

The Auditor-General
Audit Report No.28 2000–2001
Audit Activity Report

Audit Activity Report: July to December 2000

Summary of Outcomes

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Canberra ACT
7 February 2001

Dear Madam President
Dear Mr Speaker

In accordance with the authority contained in the *Auditor-General Act 1997*, I present this report of the results of our audits and audit related services, over the second half of 2000, to the Parliament. The report is titled *Audit Activity Report: July to December 2000—Summary of Outcomes*.

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

Yours sincerely



P. J. Barrett
Auditor-General

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

AUDITING FOR AUSTRALIA

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

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1. Introduction

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

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

1.2 The ANAO achieves these ends through the delivery of an integrated audit service that is designed to assist the Parliament in its work as well as Commonwealth bodies in the achievement of improved performance and accountability. The services provided encompass a range of products and services that include performance audits—which incorporate financial control and assessment audits—financial statement audits, assurance and control assessment audits, protective security audits, benchmarking studies and better practice guides.

1.3 This report is the eighth in a series of reports tabled at six monthly intervals. It summarises the audit and other related activities of the ANAO for the period July to December 2000. The purpose of the report is to:

- inform the Parliament of the major issues the ANAO is examining in working with agencies to encourage, and provide assurance about a better performing and more accountable public sector;
- provide the Parliament with a consolidated summary of the audit reports tabled in the last six months, as well as details of better practice guides and other audit services provided in the period; and
- focus on, and highlight, some of the major lessons learned from the audit services provided by the ANAO.

1.4 The ANAO's principal client is the Parliament. Within this context, Parliamentary Committees are the main focus of contact and liaison. The Joint Committee of Public Accounts and Audit (JCPAA), a statutory committee of both houses of Parliament, has particular responsibilities in relation to the ANAO. The ANAO consults with the JCPAA on the Parliament's audit priorities. The JCPAA also considers the operations and performance of the ANAO; reports to the Parliament about the Auditor-General's functions and powers; and makes recommendations to the Parliament on the annual budget for the office. The JCPAA reviews

all ANAO reports, a selection of which is subject to quarterly public hearings. In the period covered by this report, the JCPAA reviewed 13 audit reports tabled in the second quarter of 1999–2000. Three reports were also selected for further examination and review from those tabled in 1999–2000. These were Audit Report No.13 *Management of Major Defence Acquisition Projects*; Audit Report No.14 *Commonwealth Debt Management*; and Audit Report No.24 *Management and Regulation of Plasma Fractionation*.¹ In relation to these three reports, the JCPAA found that there were, respectively, systematic problems in the management of capital acquisitions; exposure to unnecessary risk in debt management; and significant scope for improvement in the management of contracts. Ten recommendations were made by the Committee to agencies to improve administrative practice within the agencies concerned.

1.5 In the second half of 2000, the JCPAA also published two important reports of general applicability across the Australian Public Service. In the first report, *Contract Management in the Australian Public Service*, the Chairman of the JCPAA noted that:

*The search for excellence in contract management is one of the most pressing challenges for the Australian Public Service. With the move to greater outsourcing of programs and services, public sector agencies must equip themselves with a range of skills, knowledge and experience to ensure that contract management is efficient and effective. In 1998–99 there were 111 000 purchasing transactions...totaling \$7.9 billion. In view of the public monies allocated to purchasing goods and services, and the complexities of managing government contracts, it is essential that this aspect of public administration be given sufficient and ongoing scrutiny.*²

1.6 In their key findings and recommendations the JCPAA focussed on the importance of agencies documenting, reviewing and reporting the management of contracts over \$2000 including reporting any exemptions to disclosure for contracts (or parts of contracts) and where these were being withheld for commercial-in-confidence reasons. The Department of Finance and Administration (DOFA) was also requested to ensure that advice and guidance on risk management addressed all phases of the contract lifecycle. The ANAO will take these key findings and recommendations into account within the context of its future audit program as well as in the management of its own contracts.

¹ Joint Committee of Public Accounts and Audit (JCPAA) 2000, *Report 378—Review of Auditor-General's Reports 1999–2000, Second Quarter; Parliamentary Paper: 668/2000*.

² *ibid.* p. 2.

1.7 The second report, *‘Guidelines for Government Advertising’* was developed following a review of Audit Report No.12 1998–99, *Taxation Reform—Community Education and Information Programme*.³ The committee developed draft guidelines based on those suggested by Audit Report No.12. The underlying principles identified by the committee governing the use of public funds for government information programs were as follows:

- *all members of the public have equal rights to access comprehensive information about government policies, programs and services which affect their entitlements, rights and obligations. Access to information should only be restricted where its provision would jeopardise the national interest;*
- *governments may legitimately use public funds for information programs or education campaigns to explain government policies, programs or services and to inform members of the public of their obligations, rights and entitlements; and*
- *government information programs shall not be conducted for party-political purposes.*⁴

1.8 The ANAO will give consideration to reviewing the performance of agencies in implementing education and/or information programs as part of its future audit strategy.

The Australian Public Service today

1.9 The process of ongoing reforms to the Australian Public Service (APS) has seen the continued evolution away from centralised rule-based decision-making towards a devolved environment with a greater emphasis being placed on program outcomes and outputs; increased participation by the private sector in service delivery; and greater use of information communications and technology (ICT). The market-based delivery of some public services with increased private sector participation is a key component of public administration at the present time. Increasingly, there has been a blurring of the distinction between public and private sectors—particularly from ‘community/business partnerships’ or social coalitions between business, government and community groups.⁵ This can fundamentally change the role of public sector administrators from one of ‘directly managing services’ to one of ‘managing contractors and partnerships’ and other forms of alliance in the provision of services.

³ Joint Committee of Public Accounts and Audit (JCPAA) 2000, *Report 377—Guidelines for Government Advertising (The Report of the Committee’s Inquiry into Community Education and Information Programme. Parliamentary Paper: 445/2000; p. 1.*

⁴ *Ibid.* p. 4.

⁵ Secretary, Department of the Prime Minister and Cabinet 2000, *Keynote Address: The Way Ahead, IPAA (ACT) Conference.*

1.10 This approach has the potential for improvements to service delivery but at the same time has created major challenges for public service managers, as was noted by the JCPAA in their report on contract management mentioned earlier. It has also raised community expectations that public agencies will provide quality services that are more responsive, relevant, accessible and accountable and at lower cost. It is also important that the allocation of responsibilities and the thread of accountability are made clear to ensure that performance and risks are manageable and that public confidence is maintained in the administration of public funds. These are important components of good corporate governance and intrinsic to the legislative environment and values of the public service in the 21st century.

