para. 2.24	The ANAO recommends that guidelines be prepared detailing the requirements for operational plans to provide the basis for a sound and common understanding of the actions required to achieve the objectives outlined in the Strategic Plan. The guidelines should emphasise the need to: identify strategies and activities relevant to the plans; and directly link the operational plans with the business strategy and risk management plans.

ANU response: Agreed in principle.

Recommendation No.3 Para. 2.26	The ANAO recommends that the Central Administration, Research Schools and Faculties, where necessary, each prepare formal operational plans, in accordance with the guidelines, to ensure operational plans are consistent with the objectives stated in the Strategic Plan and to facilitate monitoring of performance and accountability at all levels.

ANU response: Agreed in principle.

Recommendation No.4 Para. 2.43	The ANAO recommends that the University should:

develop guidelines and educational programs to inform staff who are responsible for the development and assessment of performance information to ensure that they have a common understanding and a framework of the requirements for useful performance information;

review the performance information measures to assess the efficiency and effectiveness of the University's administrative processes;

develop measurable administrative performance indicators to facilitate performance assessment at all levels of administration; and

establish appropriate targets, benchmarks and milestones which provide a disciplined approach to management and performance improvement.

ANU response: Agreed in principle.

Recommendation No.5 Para. 2.50	The ANAO recommends that the ANU takes effective action to reinforce the purposes of the strategic planning guidelines and encourage their implementation, particularly in reporting progress against the Strategic Plan to facilitate the assessment of accountability and the efficiency and effectiveness of the ANU administration.

ANU response: Agreed in principle.

Recommendation No.6	The ANAO recommends that the guidelines used by the University titled 'Purchasing Policy and Procedures' should be revised to clarify the

| Para. 3.18 | difference between purchasing at the lowest price and obtaining value-for-money to ensure that staff both understand and implement the principles involved. |
| | **ANU response**: Agreed. |

Recommendation No.7 Para.3.39	The ANAO recommends that the ANU should:
	integrate asset management plans with the strategic plan to ensure that asset management plans are consistent with the strategic directions; and
	develop whole-of-life asset management plans to ensure that assets are appropriate for the University's requirements, efficiently used and adequately maintained.
	ANU response: Agreed.

| Recommendation No.8 Para. 3.44 | The ANAO recommends that where appropriate the ANU develops and uses performance indicators relating to asset use and maintenance costs to facilitate effective monitoring and management of assets. |
| | **ANU response**: Agreed in principle. |

| Recommendation No.9 Para. 4.16 | The ANAO recommends that ANU market test the provision of consultancy services to the Internal Audit Office to ensure that the University obtains the best value-for-money from these services. |
| | **ANU response**: Agreed. |

1. Introduction

This chapter provides a background on the Australian National University and outlines some of the factors that are likely to effect the University's administrative operations. The audit objective and methodology are also discussed.

The Australian National University

1.1. The Australian National University (ANU) is unique among Australian universities as it was founded (in 1946) as Australia's only research oriented university with no undergraduate program. Undergraduate teaching began in 1960. In 1996 the University had 10 143 students, of whom 7 726 were in the undergraduate program.

1.2. The ANU's mission is to be 'one of the world's great research institutions, distinguished by outstanding teaching, guiding students to frontiers of knowledge and the best standards of scholarship'. This is to be achieved, principally, through excellence in research and teaching.

1.3. The organisational structure established by the ANU to achieve this mission is detailed in Figure 1 on the following page. The Council has the overall responsibility for the University. Under the Council, the Boards for the Institute of Advanced Studies (IAS) and Faculties guide the following three groups that are responsible for teaching and research:

- Faculties that are responsible for an undergraduate and graduate teaching program and, as well, undertake some research;

- the IAS and associated Research Schools that are responsible for graduate studies programs and research; and

- Centres that aim to promote and disseminate research.

1.4. The Council is also provided with support and guidance by several standing committees that address aspects of the ANU's operations. For example, the Finance Committee provides advice on budgetary and financial matters.

Figure 1: Organisational Structure
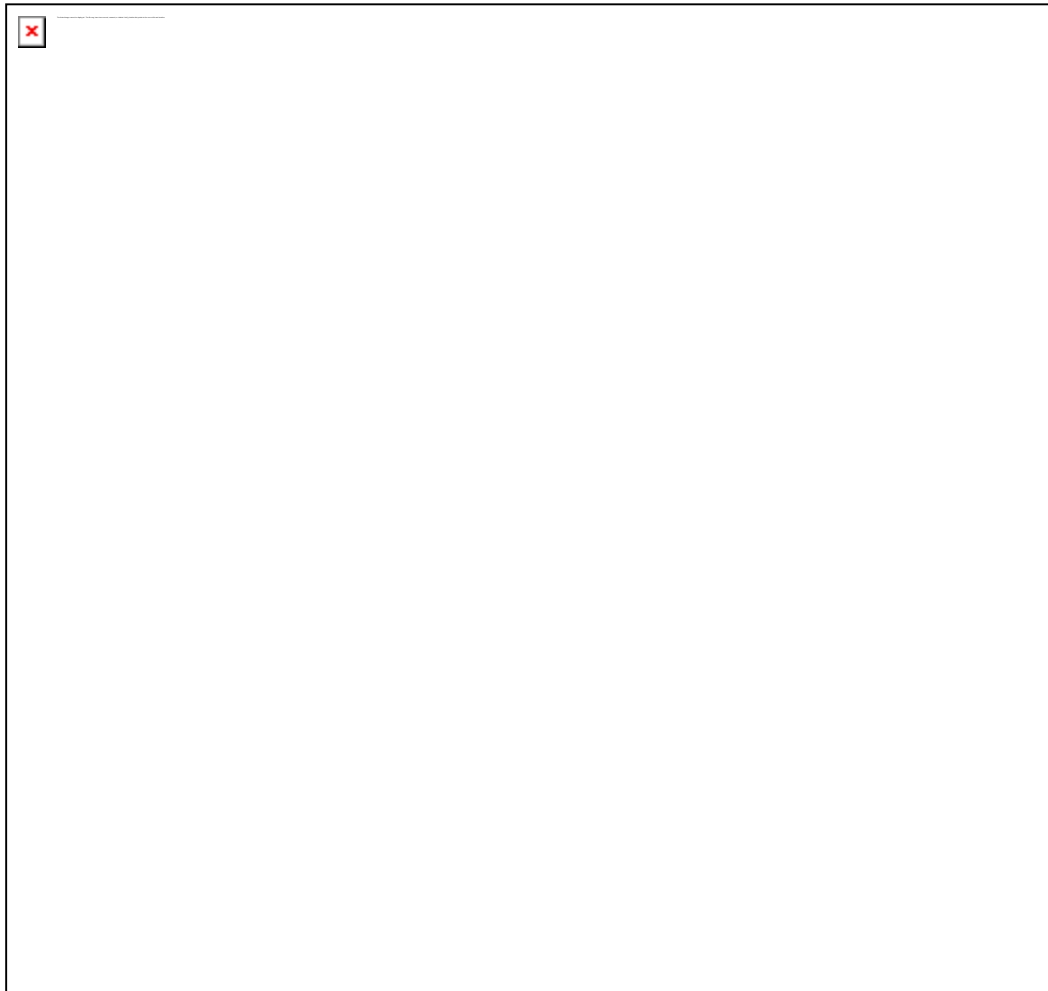
1.5. Overall administrative support for the Faculties, IAS and Centres is provided by Central Administration. The Pro-Vice-Chancellor (Finance and Development) and Pro-Vice-Chancellor (Planning and Administration) have principal responsibility for Central Administration - Appendix 1 provides more details on the administrative structure and in particular, the activities undertaken by Central Administration.

1.6. As well, the Faculties, Research Schools and Centres have support areas that are responsible for activities directly related to the administrative operations of a particular IAS School or a Faculty. Particular administrative activities undertaken by Schools and Faculties include secretarial type services, purchasing and maintaining financial records. Of the 3 669 staff at the ANU, 1 038 or about 28 per cent occupied administrative positions as at 31 March 1996. Of the administrative staff, 41 per cent are in Central Administration, 36 per cent in the IAS, 6 per cent in Centres and 17 per cent in the Faculties.