1.11 The introduction of a more contestable public sector environment has had substantial impacts on the size and composition of the public service. The number of people employed under the *Public Service Act 1999* has decreased from 166 159 in 1993 to 110 954 at 30 June 2000. However, it is important to note that a portion of this decrease was a result of certain agencies and functions being removed from the coverage of the *Public Service Act*. In fact, over the last 12 months, there have been more people joining the APS than leaving it—the first time this has happened since 1992–93. The upturn in appointments may reflect the fact that agencies are recruiting people with the skills required to deliver business outcomes in the new environment. For example, there was an increase in recruitment in the Australian Taxation Office (ATO) associated with the implementation and management of taxation reform.⁶

1.12 Nevertheless, the loss of corporate memory and skills is one of the most pressing problems facing the APS. Continued pressure will be exerted as a consequence of the proportion of public servants approaching retirement age⁷ from now until 2010, the high mobility of staff particularly at the executive levels 1–2 and the ongoing out-sourcing of public service functions. While consistent with international trends, this situation poses significant challenges in terms of effective policy advice, service delivery, and public accountability. The ability of agencies to recruit and retain high performing staff with the right skills is one of the most important tests for public service managers. Cost-effective workforce planning that harnesses the potential from the new flexibilities that have been introduced into the public service (that is, the flexibility to attract, hire and reward good performance) is crucial to success in meeting government and community expectations.

⁶ Public Service and Merit Protection Commission 2000, *Annual Report 1999–00*, Commonwealth of Australia.

⁷ Over the last decade, the proportion of permanent staff with ten or more years experience increased from 38 per cent in 1990 to 51 per cent in 2000.

1.13 The Commonwealth's financial reform program has been a key plank in the Government's overall public sector reform program. As indicated in the June Activity Report (Audit Report No.4, 2000–01), important administrative elements of the financial program of reform have been the removal of central control over banking, the introduction of the Goods and Services Tax (GST) and the tabling of the Final Budget Outcome (FBO) which reports on the actual financial results against the Commonwealth budget.

1.14 Devolved banking arrangements were introduced from 1 July 1999 with agencies required to open and manage bank accounts in respect to their departmental and administrated appropriations. Central control over the management of appropriations was removed and agencies are now entirely responsible for monitoring the level of payments against individual appropriation lines and preventing payments occurring in excess of appropriation levels. There are two performance audits underway to provide an objective account of the efficiency and effectiveness of the implementation of devolved banking and an assessment of the management of the associated risks. It is anticipated that they will be tabled in the Spring Sittings of Parliament in 2001.

1.15 The GST was introduced from 1 July 2000. This required extensive re-engineering of APS financial processes and systems. The implementation of the GST in Commonwealth Government entities will be evaluated during the interim phase of the financial statements audits. The results of the evaluation will be included in the 2000–2001 controls report to Parliament.

1.16 The Charter of Budget Honesty required that the FBO be tabled in Parliament by 30 September. The FBO was tabled on 29 September and reported on the actual financial results against the Commonwealth budget. For the first time, the 1999–2000 FBO used accrual information submitted by individual government agencies. In 1999–2000 the Commonwealth general government sector achieved an underlying cash surplus of \$12.7 billion and an accrual fiscal surplus of \$13.5 billion.⁸

⁸ 1999–2000 *Final Budget Outcome*, Commonwealth of Australia.

Impact of the new APS service delivery arrangements on the audit role

1.17 The changes introduced to the public service have had a corresponding impact on the role of the ANAO and the auditing function. While the mandate provided by the Parliament to the Auditor-General is clear, increasingly, the ANAO has been required to include private sector service providers within the scope of audits. Within this context, the ANAO has been required to access records held by the private sector to perform the Auditor-General function. As reported previously, external scrutiny is an essential element in ensuring that public accountability is not eroded.

1.18 During the reporting period, the Government responded to a recommendation in JCPAA Report 368 *Review of Audit Report No. 34 1997–1998 New Submarine Report*. The recommendation was aimed at ensuring the Auditor-General's right of access to, and inspection of, contractor premises, documents and Commonwealth assets held by the contractor. The Government supported the inclusion of appropriate clauses in contracts and agreed to amend the *Commonwealth Procurement Guidelines* to emphasise the importance of agencies ensuring that they are able to satisfy all relevant accountability obligations. In particular, ANAO access to records and premises will be stressed.

1.19 Another key issue is what aspects of the records should be disclosed and what are legitimate claims to secrecy. There are often clear tensions between the executive government's right to treat sensitive commercial information as confidential and the Parliament's right to know. These tensions were reflected in a Victorian Parliamentary Inquiry in March 2000. The report of the Inquiry made the important observation that:

Although there is perception by some government agencies that all commercial information concerning the private sector should be considered confidential, the law and practice distinguishes between commercial information that should be protected and information that may be released for reasons of public interest or because it either lacks the necessary quality of confidentiality or was not imparted in circumstances which required it to be treated as confidential. The distinction reflects factors such as the economic cost to the owner of the commercial information if it is released, versus community costs if it is not, the extent to which it sheds light on activities for which the government should be accountable and the public interest in the community being informed about the activities of government, the

*context in which the information has been generated, including whether it was supplied on a voluntary basis and the extent to which the information is to be kept secret.*⁹

1.20 The issues raised in the report will be considered within the context of an ANAO review of the use of confidentiality provisions in contracts by a number of Commonwealth agencies. The audit is well underway and is expected to be tabled by the end of the Autumn sittings of the Parliament in 2001.

1.21 The government/community/business partnership approach with its inherent notion of shared outcomes across different organisations is also emerging as a challenge for both public sector managers and for the audit process. The blurring of the distinction between private and public sectors, the emergence of strategic alliances between different contracted parties and, particularly in welfare service delivery, the involvement of voluntary or community-based organisations all create added complexities and risks—particularly where a number of parties provide crucial outputs to achieve particular Commonwealth outcomes. Increasingly, issues of coordination, networking and joint working arrangements are becoming key audit considerations. Information technology can play a crucial role in delivering networked information to clients as well as providing performance information for management and accountability purposes. It is crucial that the lines of responsibility and accountability are clearly defined and that where there are joint responsibilities, these are clearly specified.