1.7. The main factors affecting current and future administrative operations of the ANU are reduced revenues and increased operating costs. The ANU is particularly dependent on the Commonwealth; with $266m or 67 per cent of all monies coming from the Commonwealth in 1995. In 1997 the funds available for teaching and research will be reduced by $30m because:

- Commonwealth funding for universities generally, is being reduced in real terms;

- student enrolments are expected to decrease slightly. Local enrolments could fall because of increased Higher Education Contribution Scheme (HECS) charges while the University expects fewer fee paying students because of increasing competition from Australian and overseas universities; and

- operating costs have risen following an enterprise bargaining agreement negotiated late in 1996 which has led to salary increases that will not be met by increased Commonwealth funding.

1.8. As a consequence, academic, technical and administrative staffing levels are being reduced to enable the ANU to meet future budget requirements.

The audit

Audit objective

1.9. The objective of the audit was to examine the effectiveness of key elements of the management and control frameworks established by ANU to support administration and the achievement of the ANU's objectives.

Audit methodology and criteria

1.10. The ANAO established key criteria to assess the ANU's administrative procedures during the preliminary phase of the audit. The audit focused on an analysis of the administrative framework and, in particular, aspects of corporate governance [1] that were identified as being central to good management; such as effective controls, transparent planning, regular reporting, and performance assessment.

1.11. The components examined were:

- planning and reporting, including performance information;

- financial and control frameworks, including administrative guidelines, budget control and monitoring procedures, asset management, Internal Audit and risk management; and

- the ANU internal review process.

1.12. As the University is currently reviewing its organisational structure because of budgetary constraints, this was not examined during the audit.

1.13. The ANAO conducted field work on the ANU campus from September 1996 to February 1997. Discussions were held with key management, administrative, academic and research staff in relation to ANU's administrative operations. Documents from the ANU were examined, including the ANU strategic plan, guidelines, Internal Audit reports and internal ANU reviews relevant to the University's administration.

1.14. The audit was conducted in conformance with ANAO Auditing Standards at a cost of $129,037.

The report

1.15. Chapter 2 deals with ANU's strategic and operational planning and reporting processes. The chapter also addresses performance information in relation to measuring the overall achievement of the objectives in relation to the ANU's administration the reporting of progress against the strategic plan and the Annual Report. Chapter 3 assesses the financial and control frameworks, including guidelines, financial monitoring and asset management. Chapter 4 addresses Internal Audit and risk management issues. Chapter 5 examines the ANU's internal review process.

2. Planning and Reporting

This chapter examines ANU's strategic and operational planning processes. This chapter is a discussion of the ANU's administrative performance information and the internal and external reporting of achievement against strategic and operational plans. Recommendations are made to improve the development of strategic plans, operational plans and performance information.

Introduction

2.1. The Faculties, Research Schools and the Central Administration of the ANU developed a strategic plan for 1995-2004, based on broad guidelines issued by the Vice-Chancellor's Office in November 1994. The plan, which will be reviewed biannually, has two volumes. Volume 1 [2] relates to the University as a whole while Volume 2 [3] contains the plans for the Research Schools and Faculties. Volume 2 also includes support plans for functional activities (for example, teaching and learning management, and research management) and Central Administration operating units (such as the Finance and Accounting Division and Public Affairs Division). Figure 2 illustrates the relationship between these plans.

Figure 2: Organisation of ANU 1995-2004 Strategic Plan

2.2. The guidelines for the 1995-2004 Strategic Plan (the Strategic Plan) also require the collection of performance information. Subsequent directions provided on the implementation of the Strategic Plan reinforced the need for performance information and provided additional advice on it.

2.3. The key criteria used to assess the adequacy and effectiveness of the ANU's planning and reporting processes are outlined at the beginning of each section and are followed by an assessment of the ANU's performance against these criteria.

Strategic planning

Guidelines for the 1995-2004 Strategic Plan

Key criteria

2.4. The ANAO reviewed the guidelines to establish whether they provided appropriate guidance on the ANU's strategic planning processes including, for example, advice on:

- what information should be included in the strategic plans; and

- the principles that should be taken into consideration when developing a strategic plan.

ANAO findings

2.5. The ANAO found that the guidelines established an adequate framework for the strategic plans. That is, the guidelines indicated that the plans should have:

- area profiles, including a brief assessment of recent achievements, the role of the area in the University and in the community, and future directions;

- objectives and performance indicators;

- strategies to achieve the objectives; and

- details on the evaluation of performance strategies.

2.6. However, the ANAO found that the guidelines did not provide adequate guidance on the individual elements of the framework of the plan. The guidelines did not provide information on:

- the characteristics of organisational and business objectives and strategies, systems and other controls, monitoring and review. For example, strategies should explain the means by which an objective is to be achieved;

- performance information [4], that is, it should be balanced [5], facilitate the measurement of achievement and link the objectives to the strategies (discussed further on page 10);

- performance assessment and the linkage between these objectives and strategies and other aspects of the ANU's corporate governance for the ongoing monitoring of the achievement of objectives, the evaluation of administrative processes and accountability ; and

- the role and need for targets, benchmarks, standards and milestones in the assessment process.

2.7. As a result, in part, the elements of the Strategic Plan varied in quality and structure because staff providing information for the plan did not have a clear and common understanding of its requirements. A recommendation relating to the guidelines for future strategic plans is made at the end of this Section. The following discussion relates to the revision of the Strategic Plan.

1995-2004 Strategic Plan

Key criteria

2.8. The Strategic Plan should contain a clear statement of a mission which is integrated with short and long-term objectives, strategies and performance information [6]. The plan should:

- have objectives that are concise, realistic and outcome-oriented statements of what an area is trying to achieve. They should be stated in a way that clearly communicates what is to be achieved and measured;

- facilitate performance assessment and evaluation by having standards, targets, benchmarks and milestones (that mark the achievement of critical stages of an area's operations) and provide the basis for monitoring and evaluation;

- be clearly written and include implementation priorities and time frames as appropriate. This is especially important for a ten-year strategic plan to ensure that particular areas can assess performance on an ongoing basis and be held accountable for the achievement of performance targets; and

- have a structure that is consistent with directions in the guidelines to facilitate comprehension by readers, analysis of performance against the plans and accountability.

ANAO findings

2.9. Volume 1 of the Strategic Plan provides an overall University mission statement, future priorities and directions, associated goals and strategies. It identifies the guiding 'values' for the University such as excellence, integrity and equity and lists the ten major goals for the University. As well, the Plan covers areas such as the role of the ANU, research and teaching priorities, resources (financial and physical), staffing and other issues that the University needs to address to place itself in the forefront of research and education.

2.10. Therefore, Volume 1 of the Strategic Plan provides the various and diverse areas of the University with clear, general directions and priorities. While it concentrates on research and teaching objectives, it also addresses other important issues such as the (efficient) use of financial and physical resources and campus development.

2.11. The Strategic Plan was developed before the development of risk management plans for the various areas within the ANU (risk management is discussed in Chapter 4). When risk management plans have been developed the strategic plans should also take these into consideration.

2.12. A number of the strategic plans for specific areas in Volume 2 were more easily understood because priorities had been established for specific activities/area of interest. Various Research Schools and Faculties expressed priorities in different ways. However, a useful categorisation of priorities was 'core work', 'new emphases' and 'to be reduced if resource restrictions require'. In the current environment this feature provides a recognised base for overcoming problems such as those occurring due to budgetary constraints.

2.13. The strategic plans for the IAS and Faculties as a group were well structured. The objectives had associated strategies and performance indicators. However, the strategic plans

for the individual Research Schools, Faculties and Support areas did not always have a structure that was consistent with that defined in the guidelines. While all plans had profiles and objectives, one plan did not identify any strategies and four other plans were not presented in a form that allowed strategies to be associated with objectives. Some, but not all areas, identified performance indicators.

2.14. Many of the objectives and strategies in Volume 2 of the Strategic Plan were not concise, realistic and outcome oriented statements. About one-third of the strategies reviewed did not explain **how** the objective will be achieved. For example, strategies such as 'Encourage staff to be more active in seeking research funds' require a statement on the means by which this should be achieved. As well, many of the objectives stated in the strategic plan could be difficult to measure; for example, 'To value and pursue truth and understanding in human affairs...'.