1.22 Recently, there has been a number of important requests from the Parliament and the public for special audits to be undertaken. For example, the Senate Finance and Public Administration References Committee has suggested a number of matters that might be taken into account in relation to an audit on the use of confidentiality provisions in contracts. The Senate has also requested the ANAO undertake a review of all expenditures and entitlements accruing to Parliamentarians and Ministers as administered by relevant agencies during the 1999–2000 financial year.

⁹ Victorian Public Accounts and Estimates Committee 2000, *Commercial in Confidence Material and the Public Interest* p. xxii.

1.23 Together, these requests reflect concerns with traditional areas of audit responsibility such as transparency, probity and accountability. However, there are emerging issues such as e-commerce, data management and privacy. The increasing use of e-commerce and data warehousing presents particular challenges to auditors. For example, auditors will need to have appropriate IT skills, or at least access to such skills. Increasingly, Commonwealth records are being maintained electronically. However, as technology changes, the ability to access these records, which may have been stored in redundant storage formats, is becoming problematic.

Summary of recent audit coverage

1.24 Performance audit activity over the past six months has focused on a broad range of issues facing the APS but particularly on risk management in a corporate governance framework (particularly in relation to fraud control), outsourcing and asset sales, contract management, service delivery, data management and legislative implementation. Agencies continue to address the challenges from the changing business environment—particularly as a consequence of devolution and outsourcing. The effective management of risks in contract management and a new business environment requires greater attention by agencies to sound corporate governance and supporting management systems. In addition, the ANAO conducted two benchmarking studies. The first study focused on benchmarking internal audit function. The second study was on the finance function based on benchmarking data on the overall cost of the finance function, financial budgeting and analysis, fixed assets, accounts payable and receivable, payroll, travel, billing and tax activities.

1.25 Financial statement audit activity for the period 1999–2000 was presented in Audit Report No.23 *Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2000*. The report includes a commentary on the structure and status of the new financial framework, focusing on the quality and timeliness of the preparation of the annual financial statements. The major areas of potential improvement continue to be in obtaining appropriately skilled staff and achieving the effective implementation and staff understanding of new information systems. The report also discusses the summary final results of the audits of the financial statements, providing details regarding audit qualifications and any matters emphasised in audit reports, including the results of the individual financial statement audits and any additional significant control issues identified since Audit Report No.52 *Control Structures as Part of the Audits of Financial Statements of Major Commonwealth Agencies for the Period ended 30 June 2000* was tabled in June.

1.26 Further, to provide assurance to the parliament about the performance of the ANAO, the office's strategic planning framework was subject to a performance audit. The audit was undertaken by the independent auditor appointed under Section 41 of the *Auditor-General Act 1997*. The audit concluded that the ANAO's strategic planning framework is well structured and incorporates all of the elements the independent auditor considered should form part of an efficient and effective corporate planning process. The process used by the ANAO provided meaningful and useful information that allowed for the effective planning of current and future activities. The ANAO considered the report to be timely and constructive and will pursue the actions identified in the report to further improve and refine the framework and related processes.

Report outline

1.27 The following chapters summarise the audit findings from performance audits (Chapter 2) and from financial statement audits (Chapter 3). Appendix 1 provides a short summary of each of the reports tabled between 1 July and 31 December 2000. Complete copies of all audit reports are available at <http://www.anao.gov.au>. Appendix 2 lists the performance audit products in progress as at 31 December 2000. Appendix 3 lists presentations and papers given by the Auditor-General and ANAO staff during the period July to December 2000.

2. Performance Audits

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

2.1 Performance audits evaluate the economy, efficiency and administrative effectiveness of the management of public sector entities by examining and assessing resource use, information systems, performance outputs and outcomes, including performance indicators and other information, monitoring systems and legal and administrative compliance.

2.2 The Auditor-General has a mandate, under the *Auditor-General Act 1997*, to undertake, at his discretion, performance audits of all Commonwealth bodies other than Government Business Enterprises (GBEs) or in relation to persons employed under the *Members of Parliament (Staff) Act 1984*. Performance audits of wholly owned GBEs and persons employed under the *Members of Parliament (Staff) Act 1984* may, however, be undertaken by the Auditor-General where requested by the responsible Minister, the Minister for Finance or the JCPAA.

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

- Risk management in a corporate governance framework
- Outsourcing and asset sales
- Contract management
- Service delivery
- Data management and management information systems
- Legislative implementation

2.4 The ANAO made 122 recommendations in the six month period aimed at improving the efficiency, effectiveness and accountability of public sector service delivery. Agencies agreed with 102 of the recommendations and a further 13 with qualification. Seven recommendations were disagreed but, in the opinion of the ANAO, their implementation would result in improvements to public administration and/or accountability.

Risk management in a corporate governance framework

2.5 Risk Management is commonly an important consideration in audits undertaken by the ANAO. Risk Management has been defined as: *'the systematic application of management policies, procedures and practices to the tasks of identifying, analysing, assessing, treating and monitoring risk.'*¹⁰ An effective corporate governance framework assists an organisation to identify and manage risks in a more systematic and effective manner. Effective risk management requires the development of management and administrative processes and systems that support the analysis and control of organisational risks. The more 'market-oriented' environment being created in the public sector, as a result of the reforms over the past decade or so, has significantly increased the risk profile of public sector organisations from both performance and accountability viewpoints. A corporate governance framework, incorporating sound values, cost structures and risk management processes can provide a solid foundation on which to build a cost-effective, transparent and accountable public sector.

2.6 The control structures within a corporate governance framework provide assurance to clients and the Parliament that an agency is operating in the public interest and has established clear lines of responsibility and accountability for its performance. This is reinforced by the interrelationship of risk management strategies with the various elements of the control culture. In contrast, weak internal controls provide an environment where there exists an opportunity to commit fraud¹¹. The ANAO conducted a number of performance audits during the period, examining management of the risk of fraud to agencies.

2.7 Under the *Financial Management and Accountability Act 1997*, Chief Executive Officers are responsible for the implementation of a fraud control plan and for reporting to the portfolio minister on fraud control within agencies. Budget funded Commonwealth authorities and companies are also required to adhere to the Commonwealth's fraud control policy. Four audits conducted during the reporting period focussed specifically on fraud control arrangements in Commonwealth agencies. In general, the ANAO reported that fraud control arrangements in the examined departments were sound. However, room for improvement was identified in the conduct and update of fraud risk assessments and the corporate governance of fraud control, within a sound risk management framework, within agencies.

¹⁰ Standards Australia 1995, *'Risk Management: Australia/New Zealand Standard 4360:1995'*, Homebush, Sydney.

¹¹ Fulwider, Donald G. 1999. *'Recognizing Fraud Indicators'*. International Journal of Government Auditing, Vol.26, No.2, April (p.13).

2.8 Audit Report No.5 *Fraud Control Arrangements in the Department of Industry, Science and Resources* (ISR) reported that ISR has an overall departmental policy that clearly articulated a framework within which ISR's fraud control plan exists. The ANAO made recommendations aimed at improving ISR's performance assessment framework for fraud control; the conduct and reporting of fraud investigations; and ISR staff knowledge of fraud control.

2.9 Audit Report No.6 *Fraud Control Arrangements in the Department of Health and Aged Care* (DHAC) reported that DHAC's fraud control framework was sound and made two recommendations aimed at improving the framework. Audit Report No.16 *Australian Taxation Office Internal Fraud Control Arrangements* reported that the ATO has a comprehensive fraud control policy framework and that its fraud control plan based on systematic agency-wide fraud risk assessments is consistent with better practice. The ANAO made recommendations aimed at improving the administration of internal fraud control arrangements by the setting of relevant benchmarks, targets and performance indicators, and the development of a sound, documented monitoring and reporting system.

2.10 Audit Report No.22 *Fraud Control in Defence* reported that the level of detected fraud in or against Defence is low. The report made a series of recommendations to improve fraud control in relation to sound corporate governance and better fraud intelligence, which underpin the fraud control process.

2.11 The common theme emerging from these reports is the value of appropriate and timely risk management supported by a sound corporate governance framework. Formal risk management may have been seen to be discretionary in the past but it is now an essential element of sound corporate governance and management practice.

Outsourcing and asset sales

2.12 The market-based delivery of some public services with increased private sector participation is a key feature of contemporary public administration. Outsourcing, therefore, has the potential to fundamentally change an agency's operating environment. The ANAO tabled two audits in the last six months that directly addressed key issues in the processes of outsourcing.

2.13 Audit Report No.9 *Implementation of Whole-of-Government Information Technology Infrastructure Consolidation and Outsourcing Initiative* reported on the administration (including the efficiency and administrative effectiveness of the tendering, contracting and monitoring

process) of the Government's strategy to outsource information technology infrastructure and telecommunications services across budget-funded agencies. The audit reported that contracted services had not been met by the service providers in all instances—resulting in a requirement for payment of service credits to the relevant agencies. The ANAO identified the following areas for improvement: overall contract management, including the governance of arrangements for the management of discretionary service credits; monitoring of service providers' performance and contractual obligations; management of security of privacy obligations; and the adequacy of invoicing arrangements. The Finance and Public Administration References Committee has begun an inquiry into the question of IT outsourcing and the issues raised by the audit report. The Government also asked for an independent review of the implementation of the Government's information technology outsourcing initiative. The report was released on 12 January 2001. The report made 10 recommendations directed at devolving the responsibility for the implementation of the initiative to agencies; the more effective treatment of implementation risks; and the provision of expertise and support to agencies implementing IT outsourcing.

2.14 Audit Report No.20 *Second Tranche Sale of Telstra Shares*, found that the sale was conducted in a timely manner, within a tight timeframe. The audit highlighted the need for timely advice from relevant specialists and the coordination of relevant advice on the basis of risk management assessments to inform decision making for better results.

Contract management

2.15 The search for excellence in contract management is one of the most pressing challenges for the Australian Public Service¹². It is therefore incumbent on Australian Public Service managers to refine their skills and knowledge to embrace their enhanced role as managers of outsourced (contractual) arrangements. The effective management of a contract is often the Commonwealth's key means of control over a program's outputs and their contribution to outcomes. The importance of strong project and management skills, sound risk assessment, appropriate information systems to support decision making, and appropriate contractual arrangements are all necessary for the successful management of contracts. Three audits tabled in the last six months addressed the issue of contract management directly.

¹² JCPAA, *Official Committee Hansard*, 29 March 2000, p. 85.

2.16 Audit Report No.8 *Amphibious Transport Ship Project* found that the choice of the form of the contract can be critical to the success of an acquisition project. The ANAO reported that Defence chose a 'firm price' contract even though it was known before contract signature that there would be 'extensive growth work'. A 'firm price' contract puts the risk of schedule delays and cost increases with the contractor, but the placement by Defence of considerable additional work after contract signature reduced the advantages of this type of contract. The ANAO considers that the appropriate form of a contract is best determined on the basis of a systematic risk assessment during the concept development and acquisition stages of the project. The risk assessment should identify, assess and treat production and design risks and take account of inherent risks such as those relating to the acquisition of second hand assets.

2.17 Audit Report No.24 *Family Relationships Services Program* examined the contracts with 100 organisations for the provision of services to the Department of Family and Community Services. The audit found that key elements of a framework for the effective and efficient management of the program were either in place or under development. However, the administration of the program would be enhanced by undertaking a risk assessment of the program followed by other elements of the risk management process.

2.18 Audit Report No.26 *Defence Estate Facilities Operations* found that significant staff reductions over a short period of time had reduced the essential knowledge base and skills available to the Defence Estate Organisation (DEO). As a result, DEO contract management staff did not have sufficient appropriate skills to manage large, complex facilities maintenance contracts. In addition, the audit found that information systems could be enhanced to include information on the cost and contribution of each asset to Defence capability to better inform decision making.

Service delivery

2.19 Recent directions in public sector reform have produced an environment where nearly all of the results the government strives to achieve require the coordinated efforts of two or more agencies/parties/levels of government. Unfocused and uncoordinated programs waste scarce resources, confuse and frustrate clients (citizens) and limit overall program effectiveness. The development of effective working relationships with stakeholders is, therefore, an important element in a soundly functioning corporate governance framework and can help to identify, overcome, and even avoid, fragmentation and unnecessary overlaps in government programs. Market mechanisms may actually create 'islands' of activity within agencies, particularly where activities are more commercially based. This can make coordination of services to

clients in a seamless manner that much more difficult. Where there are barriers to the free flow of information, ideas and creative energy, organisations risk becoming rigid and inefficient¹³. The development of networked service delivery arrangements can improve the effectiveness and efficiency of the delivery of services to the public. The ANAO conducted several audits in the last six months that focussed on service delivery, two of which touched on the networked delivery of services.