2.15. As a consequence, the strategic plans for the individual Research Schools and Faculties did not facilitate meaningful assessment and reporting against the plan. Therefore, the ANAO considers that the managers responsible for preparing various aspects of the strategic plans should ensure that these are consistent with the requirements outlined in the guidelines and are compatible with the overall University Strategic Plan.

Recommendation No.1

2.16. The ANAO *recommends* that, to ensure each Research School, Faculty and Support Area strategic plans are compatible with the overall University Strategic Plan, the ANU should:

- revise the guidelines for strategic planning to provide further advice on the individual elements which need to be included in the plan, such as: the characteristics of organisation and business objectives and strategies; system and other controls; monitoring and review; performance assessment; and the linkages between these and other aspects of the ANU's corporate governance; and

- review the Strategic Plan in the light of the revised guidelines.

ANU response

2.17. Agreed in principle. It is acknowledged that the Strategic Plan could better reflect *inter alia* organisational characteristics, business objectives and performance. The revision of the Plan will be undertaken following the acceptance of outcomes by the Australian Government of its commissioned Report on Higher Education. Completion of the revision will be dependent on the availability of resources. In the interim, the core academic areas will be holding strategic planning retreats in the near future at which these matters will be raised.

Operational planning

2.18. Operational plans provide the basis for a sound, common understanding of the action required to achieve the objectives outlined in strategic plans and facilitate the monitoring of performance and accountability. They can relate to financial matters, staffing, facilities and services or strategic issues such as the growth (or maintenance) of student numbers. In this audit the ANAO focussed on reviewing operational plans relating to the **administrative** aspects of the University's activities.

Key criteria

2.19. Operational plans for administrative activities should be prepared by Faculties, Research Schools and appropriate areas within the Central Administration. The operational plans should:

- directly link to and support the strategic plan by translating strategies into specific activities with associated targets and time frames; and

- take into consideration risks identified in the risk management plan;

- contain measures to review and report on performance and achievement of objectives.

ANAO findings

2.20. Within the Central Administration, Faculties and Research Schools the ANAO identified three plans that are linked to the Strategic Plan and guide operational activities:

- the triennial budget - used by managers as a basis for operational strategies related to, for example, staffing and equipment purchases on their budget allocations. Triennial budgets are also discussed in Chapter 3;

- the Capital Management Plan - provides details on, for example, major capital works, specific areas that will be refurbished and minor capital works and provides the basis for relevant activities; and

- ten-year plans for facilities and services that provide the basis for maintenance activities.

2.21. Administrative operational issues are considered by particular Research Schools and Faculties. For example, workshops and meetings were convened to develop and implement operational strategies. As well, the strategic plans for some areas included the following elements that could form the basis of an operational plan:

- specific activities to be undertaken within a given time frame;

- resources for particular tasks, for example, staffing levels ; and

- priorities for specific activities/areas of interest.

2.22. The Capital Management plan and the maintenance plans provide a basis for operational activities for the Facilities and Services Division. It is appropriate that specific activities are identified and the time frames associated with the projects. The triennial budget also provides a basis for operational management, particularly if supported by documentation detailing the basis of budget calculations. However, the triennial budget does not completely fulfil the requirements of an operational plan as it:

- only addresses factors that have cash flow implications; and

- does not address any other administrative activities.

2.23. The individual strategic plans for Research Schools and Faculties included strategies that are not fully addressed in a triennial budget, such as the support and improvement of outreach activities, training and staff development and the general provision of administrative support for Research Schools and Faculties. If these strategies are not translated into

operational plans there is a risk that the objectives stated in the Strategic Plan will not be achieved.

Recommendation No.2

2.24. The ANAO *recommends* that guidelines be prepared detailing the requirements for operational plans to provide the basis for a sound and common understanding of the actions required to achieve the objectives outlined in the Strategic Plan. The guidelines should emphasise the need to: identify strategies and activities relevant to the plans; and directly link the operational plans with the business strategy and risk management plans.

ANU response

2.25. Agreed in principle. The University will undertake, as part of the revision to the Strategic Plan, the preparation of guidelines to focus operational plans on the objectives contained in the Strategic Plans.

Recommendation No.3

2.26. The ANAO *recommends* that the Central Administration, Research Schools and Faculties, where necessary, each prepare formal operational plans, in accordance with the guidelines, to ensure operational plans are consistent with the objectives stated in the Strategic Plan and to facilitate monitoring of performance and accountability at all levels.

ANU response

2.27. Agreed in Principle. In future, Budget Units will each prepare formal operational plans which will be consistent with the objectives of the Strategic Plan. Operational plans will progressively incorporate performance criteria and continue to meet requirements for accountability.

Performance information

2.28. Performance information is an essential tool for management, performance improvement and accountability. It assists in identification of where you have been, where you are heading, whether you are heading in the right direction, how you will get there and whether you are using resources in the most cost-effective manner. Good performance information provides the basis for determining the extent to which the ANU's research and teaching is efficient and effective and whether the administrative processes are efficiently and effectively supporting the achievement of the University's academic and research goals. In this audit the ANAO focussed on performance information relating to the University's **administrative** activities.

2.29. Currently, the ANU is restructuring many of its administrative operations. Good performance information provides a means of determining the contribution of individual areas and a way of comparing past, current and future performances and identifying the factors that influence outcomes. Performance information is also a communication mechanism in that it allows staff at all levels to have a common understanding of objectives and outcomes.

2.30. The ANAO examined the ANU's performance information in relation to:

- the University administration as a whole;

- Central Administration; and

- Research School and Faculty administration.

Key criteria

2.31. The key criteria [7] used to assess the ANU's administrative performance information were:

- clear links should be established between objectives, strategies and indicators so that it is possible to determine the extent to which the strategies are contributing to the achievement of the objectives;

- a balance of measures should exist (input, process, output, client service and outcome measures) that facilitate accountability and allow the assessment of the efficiency and effectiveness of administration; and

- performance information should facilitate performance assessment and the investigation of the factors that influence outcomes.

2.32. A framework should exist that includes standards, targets, benchmarks and milestones as these provide the basis for management and performance improvement. Without these, it is difficult to trace progress against plans and facilitate timely action to avoid or overcome problems. The time frame for the implementation of strategies and achievement of targets is particularly important given that the strategic plan relates to a ten-year period.

ANAO findings

Overall university administration

2.33. The ANU does not currently have any administrative performance information for the University as a whole, for example administrative cost per student (input) or student satisfaction with administrative services (client measure). The ANAO considers that such information is essential for the ANU to monitor its overall administrative performance and trends. However, the ANU advised that performance information is being developed by the Higher Education Council for all universities. The performance information will include indicators relevant to administrative processes and these will be adopted by the ANU.

Central Administration and Research Schools/Faculties

Links between objectives, strategies and indicators

2.34. Performance indicators for the Central Administration did not always establish a direct link between objectives and strategies. A few indicators, such as those in Table 1 on the following page, have the capacity to directly link the objectives and the strategies. For example, the determination of specific cost savings allows the ANU to assess specific initiatives. However, it was noted that there were strategies that had no related indicators. That is, there were no indicators related to the strategy 'maintain linkages with relevant outside bodies...'. Therefore, the ANU has no means of assessing if the strategy contributes to the achievement of the objective.

2.35. The ANAO could not review links between objectives, strategies and indicators at the Research Schools and Faculty level for administration as only two (of about twenty plans)

directly addressed administrative operations. ANAO recommendation No.4 addresses this issue.

Balance

2.36. The performance information for the Central Administration was balanced. The information in Table 1 on the following page is typical of that found in the strategic plan for the Central Administration. It includes input, output, outcome and process measures. It also addresses client service.

2.37. As stated above, performance information for Research Schools and Faculties, generally, did not address administrative matters. In one case where it did, it related to only one aspect of administration (client service) and, therefore, does not address issues such as efficiency. ANAO recommendation No.4 addresses this issue.

Performance assessment

2.38. The Central Administration has a range of outcome measures relevant to administrative operations. Also, there was performance information for factors such as the use of information technology, which lead to improved administrative efficiency and effectiveness.