2.20 Audit Report No.7 *The Australian Taxation Office's Use of AUSTRAC Data* found that the ATO used AUSTRAC data to achieve a significant improvement in the collection of taxation revenue. In addition the report noted that significant wide-ranging benefits could be gained by adopting a networking approach where the ATO worked in partnership with AUSTRAC. This would contribute to the effective achievement of outcomes by both agencies; would extend the strategic focus of the ATO's use of AUSTRAC data; and would facilitate the effective management of emerging issues and potential risks.

2.21 Audit Report No.18 *Reform of Service Delivery of Business Assistance Programs* reported on the change process in AusIndustry in implementing new service delivery arrangements that involved the separation of policy development and product delivery. The audit found that AusIndustry had maintained service levels to clients but that the rate of change had been slower than anticipated, delaying the realisation of benefits from the new arrangements. While the separation of policy and product delivery had been achieved, to the extent possible, a number of corporate governance structures needed to be put in place to ensure operational effectiveness. In particular, Service Level Agreements (SLA's) could be strengthened by clarification of the nature of the service and consistent performance information across agreements.

2.22 Audit Report No.10 *AQIS Cost-Recovery Systems* found that the Australian Quarantine Inspection Service's (AQIS) cost-recovery systems are mature and stable and deliver near cost recovery for AQIS recoverable programs. However, the report found that AQIS could not assure itself, or stakeholders, that the programs are identifying and recovering the full costs of services without substantial cross subsidisation between locations and services. Knowing the cost of the delivery of programs is an essential element in controlling the cost and ensuring costs are minimised commensurately with effective program delivery. Such knowledge is essential to ensure government programs are providing value for money. This is particularly important where cost recovery regimes are in place.

¹³ Performance and Innovation Unit Report, 2000, *'Wiring it up—Whitehall's Management of Crosscutting policies and services'*, *Modernising Government*, London.

Data management/management information systems

2.23 There has been a continuing dynamic growth in the use of information technology and telecommunications to assist in public program delivery. The implication is that the imperatives of technology are creating the conditions for the state to become 'virtual government'.¹⁴ The greater use of decision and/or rule-based support systems should ensure greater consistency and equity of treatment as well as allowing greater individual attention to be given to more complex cases. Such systems require sound quality assurance review mechanisms to promote confidence and credibility of stakeholders, including clients. The use of IT is having considerable impact on agency accountability and risk management, both positively and negatively. The ANAO recognises that there are risks inherent in the management of IT systems themselves, particularly relating to the security of agency data in a contestable or outsourced service delivery environment where public sector entities may not have direct access to, and control of, such data. Timely and relevant management information is intrinsic to the whole process of public management including, planning, implementing, monitoring, and evaluating performance.

2.24 Audit Report No.3 *Environmental Management of Commonwealth Land—Follow-Up Audit* found that Defence's environmental management of Commonwealth land would be improved by a fully operational management information system and improved records management practices. This would allow Defence to better identify, rate, prioritise and address the environmental management risks of Defence's estate.

2.25 Audit Report No.2 *Drug Evaluation by the Therapeutic Goods Administration—Follow-up Audit* found that the Therapeutic Goods Administration (TGA) had implemented or partially implemented recommendations of Audit Report No.8 (1996–1997). That report aimed at improving TGA's efficiency and effectiveness and reporting to its stakeholders through improvements to its information technology: developing a system to assess the cost of TGA's services to the Pharmaceutical industry; and monitoring adverse drug reactions.

2.26 Audit Report No.11 *Knowledge System Equipment Acquisition Projects in Defence* examined Defence's arrangements for higher level management of its knowledge systems projects. Defence uses about 150 logistics systems and various personnel and administrative information management systems. This is a result of business processes that allowed

¹⁴ Sturgess G. *Virtual Government: What Will Remain Inside the Public Sector*, Australian Journal of Public Administration, Vol. 55 No. 3, pp. 59–73.

managers to acquire information systems to satisfy individual functional requirements. As a consequence, the degree of commonality and ability to exchange information between these systems is limited. The audit concluded that an effectively and consistently applied project management methodology, coupled with sound corporate governance practices to be established by the Chief Knowledge Officer, are necessary for the better integration of Defence's management information and operational information systems.

Legislative implementation

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

2.28 Audit Report No.12 *Passenger Movement Charge—Follow-up* examined the administration of the *Passenger Movement Charge Act 1978* and the *Passenger Movement Charge Collection Act 1978* by the Australian Customs Service (ACS). The Audit reported that the ACS had taken action to implement all recommendations of the 1996 Audit Report. Furthermore, the audit found that the ACS had enhanced formal arrangements with airlines for the collection and remittance of the Passenger Movement Charge. The ANAO considered that the Commonwealth's interests would be better protected if the ACS could complete formal arrangements with all airlines, but noted the voluntary nature of the arrangements under the relevant legislation.

2.29 Audit Report No.17 *Administration of the Waterfront Redundancy Scheme* assessed compliance with the *Stevedoring Levy (Collection) Act 1998* and *Stevedoring Levy (Imposition) Act 1998* and the effectiveness of the administration of the scheme by the Department of Transport and Regional Services (DoTRS). The report found that there was substantial compliance with the relevant legislation. A high level of efficiency and effectiveness has been achieved in the design and implementation of administrative and financial controls governing the provision of redundancy payments to eligible employees of stevedoring companies by the Maritime Industry Finance Company Ltd (MIFCo). The report identified opportunities for the improvement of the DoTRS Stevedoring Levy Collection compliance strategy.

3. Financial Statement Audits

This chapter summarises the financial audits and other financial audit activities conducted by the ANAO during the period July to December 2000.

3.1 The ANAO undertakes financial statement audits of all Commonwealth entities each year. The *Financial Management and Accountability Act 1997*, the *Commonwealth Companies and Authorities Act 1997* and the Corporations Law prescribe the need for entities to prepare financial statements and arrange for their audit.

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

3.3 The audit opinion on the financial statements adds credibility to the financial statements. It is not an absolute guarantee of their veracity or reliability and is formed on the basis of reasonable evidence, not certainty. It also does not provide any direct comfort in relation to the absence of fraud or other irregularity.