2.39.

Table 1: Central Area performance information

Objective	Strategies	Performance Indicators (not specifically linked to a strategy)	Type of Indicator
1. To initiate and assist in the University-wide identification and implementation of administrative and service arrangements resulting in better service and cost-effective solutions both in Central areas and Campus-wide	review the relative costs and benefits of centralisation and devolution for all aspects of service provision and promote the most cost-effective practices promote a cooperative approach between Central Areas and the schools and faculties maintain linkages with relevant outside bodies, monitor relevant innovative practices and assess opportunities for the University as a whole to adopt best practices pursue improved arrangements with unions and other groups as part of enterprise bargaining	client satisfaction specific cost savings to be identified in Central Areas individual budgets 1995-2004 number of staff employed University-wide in administrative and service functions per unit of University activity	outcome/ client outcome input
4. To facilitate sound financial management in all areas of the University through University-wide provision of improved financial systems and procedures	improve financial data collection and access to refine financial reports for managers develop improved plant and equipment recording systems develop improved budgetary procedures and practices within the University facilitate the linkage of Business Office local computer systems with Central Area mainframe data systems and, subsequently, the integrated	satisfaction of all public financial accountability and audit requests user satisfaction with financial system capabilities and friendliness, currency of data and adequacy of financial and management reporting	outcome outcome

	preparation and presentation of data to users		
6. To improve the delivery of administrative services with the use of information technology		client satisfaction level time required for routine transactions cost of routine transactions	outcome/ client process output

2.39. For the ANU (as a whole) and in the Research Schools and Faculties there is no performance information to allow the assessment of administrative outcomes or the factors that influence outcomes. In the current environment where the ANU is restructuring many of its administrative operations, the ANAO considers that this inhibits the comparison of past and future performances and the identification of better administrative practices.

2.40. None of the elements of Volume 2 of the Strategic Plan identified administrative targets or benchmarks or any other element indicating success or shortcoming. Examining indicators across all aspects of University activities, the ANAO found fewer than one in five indicators had explicit or implicit targets. Also, where targets existed, generally, there were no associated time frames. Therefore, there is no mechanism to establish if a target relates to the annual achievement or a time span between 1995-2004 and determine if performance is satisfactory.

2.41. However, some benchmarking has been undertaken by different areas of the ANU. For example, ANU management information systems have been compared with those in other universities and, as a result, improvements had been made. The ANU review program also often involves the benchmarking of ANU operations. This is discussed in Chapter 5.

2.42. The following recommendation addresses problems relating to the linking of objectives, strategies and indicators; balance; and performance assessment.

Recommendation No.4

2.43. The ANAO *recommends* that the University should:

- develop guidelines and educational programs to inform staff who are responsible for the development and assessment of performance information to ensure that they have a common understanding and a framework of the requirements for useful performance information;

- review the performance information measures to assess the efficiency and effectiveness of the University's administrative processes;

- develop measurable administrative performance indicators to facilitate performance assessment at all levels of administration; and

- establish appropriate targets, benchmarks and milestones which provide a disciplined approach to management and performance improvement.

ANU response

2.44. Agreed in principle. The University will, as part of its revision of the Strategic Plan, develop guidelines for use and prepare a program of instruction for those responsible for devising key performance indicators. This exercise will be undertaken as a precursor to the

development of new performance indicators and an iterative review of existing indicators. The Commonwealth Government's new quality assurance process is likely to provide guidance as to the indicators which will have national significance.

Reporting

2.45. Reporting on performance is important because it provides the basis for:

- determining progress against the strategic plan;

- accountability;

- internal management, monitoring and decision making; and

- a means of identifying potential problems so that remedial action can be taken.

Key criteria

2.46. Procedures and systems need to be established for the collection and analysis of information. As well, reporting needs to be undertaken at two levels:

- internally, to facilitate operational activities and governance, that is, reports to the Council by Research Schools and Faculties on progress against the strategic plan; and

- external reporting for accountability purposes, for example, the Annual Report.

2.47. The reports should be produced at appropriate intervals, be understandable and contribute to the University's decision making.

Internal reports

ANAO findings

2.48. Although guidelines for the organisation's Strategic Plan required reports on progress against the plan, to date, no such reports have been produced. Also, the Research Schools and Faculties reviewed during field work did not have procedures in place to formally collect information to monitor their performance against the strategic plan.

2.49. The Implementation Plan for the 1995-2004 Strategic Plan required reviews on the implementation of the strategic plan and reports on performance in July and December 1996. However, the ANAO was advised that neither review had occurred because of resource constraints.

Recommendation No.5

2.50. The ANAO *recommends* that the ANU takes effective action to reinforce the purposes of the strategic planning guidelines and encourage their implementation, particularly in reporting progress against the Strategic Plan.

ANU response

2.51. Agreed in principle. A general University education program, for those undertaking the

strategic planning process, will reinforce the purposes of strategic planning and the value of measuring and reporting progress against the Strategic Plan for assessment and accountability purposes.

Annual Reports

2.52. An annual report is the principal means by which Parliament and the public become aware of an organisation's operations and performance. It is therefore fundamental to the achievement of accountability. Specifically, the ANU is required under the *Australian National University Act 1991* (the Act) to produce an Annual Report. However, other than for references to financial reporting, the Act does not detail the reporting requirements.

2.53. The ANU's Annual Report provides:

- background information (for example, the history of the University and the management structure);

- financial information (revenue and expenditure data);

- qualitative information on teaching and research performance;

- prize winners, grants and donations; and

- statistical information on staffing and students.

2.54. The Faculties and Research Schools also publish annual reports that provide information on areas such as teaching and research performance, staffing, publications by staff members, and the findings of reviews. Given that these reports are supplementary to the ANU Annual Report, which is the main external reporting mechanism, they were not examined in detail.

Key criteria

2.55. The ANAO examined the ANU's Annual Report to determine if it facilitated accountability, through descriptions of the ANU's operations and performance information that enable the assessment of performance outcomes and comparisons with the performance in previous years.

ANAO findings

2.56. The ANU's Annual Report (1995) includes clear, qualitative performance information on ANU's achievements. However, the Annual Report does not adequately contribute to accountability as it does not have targets that allow readers to assess the extent to which outcomes were achieved or information on how efficiently and effectively these outcomes were achieved. As well, the Report does not compare the present and past performance and, therefore, trends cannot be assessed. This situation should, however, be redressed in future as the Department of Prime Minister and Cabinet, 1995, Requirements for Departmental Annual Reports, [8] require the reporting of performance against the strategic plan, performance indicators and benchmark comparisons.

1

Corporate governance is concerned with structures and processes for decision-making; and accountability, controls, and behaviour within organisations. Ineffective governance processes are barriers to an organisation's effective performance.

2

Australian National University, Strategic Plan 1995-2004.

3

Australian National University, Volume 2, Area and Support Plans.

4

The publication *Performance Information Principles* (ANAO, Department of Finance, 1996) provides advice on the characteristics of good performance information.

5

Performance information should address different aspects of performance including effectiveness, efficiency, quality, access and equity and client service. The information should not be biased towards, for example, short-term at the expense of long-term issues.

6

Criteria relating to performance information are identified and discussed on page 17

7

The ANAO/Department of Finance publication *Performance Information Principles (November 1996)* provides more information on current thinking and trends in performance information.

8

Department of Prime Minister and Cabinet, Requirement for Departmental Annual Reports, March 1994 (updated March 1995)

3. Financial and Control Frameworks

This chapter discusses the adequacy of ANU's financial and control frameworks including administrative guidelines, financial monitoring arrangements and asset management. The ANAO has recommended improvements in purchasing and asset management.

Introduction

3.1. The ANU has developed financial and control frameworks to assist in the day-to-day administration of the University's activities. These include:

- developing administrative guidelines to assist staff undertake operational activities efficiently and accurately;

- implementing financial arrangements to allow monitoring and reporting of expenditure;

- developing an asset management strategy to aid the effective management of assets;

- establishing an internal audit function to regularly monitor and review the performance of

ANU's activities, particularly in relation to financial management and administration; and

- developing a risk management plan to facilitate the identification and treatment of risk factors and the development and application of remedial strategies.

3.2. The internal audit function and risk management are discussed in Chapter 4.

ANU Administrative Guidelines

3.3. The ANU has a Central Administration that is responsible for the production of the following guidelines:

Financial and Accounting Manual (FAM)

3.4. FAM is a general reference tool and, in particular, designed to assist staff who may not have had previous accounting training. It was first published in 1989 and reviewed and reprinted in 1993 - updates for specific sections are circulated when necessary. The manual describes specific aspects of financial management and control (such as budget preparation and control) and financial and accounting procedures to be followed in a wide range of subject areas (such as asset control, maintenance of the general ledger and journal entries).

Financial Management Reporting User Documentation (FMRUD)

3.5. FMRUD complements FAM and is intended to facilitate the use of the computer based financial management reporting system. The current edition of the guide was issued in 1992 by the Financial Services Section to relevant areas within the University. It provides advice on, for example, how to make standard enquires and customise reports so that they meet the particular needs of an area.

Triennial budget guidelines

3.6. The guidelines for the triennial budget were issued in May 1996. They were complemented with information seminars for those involved in the budget process - a contact officer was nominated to provide staff with further advice.

Administrative circulars

3.7. Administrative circulars are produced to provide guidance to ANU staff on government policy and financial issues. For example, circulars were produced on the fringe benefits tax and the use of frequent flyer points as they affected ANU staff and operations.

Purchasing Policy and Procedures (PPP)

3.8. PPP provides ANU staff with guidance on general policy issues such as the principles of purchasing (for example, fair dealing and value-for-money), responsibilities, tendering requirements and financial delegations. It also defines specific operational requirements (for example, possible grounds for the departure from normal operating procedures and procedures relevant to requisitions, purchase orders and goods receipt). The current edition was first issued in 1992. It was distributed to staff with purchasing responsibilities (for example, Section heads, Deans, Directors of Schools and Business Managers).

Key criteria

3.9. The ANAO examined these guidelines and circulars to determine if they:

- are concise and assist staff in undertaking their operational responsibilities;

- cover key systems and processes and clearly outline the related policies and procedures;

- promote financial accountability and consistent processes;

- are accessible to the appropriate staff; and

- are well written and easy to follow, regularly reviewed (to maintain their accuracy), relevance and currency.

ANAO findings

3.10. The guidelines mentioned above provide directions on a range of significant areas such as the creation and analysis of financial records, budget preparation and purchasing. Administrative circulars address issues that are not covered elsewhere and keep information up-to-date.

3.11. Overall, the guidelines were concise, up-to-date, logically structured and have an index and glossary, where necessary. The Financial Services Section conducts training courses to promote the understanding and consistent use and interpretation of these guidelines. This is considered to be good practice, given that many staff have not had previous accounting training. The FMRUD also has examples of computer screens to demonstrate the use of the financial management reporting system and is cross-referenced to the FAM to facilitate comprehension. Guidelines for the triennial budgets addressed relevant issues such as the format, planning assumptions and various issues related to income and expenditure.

3.12. The administrative circular on fringe benefits tax was reviewed and found to be concise. ANU staff could easily access the administrative circular on, for example, the electronic mail system. Also, it specifically addressed the major areas of concern such as motor vehicles, entertainment and accommodation benefits.

3.13. The PPP makes it quite clear that the reasons for particular purchase decisions should be well documented. Guidelines were readily available for reference, with staff in the Research Schools and Faculties having copies. However, there was scope to improve some sections of the PPP. The PPP currently indicates that value-for-money should be sought, and the text also stresses that 'prices paid are to be the lowest obtainable'. Therefore, the PPP is providing conflicting advice, since lowest price may not always equate to the best value-for-money.

3.14. The PPP does not specifically address the purchase of goods or services outside of existing ANU-wide contracts. This could be one cause for the failure of some ANU staff to obtain the best value-for-money. An example of this is the level of use of the recently (October 1996) finalised travel agent contract. As a result of this contract the ANU receives a discount for travel arranged through the contracted agent in excess of any that can be offered by other agents used by University staff. However, many ANU staff used other travel agents.

3.15. The ANAO reviewed a sample of travel arrangements for one Research School for a two month period, and found that only 70 out of the 179 trips (39 per cent of the total) were booked through the preferred travel agent. If travel involving international destinations is examined separately this percentage falls to 23 per cent. It is estimated that the additional cost

of <u>not</u> booking these trips through the preferred travel agent was in the order of $5000.

3.16. The total ANU annual travel budget is $12.7m (1997). If the best value-for-money was obtained for each trip, savings of between three per cent and nine per cent per trip could be obtained. The ANAO has estimated that the ANU could achieve an overall annual saving of about $400 000 if travel was arranged through the preferred travel agent.

3.17. The current practices are inconsistent with the University's purchasing guidelines that require all staff to obtain the best value-for-money. Where an arrangement exists across the University for the provision of goods or services, consistent with purchasing guidelines, the preferred agent should be used unless it can be established that special conditions exist or better value-for-money can be obtained elsewhere.

Recommendation No.6

3.18. The ANAO *recommends* that the guidelines used by the University titled 'Purchasing Policy and Procedures' should be revised to clarify the difference between purchasing at the lowest price and obtaining value-for-money to ensure that staff both understand and implement the principles involved.

ANU response

3.19. Agreed. The University is currently "re-engineering" its purchasing practices and introducing a new electronic purchasing system. These processes have occurred as a result of a tender for banking and associated financial services.

3.20. The publication 'Purchasing Policy and Procedures' will need to be rewritten and published widely as part of the 're-engineering' process. Appropriate training and staff development programs will also be an essential part of implementing this leading-edge technology.

Budget Procedures and Financial Monitoring

3.21. The 1997 ANU budget is the first triennial budget developed by the University. Individual Research Schools and Faculties are responsible for allocating the funds available to their area. The IAS and the Faculties review their individual budgets, while the Central Administration reviews all the budgets and consolidates them into an overall University budget. Ultimate responsibility, however, rests with the Council which reviews and endorses the University budget.

3.22. The current budget provides the basis for financial monitoring. This is facilitated by an on-line computer-based information storage and retrieval system. The system has features that, for example, allow the entry of information relevant to cash transactions, and ensures that financial information is up-to-date. Individual areas can readily access and use the information at any time. The system also allows staff to use information relevant to their area. As mentioned previously, the Financial and Services Section conducts training courses to ensure that University staff have the necessary skills to use the system.

3.23. The Financial and Services Section prepares monthly financial reports which, for example, provides a comparative analysis of actual expenditure against budget estimates for expenditure to date and per cent of budget spent. Additional analyses are also undertaken by manipulating data on spread sheets.

3.24. The ANAO examined the budget and monitoring arrangements to ensure that:

- multi-year budgets exist and are based on cost attribution;

- budgets are prepared and reviewed at appropriate levels;

- performance against budgets is assessed on a regular basis and appropriate feedback is provided to staff responsible for controlling expenditures; and

- mechanisms exist to ensure that action is being taken to improve performance when necessary.

ANAO findings

3.25. The University has an appropriate three year budget process. Budgets identify specific cost items (or centres) and costs are attributed to these centres as they are incurred. As the information system is 'on-line', current information can be obtained.

3.26. The formal (monthly) monitoring reports are comprehensive and timely. Faculty and Research School staff advised that these reports largely met their needs - information could be (and was) down-loaded to personal computers in some areas for further analysis.

3.27. Recurrent expenditures were closely scrutinised at a number of levels. Business managers, Deans and Directors monitored expenditure against budgets for their area of responsibility. The Finance and Services Section produces monthly reports and monitors the financial status of each budget unit - variance explanations are sought when necessary and individual discussions held with the Research School and Faculty staff. The Business Management Group (BMG), a central administration group for the Faculties, also monitors faculty expenditures and reports directly to the Deans and the Chair of the Board of the Faculties.

3.28. The ANAO found that budget procedures and financial monitoring were found to be satisfactory.

Asset Management

3.29. At 31 December 1995 the ANU had $746m [9] in non-current assets. Therefore, it is important that these assets be managed effectively. Asset management occurs at two levels within the University. The Research Schools and Faculties are responsible for the management of equipment (such as computers) and the maintenance of specific buildings. Central Administration is responsible for the management of buildings and facilities.