3.4 The results of financial audits, together with any important findings arising from the audits, are reported directly to the responsible Minister at the completion of the audit, and progressively to executive management of each entity.

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

3.6 The Auditor-General also produces reports to the Parliament that summarise the outcomes of all financial statement audits. The first report, *Audit Report No.52 1999–2000 Control Structures as Part of the Audit of Financial Statements of Major Commonwealth Agencies for the Period ended 30 June 2000*, summarised issues regarding financial systems, controls and processes arising from the interim phase of the financial statement audits of major Commonwealth agencies for the year ended 30 June 2000.

Audit Report No.23 2000–01 *Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2000* draws together the overall results of the financial statement audits of Commonwealth agencies and entities. Together these reports summarised the results of the audits of financial statements of all Commonwealth entities for 1999–2000.

Audits of financial statements

3.7 The ANAO formed an opinion and reported on the financial statements of 293 Commonwealth entities for the period ended 30 June 2000, including the Commonwealth of Australia Consolidated Financial Statements. These entities are diverse in size, industry and location. The results of this work were reported in Audit Report No.23 *Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2000* tabled on 15 December 2000.

3.8 Ten qualified audit reports were issued for a variety of reasons, but predominantly for breaches of reporting requirements and breaches of the Constitution or other legislation.

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

Financial management issues

3.10 The 1999–2000 reporting year was the first year of accrual budgeting in the Commonwealth with the Commonwealth Government preparing the Federal Budget on an accruals basis rather than a cash basis.

3.11 In addition to this reform, responsibility for banking and foreign exchange management has been devolved to individual agencies. The GST was implemented from 1 July 2000 and the timing for reporting the results of financial statements was brought forward.

3.12 This rapid rate of reform places pressure of entities to ensure the robustness of their systems to process valid transactions accurately, completely and in a timely manner. Financial systems should have in place control procedures to detect and correct any errors in processing. As the summary of control issues detailed below indicates, some agencies are finding it difficult to maintain well controlled financial systems.

Agency banking

3.13 Many agencies are facing difficulties in keeping pace with the rapid rate of reform. For example, there are cases where banking solutions in newly implemented Financial Management Information Systems (FMIS) are inadequate, resulting in an inability to perform basic cash balance reconciliations, thus increasing not only the risk of inefficient use of cash assets but also the risk of fraud and error. Reliance on FMIS information and basic reconciliations is fundamental to the success of agency cash management and banking.

Implementation of GST

3.14 The Commonwealth Parliament passed legislation introducing a GST with effect from 1 July 2000. The GST legislation overrides tax-exempting provisions in other legislation with the result that Commonwealth agencies and authorities are subject to the tax. Like any other enterprise, entities pay the GST on most of their acquisitions and charge the GST on the sale of goods and services. Although the GST did not take effect until 1 July 2000, it had an impact on the financial reports of agencies and authorities for the year ending 30 June 2000. This is because the financial statements reported assets, liabilities and commitments that extend beyond 30 June 2000 and were affected by the GST.

Timing for financial statement preparation

3.15 As part of the Government's financial reforms, the Commonwealth Budget and the Commonwealth Consolidated Financial Statements (CFS) are produced on an accrual basis. The Final Budget Outcome (FBO) is now derived from the CFS.

3.16 The *Charter of Budget Honesty Act 1998* requires the FBO to be tabled by 30 September each year. Meeting this deadline required bringing forward the completion of the CFS and the production of the financial statements for individual Commonwealth entities. This required the financial results of all material entities forming part of the CFS to be prepared and audited by 15 August 2000, posing significant challenges for all those entities involved, including the ANAO.

3.17 The Government's deadline was achieved. However, this improvement in timeliness was not matched by the quality of the financial statement preparation process. To continue to meet the reduced reporting timetable it is essential that agencies have their FMIS fully functional and maintained by trained staff, or specialist consultants, with the required experience in systems management and accrual accounting. Many agencies are yet to fulfill this objective to their own or other stakeholder satisfaction.

Interim reporting

3.18 The DOFA requirement for material entities to produce monthly and quarterly financial reporting is fostering a more disciplined approach to the preparation of financial reports and an increased focus on the systems and processes to deliver the information.

3.19 Advances made in annual reporting processes have assisted a number of agencies in preparing monthly financial statements. In time, the quality of monthly reporting should improve, enabling agencies to strengthen their financial analysis and management; this is expected to feed into the annual reporting process, contributing to both the quality and timeliness of annual financial report production. The managements of an increasing number of agencies are placing greater emphasis and significance on the financial reporting process. However, due to system development issues and implementation problems, together with a lack of professional accounting resources, many agencies are facing difficulties in producing timely and useful financial reports.

Resourcing

3.20 There is a general shortage of trained and experienced personnel with accounting qualifications within the public sector, particularly in the Australian Capital Territory. The move to accrual budgeting has increased the demand for these skills. Agencies require robust financial and management systems to operate in the environment of financial reform program, which includes skilled staff to implement and maintain the systems. As a consequence of this shortage there has been an increase in contracting-out and outsourcing of accounting functions to private sector service providers in order to meet agencies' obligations in relation to the earlier reporting timeframe and other resource constraints.

Summary of control issues

3.21 The ability to rely upon the strength of the control environment and procedures is integral to the ANAO's risk-based audit approach. Sound controls contribute to the integrity, validity and reliability of the Commonwealth's financial and other data. An overview of the current issues noted by the ANAO as part of its 1999–2000 financial statement audits is provided below, as well as a summary of key issues flowing from the earlier controls report.

FMIS implementation and information technology controls

3.22 Timely and high quality financial statements are dependent on effective computer-based information systems. To comply with the Government's new financial reporting initiatives, agencies have implemented, or are in the process of implementing, new FMIS. Many of these systems still do not have full operational functionality, which is exacerbated by the shortage of skilled staff outlined above.

3.23 The Commonwealth is highly dependent upon IT infrastructure and systems for provision of goods and services. The ANAO reviewed significant IT systems to gain assurance as to the completeness, accuracy and validity of financial statements data derived from these systems. These reviews indicated a number of shortcomings with the management of the implementation of the systems and computer access, security and program change controls.