Key criteria

3.30. The ANAO reviewed asset management [10] within the ANU to determine if:

- asset management is an integral part of the strategic plan to ensure that asset management contributes to the achievement of an area's objectives;

- there are asset acquisition and maintenance plans that cover life of an asset ('whole-of-life'

plans);

- performance indicators have been developed relevant to the use of assets (for example, information on asset use and maintenance costs); and

- the location, security and use of assets is monitored.

ANAO findings

Integration of asset management into the Strategic Plan

3.31. At the University level, asset management has been integrated with the Strategic Plan. This occurs through the Capital Management Plan, maintenance plans and strategic plans relating to buildings, equipment and the landscape.

3.32. At the Research School/Faculty level, of the five individual strategic plans reviewed in detail only two addressed asset management and had related strategies. Therefore, the strategic plans for Research Schools and Faculties do not adequately address asset management. As a consequence, there is a risk that asset management may not be consistent with the strategic directions and this could have a significant effect on the efficiency of the ANU's operations (the depreciated value of plant and equipment was $72m at 31 December 1995). ANAO recommendation No.7 addresses this issue.

Asset acquisition, maintenance and replacement plans

3.33. Development and maintenance policies exist relevant to the provision and maintenance of infrastructure. The previously mentioned Capital Management Plan, maintenance plans and strategic plans address asset acquisition, maintenance and replacement. The Capital Management Plan is particularly important. It covers major capital items, has a rolling ten-year time-frame and will be updated regularly. The Campus Development Policy Plan complements these plans and guides the development of the University's infrastructure.

3.34. The Research Schools and Faculties allocate funds for purchase of assets and their maintenance as part of the triennial budget process. However, the Research Schools and Faculties were unable to provide the ANAO with any asset acquisition, management and replacement plans. The strategy adopted was, generally, to address the most pressing maintenance/refurbishment problems as money became available.

3.35. Before 1996 the University did not have a coordinated approach to purchasing. However, during 1996 the 'Purchasing 21' initiative was implemented. In 1997, this initiative was advanced with the establishment of the ANU Purchasing and Contracts Office. This Office coordinates the purchase of goods used by a number of areas and improves the University's capacity to get the best value-for-money. For example, through this Office the ANU is currently examining its fleet management whereby it is expected that a coordinated approach to the purchase, maintenance, operations and sale of a vehicle fleet of about 340 vehicles could reduce fleet management costs.

3.36. The ANAO's assessment of the University's vehicle fleet management has identified savings of at least $440 000 per annum. These savings would be obtained by:

- accessing State/Commonwealth contracts for the purchase of vehicles;

- managing vehicle buying/selling arrangements;

- ensuring appropriate warranty maintenance;

- negotiating general vehicle maintenance; and

- negotiating fuel purchases.

3.37. Therefore, the ANU is encouraged to continue its review of fleet management, including the relative merits of lease Vs purchase options, and implement the preferred strategy.

3.38. The ANAO considers that the above example on fleet management is significant, in that it is indicative of the savings that the ANU can obtain by 'whole-of-life' asset planning and a coordinated approach to purchasing.

Recommendation No.7

3.39. The ANAO *recommends* that the ANU should:

- integrate asset management plans with the strategic plan to ensure that asset management plans are consistent with the strategic directions and effectively assist the ANU to achieve its goals; and

- develop whole of life asset management plans to ensure that assets are appropriate for the University's requirements, efficiently used and adequately maintained.

ANU response

3.40. Agreed. The University has several committees which are charged with the assessment of assets and the assignment of priorities for the:

- construction and maintenance of capital (infrastructure) assets; and;

- acquisitions of large items of equipment.

3.41. The value of visible integration of these processes into the Strategic Plan is acknowledged. Budget Units (Schools, Faculties and Divisions) will, as part of the revision to the Strategic Plan, be requested to make asset acquisition and management issues visible within operational plans.

Performance information relevant to the use of assets

3.42. Although the use of facilities is monitored by the Central Administration, the University does not have formal performance information on the use of assets or their management. The University, however, contributes to the Australasian Association of Higher Education Facilities Services Officers data collection. This data collection has details on:

- space utilisation;

- staff and student numbers; and

- expenditures on grounds and building maintenance, refurbishment, cleaning, energy use and security.

3.43. These data could usefully provide the basis for a formal set of performance indicators relevant to the management and use of infrastructure and, as a result, improve asset

management. A particular advantage is that data collected from the other Australian and New Zealand universities involved in this project could provide a benchmark against which ANU performance could be assessed.

Recommendation No.8

3.44. The ANAO *recommends* that where appropriate the ANU develops and uses performance indicators relating to asset use and maintenance costs to facilitate effective monitoring and management of assets.

ANU response

3.45. Agreed in principle. The maintenance and utilisation of assets will be included as part of the review of the Strategic Plan.

3.46. Some steps have already been put in place to test the use of lecture and tutorial rooms (a new electronic scheduling system has been acquired and is in the process of implementation). The construction of new buildings is argued at the University's Buildings and Grounds Committee, and the Housing Strategic Guidance Committee is overseeing a reduction in the number of residential properties following an extensive review of accommodation needs.

3.47. The University is acutely aware of the need to manage strategically its assets. This is a direct product of imposed fiscal restraint and a need to provide modern facilities so that the University's pre-eminence in research and teaching is maintained.

3.48. Maintenance and utilisation of assets is given considerable prominence in the University's ten-year rolling Capital Management Plan which was formally implemented, after wide-ranging consultations, in 1996.

Asset monitoring and security

3.49. The University's asset registers have details of equipment held by particular areas. The registers are maintained, stocktakes are undertaken and the results are reconciled with the asset register. The Faculties, for example, have a group dedicated to the maintenance and monitoring of the asset register - the group operates a rolling two-year program.

3.50. Although existing stocktaking procedures have not identified material discrepancies during asset reconciliations, alternative stocktake strategies may increase the security of the assets. For example, a cyclical stocktake program based on risk profiles combined with random checks may more effectively identify the loss of high risk items. It is therefore suggested that the ANU considers the cost/benefits of alternative stocktaking procedures with the view to increasing asset security.

4. Internal Audit and Risk Management

This chapter discusses the ANAO's findings in relation to the ANU's Internal Audit function and Risk Management. One recommendation is made regarding tendering for the provision of Internal Audit consultancy services.

Introduction

4.1. The Internal Audit Office (IAO) is responsible for internal audit reviews and other

corporate activities such as coordinating the development of the University's risk management plan.

4.2. For administrative purposes, the IAO reports to the Pro-Vice Chancellor (Finance and Development). The ANU has an Audit Committee that oversights internal audit activities. The IAO engages consultants as necessary to supplement in-house resources - consultancy costs for 1989-1994 varied between $65 000 and $240 000 per year.

4.3. The operations of IAO and the Audit Committee are governed by the Audit Charter of 1992. The Charter requires the Committee to have four members, of whom one must be a member of the Council. The Audit Committee:

- reports annually to the Council on matters relating to the internal audit function through the Finance Committee [11];

- is required to meet at least quarterly; and

- monitors all aspects of internal audit including audit planning and reporting.

Internal Audit

4.4. The IAO has a key role in providing management and the Council with assurance that controls are effective. This is particularly important in a university context given the high risks involved because of the diverse areas of interest and the decentralised management of Research Schools and Faculties.

4.5. The Commonwealth Authorities and Companies Bill (CAC) that is expected to be passed by Parliament in 1997 will increase the significance of the internal audit function. Under this Bill there will be a more formal requirement for the Council to be accountable for the operations of the ANU and reliant on the IAO to provide assurance that internal controls within the University are operating effectively.

4.6. A consultant undertook a review of the IAO in 1996 and the report was published in July 1996. The review evaluated governance arrangements and the effectiveness of the IAO. Areas where improvements were suggested included governance, customer focus, internal audit performance measurement, the quality of internal audit reports and their balance. The findings of the review were considered by the ANAO in the course of the audit.

Key criteria

4.7. The ANAO reviewed the IAO to provide an assessment of its operations and administration and establish if action had been taken to address the issues identified by the external review, that is:

- whether governance arrangements support the effective operation of the IAO. In particular, is the IAO independent from operational management and does it have access to the highest levels of management. Within the ANU this is the Vice-Chancellor and the Council;

- are appropriate administrative processes in place to support the effective operation of the IAO. The IAO should develop an audit work plan on a risk assessment basis. As well, a business plan should be developed to provide guidance on activities such as staff training and internal audit quality assurance;

- is the quality of internal audit reports and recommendations satisfactory. For example, are the internal audit reports well balanced and logical; and

- does the IAO have mechanisms in place to monitor the progress of actions taken against audit recommendations.

4.8. The ANAO's findings in relation to each of the above issues are discussed below.

ANAO findings

Governance arrangements

4.9. The operations of the IAO were consistent with the 1992 Charter, the primary focus being the adequacy and effectiveness of internal controls. The IAO has access to the Vice-Chancellor and is operating independently. The Audit Committee has indirect access to the Council, in that:

- the Audit Committee formally reports to the Council annually **through** the Finance Committee; and

- one member of the Council is a member of the Audit Committee.

4.10. However, as a consequence of the external review of the IAO, separate charters have been developed for the Audit Committee and Audit. They will ensure that governance arrangements are adequate by providing the IAO with improved access to the ANU Council by requiring:

- two members of the Council to be members of the Audit Committee; and

- the Audit Committee to submit an annual report directly to the Council rather than through the Finance Committee.

4.11. As well, it will improve the independence of the IAO by more clearly defining its role and giving the IAO a formal mandate to undertake a full range of audits including efficiency and effectiveness reviews.

4.12. The revised charters are expected to be presented to the Council for endorsement in April 1997.

Administrative arrangements

4.13. The administrative operations of the IAO are governed by:

- an annual audit work program based on risk assessment that identifies audits to be undertaken in the coming year; and

- a business plan that requires the implementation of a quality assurance process and the identification of performance indicators to assist the IAO in becoming a more efficient and effective unit.

4.14. It is appropriate for the IAO to determine work priorities according to a risk assessment and have a business plan to provide overall guidance.

4.15. It was noted that the administrative arrangements relating to the engagement of consultants to provide internal audit services were inconsistent with the ANU purchasing guidelines. Those guidelines require full and open competitive tendering for contracts for more than $30 000. The same consultant has been engaged to undertake internal audit consultancy work since 1954 without being required to go through a competitive tendering process. Between 1989 and 1994 this consultant received over 90 per cent of the total IAO consultancy work. This type of arrangement can reduce the administrative costs related to the engagement of consultants and ensure that the preferred firm of consultants has a knowledge of the ANU's requirements. However, as a result of not obtaining alternative quotes, the ANU has no mechanism to establish if better value-for-money could be obtained.

Recommendation No.9

4.16. The ANAO *recommends* that ANU market test the provision of consultancy services to the Internal Audit Office to ensure that the University obtains the best value-for-money from these services.

ANU response

4.17. Agreed. The University will invite tenders for Audit Services in 1997.

Internal Audit reports and recommendations

4.18. A review of a sample of internal audit reports found that there is scope to improve the presentation of information. For example, some of the reports reviewed did not:

- provide an opinion for each audit criterion. This means that readers cannot determine performance against criteria not addressed in the audit reports;

- always identify the **key** issues that needed to be actioned or set priorities for the recommendations; making it difficult to determine which issues should be addressed first;

- provide sufficiently detailed analyses of audit issues and/or the basis of the findings. This can assist in convincing those responsible for implementing audit recommendations, especially when there are competing demands for their available resources; and

- acknowledge compliance and good practice. If findings are not presented in a proper perspective ANU personnel would be more likely to view the IAO negatively and be less likely to cooperate in the future.

4.19. Since the ANAO's fieldwork the IAO has implemented a number of initiatives to redress these problems, including:

- IAO operations will have a greater customer focus. This, and a consequent improved understanding of 'clients', should lead to a recognition by IAO staff that clients require quality analyses and reports;

- reports will be required to have a better balance and good practices will be acknowledged; and

- implementing a quality assurance program for the audits undertaken.

4.20. The ANAO supports ANU's actions to improve the quality of the Internal Audit reports.

Follow-up of recommendations

4.21. Currently, there are no formal mechanisms to ensure that the areas subject to an audit respond to audit recommendations. Even though areas subject to audit reviews regularly provide the Audit Committee with progress reports on the implementation of recommendations, there is a risk that, without a formal requirement, problems identified in audits will not be addressed.

4.22. The ANU is taking action to improve audit follow-up through:

- the revised audit charter which is expected to be presented to the Council in April 1997 that will make the preparation of an action plan in response to an audit report mandatory; and

- the 1997 IAO work plan that includes a formal program of follow-up audits.

4.23. The ANAO endorses these actions as they will improve accountability by ensuring that the Council and management have a basis to follow-up the implementation of recommendations.

Risk Management

4.24. Risk Management is an integral part of good management. This has been recognised in the CAC Bill mentioned above which requires entities to present corporate plans that include an 'analysis of factors likely to affect achievement of targets or create significant financial risk'.

4.25. The proposed Audit Committee Charter requires the Audit Committee to report to the Council on the risk management program. Work on the first University risk management plan began in February 1996 and the Research Schools, Faculties and the Central Administration are required to develop risk profiles by March 1997. The IAO is responsible for assessing the implementation of risk management across the University. The IAO, with the assistance of a consultant, has developed guidelines and is providing educational programs to ensure University staff have the skills necessary to develop area plans. The educational and information program includes the provision of a risk assessment workbook and the conduct of workshops for staff involved in the development and application of risk management plans.

Key criteria

4.26. A risk management strategy should exist for the University and individual plans should exist for the relevant areas. These plans should be linked to strategic and operational plans. Officers responsible for developing individual plans should have the necessary training and guidance.

ANAO findings

4.27. At the time audit field work was undertaken, although work was underway to develop risk management plans, they did not exist for most Research Schools, Faculties and relevant areas in the Central Administration. Therefore, the ANAO has not been able to assess the quality of risk management plans. However, University activities relevant to the implementation of risk management are appropriate. Risk management is being reviewed at the highest level and appropriate processes are in place to develop manuals and provide

training. The ANAO considers that there is considerable scope to enhance risk management plans during 1997 as an aid to effective corporate performance. As well, the ANU should ensure that they relate to strategic and operational plans.

5. ANU Internal Reviews

This Chapter examines the ANU's internal review process relevant to administration.

Introduction

5.1. An internal review program is an essential tool for the management of the ANU's administrative operations. With the increasing demands on the ANU's funds and scrutiny of their use, a review program can provide an in-depth understanding of the administrative processes. For example, reviews can assist in determining how efficiently and effectively resources are used. As well, the review process is a key means of improving accountability and administrative management. It also provides a means of improving the quality and quantity of administrative performance information.

5.2. The ANU's Senior Officers Group [12] oversights internal reviews and may approve proposals for these reviews. The Senior Officers Group also receives written and oral reports on the progress of reviews and the implementation of recommendations. As well, the Council is advised on the progress of major reviews.

5.3. The reviews address a diverse range of strategic and administrative topics including:

- maintenance of heritage listed buildings;

- senior administrative roles and responsibilities;

- student administrative procedures;

- energy use; and

- maintenance and repairs.

5.4. The ANAO examined about 30 review reports that related to administration that have been undertaken over the last four years. While the ANU has a formal review process for research and teaching aspects of its operations, these reviews were outside the scope of this audit.

Key criteria

5.5. The ANAO examined the review program to determine if the administrative arrangements for the review process are appropriate. Specific criteria included:

- responsibility for the review strategy should be placed with a senior person or committee;

- the strategy for the identification of reviews should be integrated with the ANU's relevant planning and performance measurement systems. As appropriate, information systems should support the review process;

- reviews should be initiated on the rationale that significant ANU issues are addressed and the timing of the reviews should be appropriate. The administrative arrangements should include

an assessment of the net cost/benefits arising from the reviews to assist the ANU in obtaining the greatest returns for the resources invested in the review process; and

- there should be regular reporting on reviews to an executive committee. This should include reports on the implementation of recommendations.