Accounting systems controls

3.24 Accounting systems controls are processes that complement IT system-based controls to provide agencies with assurance that their data is complete, valid and reliable. The ANAO's review of these controls during the final phase of financial statement audits identified the following limitations:

- lack of complete reconciliations to the general ledger and human resource systems;
- inaccurate banking data and incorrect coding of administered monies leading to variances in bank reconciliations;
- poor controls with expenditure systems; and
- inadequate segregation of duties and responsibilities where incompatible roles were undertaken by the same staff member.

Specific accounting issues

Reporting on spending against appropriations

3.25 Under the accrual budgeting and accounting framework, accountability for appropriations is expressed both in cash and accrual terms within the annual financial statements. Responsibility for ensuring that cash limits are not exceeded rests with individual agencies. In the course of the audits of financial statements, it became apparent that some agencies found difficulty in reporting on cash expenditure against appropriation. Relevant causes included:

- newly implemented FMISs that were not fully functional;
- agencies not accounting for spending against individual appropriations;
- infrequent reconciliations to DOFA records of cash transfers between the Official Public Account and agencies' bank accounts;
- a lack of understanding by agencies that the relevant reporting required under the Finance Minister's Orders was the amount of cash payments made out of the Official Public Account compared to the amount appropriated by the Parliament; and
- the lapsing of annual administered appropriations under the Annual Appropriation Acts.

Recognition of appropriations

3.26 In past years, appropriations for departmental items were recognised as revenue by agencies in their financial statements, as they were spent. Under the purchaser/provider model being introduced progressively in conjunction with accrual budgeting, agencies are expected to receive their appropriations on the delivery of their outputs, rather than as a contribution. Revenue recognition will, in the future, depend increasingly on the extent to which agreed outputs have been delivered. In addition, appropriations may be designated as being equity injections or loans, and will be recognised as such if they meet the accounting definitions of these terms.

3.27 These changes to the operation of the funding framework have a number of implications. The latter include:

- the recognition of revenue for outputs delivered in advance of appropriations being passed by the Parliament, where the Government has agreed outputs and a basis for funding them; and
- the question of who is to determine, on behalf of the purchaser, that agreed outputs have been delivered.

Classification of administered and departmental items

3.28 Revenues, expenses, assets and liabilities over which the agency or authority has control are classified as 'departmental items'. Items that the agency or authority oversees or manages on behalf of the Government, and does not control, are classified as 'administered items'.

3.29 In some cases, the distinction between departmental and administered items will not be clear cut. Control must be assessed in a practical and effective sense having regard to the substance of the situation, rather than in strictly legal terms. For example, an agency displaying cultural or heritage assets effectively controls the assets, despite not having the legal capacity to buy and sell relevant collection assets, if they are able to utilise those assets to further their own objectives. In these circumstances, judgement needs to be applied in determining the appropriate classification. The rationale for that judgement must be transparent.

Accounting for IT outsourcing contracts

3.30 During 1999–2000, many Commonwealth entities brought to account for the first time in their financial statements the financial effects of their participation in the Commonwealth's IT Outsourcing program. The IT Outsourcing contracts entered into typically cover the provision of information technology and telecommunications services as well as the lease of desktop and other equipment.

3.31 A significant issue for the preparation and audit of these statements was to determine the appropriate classification of the equipment leases for financial reporting purposes.

3.32 Under Australian Accounting Standard AAS17 *Leases*, a lease under which the lessor effectively transfers to the lessee substantially all the risks and benefits incident to ownership of the leased asset is termed a finance lease. AAS 17 requires that finance leases are accounted for by lessees by recognition in the Balance Sheet of the leased asset and a corresponding liability to make future lease payments. Lease expenses are recognised as the asset is depreciated and as financing costs on the liability are accrued.

3.33 Conversely, an operating lease is a lease under which the lessor effectively retains substantially all the risks and benefits incident to ownership of the leased asset. Operating leases are accounted for by the lessee recognising lease payments as expenses and by recording an 'off balance sheet' commitment for future lease payments. In applying AAS 17, each outsourcing contract requires separate consideration to assess whether substantially all of the risks and benefits incident to ownership of the leased asset effectively remain with the lessor or pass to the lessee.

3.34 In some cases, it is clear enough that the Commonwealth entities carry little in the way of risk or the risks have been novated. In these cases, it is appropriate to account for the equipment leases under these contracts as operating leases. However, in other cases, substantially all the risks and benefits of ownership for significant classes of assets passed under the contracts to the Commonwealth entities. The risks passed included the residual value risk, typically on early termination of individual equipment leases and expiry or termination of the overall contracts. In addition, the tests contained within the accounting standard were also met. In these cases, the ANAO expected entities to account for these transactions as finance leases.

3.35 In some cases, entities did not recognise finance leases where it was appropriate to do so. While materiality is taken into account in considering the accounting and disclosure for these transactions in financial statements, entities should adopt the required accounting approach for these transactions as a matter of good practice.

3.36 Performance aspects related to IT outsourcing have been addressed in Audit Report No.9 2000–01 *Implementation of Whole-of-Government Information Technology Infrastructure Consolidation and Outsourcing Initiative*.

Commonwealth of Australia Consolidated Financial Statements 1999–2000

3.37 The Minister for Finance and Administration signed the 1999–2000 Commonwealth of Australia Consolidated Financial Statements (CFS) on 5 October 2000. The CFS represents a consolidation of the financial reports of all material Commonwealth controlled entities, dissected into the general government, public trading enterprises and public financial enterprises. A qualified audit report on the 1999–2000 CFS was issued on 5 October 2000.

3.38 As indicated in the CFS, taxation revenue was measured in previous years on the basis of revenue accrued in relation to balance dates falling within the reporting period. Taxation revenue has now been recognised in the financial statements on the basis of when tax payments are due and payable.

3.39 Prior to 1998–99, taxation revenue was recognised when the Government gained control of the future economic benefits that flowed from taxes and when those future economic benefits could be measured reliably. That approach also reflected the provisions of the *Income Tax Assessment Act 1997*, whereby the obligation to pay tax exists prior to assessment, and the underlying transactions, not the assessment, give the Government control of the right to receive taxation revenues. This continues to be the approach adopted by the ATO in its financial statements for the year ended 30 June 2000.