5.6. The quality of specific reviews should be high. This is facilitated by including on the review team people with the necessary skills and, where appropriate, involving outside experts. The reports should clearly describe the reviews and the findings.

ANAO findings

5.7. No group has the formal, overall responsibility for the development of a review program within the ANU. Reviews are currently initiated on a 'needs basis' at a range of levels from the Council down and are not formally integrated with the ANU's strategic planning process. There is a need to adopt an university-wide approach to reviews to avoid an uneven coverage of administrative activities and ensure that areas in need of improvement are not overlooked.

5.8. The ANU is able to identify the direct costs, such as those associated with consultants, and the financial benefits in certain circumstances where a review leads to staff cuts. However, when reviews are undertaken in-house by the ANU staff, through working groups set up to manage major reviews, there is no mechanism to estimate the review costs. While internal coordination and consultation needs to occur, the University should consider the cost/benefits of such processes. For example, if a University staff member's time was worth $100 per hour, and if ten staff attended five, two-hour meetings, there would be a cost of $10 000 associated with the review which has not been taken into account.

5.9. The ANAO considers that direct and indirect costs need to be taken into account when determining the cost of reviews to ensure that these reviews add value and justify the expenditure through appropriate improvements to administration.

5.10. Individual registers are kept which have details of reviews relevant to a particular area. However, no group maintained a central register of the reviews. This makes the ANU very dependent on corporate memory to assess previous review coverage. A central register of reviews would ensure that all ANU staff have ready access to information on previous review coverage.

5.11. The Council and the ANU's Senior Officers' Group is an appropriately senior group to monitor the progress of reviews and the implementation of recommendations. These bodies have the status to give reviews the credibility necessary to conduct a study and implement the recommendations. They also have the status to ensure that a central register of reviews are maintained.

5.12. The reviews examined focussed on significant areas of ANU's administrative operations. Four reviews examined in detail were found to be of an appropriate standard, in that:

- consultants and/or people seconded from other organisations were used where necessary to provide expert assistance and an independent opinion;

- the reports were widely circulated and gave essential information on the reason(s) for the review and recommendations. This should facilitate the credibility of the reviews and the

acceptance of the recommendations;

- the reviews identified better practices and, where appropriate, involved formal benchmarking with comparable organisations; and

- the reviews led to improvements following the implementation of the recommendations.

  5.13. Overall, therefore, the ANU has a sound internal review process. However, the review process could be improved if:

- a group within the ANU is given the formal responsibility for the development of an annual ANU review program. The review and endorsement of the program by a suitably senior group, such as the Senior Officers, would ensure that it addresses the significant issues and facilitates cooperation of areas involved in the reviews;

- direct and indirect costs of reviews are identified to facilitate an assessment of the net costs/benefits arising from the reviews; and

- a central register of reviews is maintained to ensure that all ANU staff have ready access to information on previous review coverage and can obtain information on those reviews and identify areas that could benefit through a review.
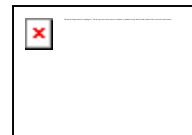
Canberra ACT

29 April 1997

P. J. Barrett

Auditor-General

9

This figure excludes investments.

10

The ANAO publications *Asset Management, Better Practice Guide - June 1996* and the associated *Asset Management Handbook* provide more information on current thinking and trends in asset management.

11

The Finance Committee is required to consider and make recommendations to the Council on matters such as:

• financial planning, sources of funds, recurrent and capital expenditures, annual budgets and financial statements;

• policy development with regard to the management of University assets and the procurement of goods and services; and
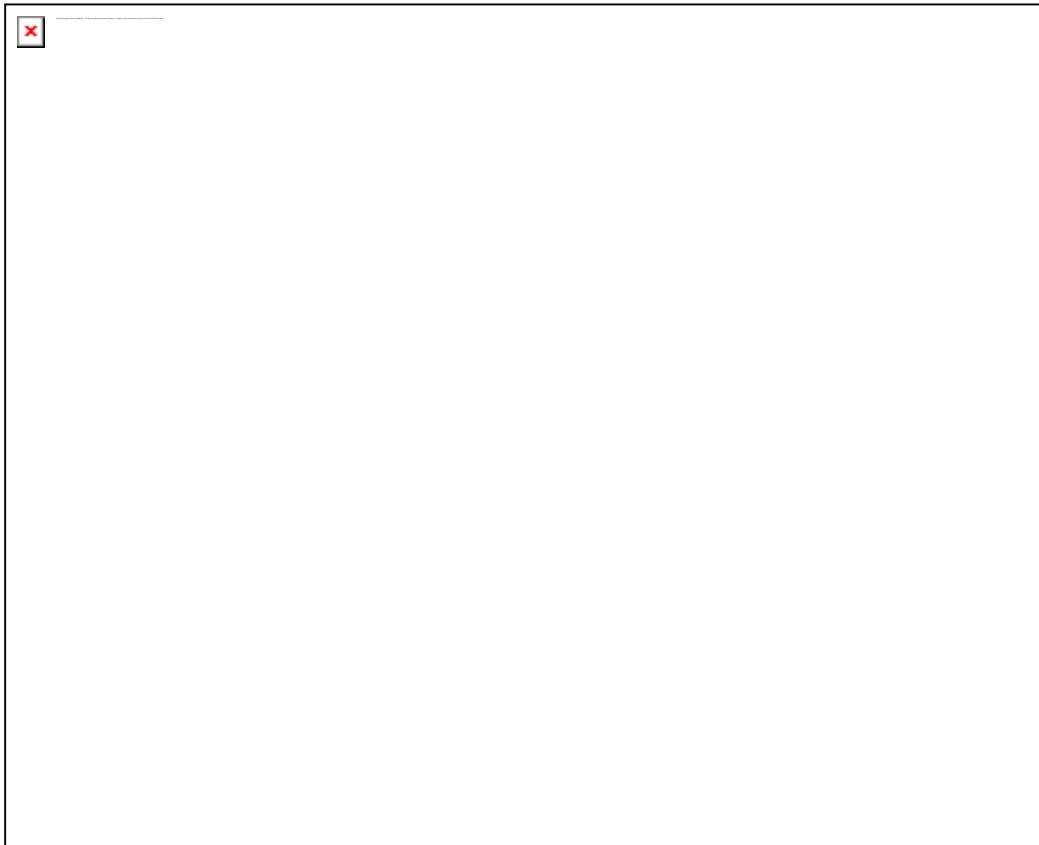
• management of endowment funds, cash resources and investments.

12

Vice-Chancellor, Chair (Board of the IAS), Director (IAS), Deputy Vice-Chancellor, Chair (Board of Faculties), Pro-Vice-Chancellor (Planning and Administration), Pro-Vice-Chancellor (Finance and Development).

Appendix 1

ANU Senior Administrative Arrangements

Appendix 2

Performance Audits in the Department of Employment, Education, Training and Youth Affairs Portfolio

Set out below are the titles of the reports of the main performance audits by the ANAO in the Department of Employment, Education, Training and Youth Affairs Portfolio tabled in the Parliament in the past three years.

Audit Report No.5 1994-95
Follow-up Audits
Department of Employment, Education and Training
- New Enterprise Incentive Scheme (NEIS)
- Protective Security
- AUSTUDY

Audit Report No.23 1994-95
Follow-up Audit
Department of Employment, Education and Training
English as a Second Language

Audit Report No. 30 1994-95
Commonwealth Government Information and Advertising

Audit Report No.3 1995-96
CES Case Management
Department of Employment, Education and Training

Audit Report No.23 1995-96
Procurement of Training Services
Department of Employment, Education, Training and Youth Affairs

Audit Report No.25 1995-96
Performance Information
Department of Employment, Education, Training and Youth Affairs

Audit Report No. 30 1995-96
Implementation of Competition in Case Management
Employment Services Regulatory Authority
Department of Employment, Education, Training and Youth Affairs

Audit Report No.2 1996-97
The Administration of the
Australian National Training Authority

Audit Report No.6 1996-97
Commonwealth Guarantees, Indemnities
and Letters of Comfort

Audit Report No.7 1996-97
IT Acquisition Councils

Audit Report No.16 1996-97
Payment of Accounts