3.40 The effect of the change on the CFS since 1998–99 is to defer the time at which taxation revenue is recognised in the financial statements. The treatment adopted in the preparation of the CFS does not accord with Australian Accounting Standard AAS 31 *Financial Reporting by Governments*, which requires that all of the Government's assets, liabilities, revenues and expenses be recognised on an accrual basis in the financial statements. As indicated in the CFS, the financial effect of this change and the accounting for it, is to understate the operating result attributable to the Commonwealth for the year by \$3.9 billion and to understate accrued taxation revenues by \$29.5 billion, accrued taxation liabilities by \$15.6 billion and net assets by \$13.9 billion at 30 June 2000.

Related financial statement activities

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

- revised and republished better practice guides such as '*AMODEL Agency*' and '*Non-Commercial Authority*' which provide guidance on, and examples of, better practice in public sector financial reporting and disclosure;
 - provided seminars, for Commonwealth officers in Sydney and Canberra, covering developments in financial reporting requirements; and
 - issued the September and December 2000 editions of the new ANAO publication *Opinions*, which provides Commonwealth agencies and authorities with regular information on developments in financial reporting and disclosure requirements, as well as details of performance audits and better practice guides produced by the ANAO.
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Canberra, A.C.T.
7 February 2001

P.J. Barrett
Auditor-General

Appendices

Appendix 1

Audit Reports tabled in the period 1 July to 31 December 2000

Audit Report No.1 2000–2001

Performance Audit

Commonwealth Assistance to the Agrifood Industry Cross-Agency

The objectives of the audit were to identify the nature and extent of Commonwealth assistance to the agrifood industry; and, for the Commonwealth agencies involved, to assess whether they were able to demonstrate their success in achieving the Government's objectives for the Australian agrifood industry by assessing agencies' agrifood-related: planned outcomes; performance information; and reporting.

The ANAO found that Commonwealth assistance to the agrifood industry involved 27 agencies and amounted to \$100 million in 1998–99. The major forms of assistance were for research and development, market access and market development. Although the four key agencies audited had clear, realistic and achievable outcomes in their higher level planning documents, the ANAO found that the Department of Transport and Regional Services' (DoTRS) planned outcome covered functions that were shared with other agencies. Where agencies have shared outcomes, the contribution of agencies to the outcome should be identified for accountability purposes.

The ANAO considered that many of the statements of lower level planned outcomes by agencies included in the audit were, in substance, statements of strategy or output. Agriculture, Fisheries and Forestry Australia (AFFA), the Department of Foreign Affairs and Trade (DFAT) and DoTRS do not have performance indicators that focus adequately on outcomes. In addition, these indicators are not sufficiently precise or in a form that allows targets to be set and performance to be adequately assessed and reported.

The ANAO made four recommendations directed at improving the planning, monitoring and reporting of Commonwealth assistance to the agrifood industry.

Audit Report No.2 2000–2001

Performance Audit

Drug Evaluation by the Therapeutic Goods Administration—Follow-up Audit.

Department of Health and Aged Care (DHAC)

Therapeutic Goods Administration (TGA)

The objective of the audit was to examine the extent to which TGA had implemented recommendations made by the ANAO in 1996 on the efficiency, effectiveness and accountability of TGA's evaluation and approval of prescription drugs for public use. This follow-up audit was conducted because of the importance of effective drug evaluation processes to public health.

The Audit found that TGA has implemented, or partly implemented, 12 of the 14 recommendations in the ANAO's 1996 report and is addressing the remaining recommendations through alternative means. Generally, TGA's implementation has been consistent with the thrust of that report to improve TGA's efficiency, effectiveness and reporting to stakeholders. The ANAO noted a high level of industry confidence in TGA's evaluation processes.

The report made three recommendations, including one recommendation about an outstanding matter from ANAO's 1996 audit regarding the timeliness of drug evaluation. Two additional recommendations were made to improve performance management of the monitoring of adverse reactions to registered drugs and to improve performance indicators.

Audit Report No.3 2000–2001

Performance Audit

Environmental Management of Commonwealth Land—Follow-up audit

Department of Defence

This audit is a follow-up to ANAO Audit Report No.31 1995–96 *Environmental Management of Commonwealth Land: Site Contamination and Pollution Prevention* ('the original audit'). The objectives of the audit were to determine: the extent to which Defence has implemented the agreed recommendations contained in the original audit (relating to its environmental management and the management of unexploded ordnance (UXO) on non-Commonwealth land); and the effectiveness of the implemented recommendations in improving the environmental management of Commonwealth land.

The ANAO found that Defence has made some important progress towards developing a corporate Environmental Management System (EMS) framework. However, its development slowed significantly when other environmental tasks received a higher priority. Most of the recommendations from the original audit are partially implemented or are scheduled for implementation in the near future. As many of the recommendations have been implemented only partially, it is too early to form an opinion on whether Defence has been effective in improving the environmental management of Commonwealth land. Although Defence has modestly increased the resources it allocates to UXO management, the ANAO estimates that it will still be at least 10 years before the UXO program is completed.

The ANAO made five recommendations directed at improving the environmental management of Defence's estate through a fully operational environmental management information system and improved records management practices, which would allow Defence to better identify, rate, prioritise, review and address the environmental management risks of Defence's estate.

Audit Report No.4 2000–2001

Audit Activity Report: January to June 2000 **Cross-Agency**

The report summarised the audit and other related activities of the ANAO in the period January to June 2000. Key issues examined in the ANAO's performance audit activity in the period were: policy development; legislative implementation; contract management; costing, coordination and consistency in program delivery; and risk management. The report also summarised the results of a report dealing with issues regarding financial systems, controls and processes arising from the interim phase of the financial statement audits of major Commonwealth agencies for the year 1999–2000.

Audit Report No.5 2000–2001*Performance Audit***Fraud Control Arrangements in the Department of Industry, Science and Resources****Department of Industry, Science and Resources (ISR).**

The objective of the audit was to examine the framework and systems that Industry, Science and Resources (ISR) had in place to prevent, control, monitor, detect and investigate fraud. The effectiveness of these arrangements in relation to departmental administrative functions and program operations was assessed as part of the audit.

The ANAO found that ISR has some elements of a suitable fraud control framework in place. ISR had a departmental policy that clearly articulated its commitment to fraud control and outlined the roles and responsibilities of the relevant groups with operational and review responsibilities. However, the fraud risk assessment undertaken by ISR in 1998 was no longer relevant to the current conditions. In addition, the methodology used did not appropriately determine the inherent risk factors. This meant that ISR's Fraud Control Plan was not underpinned by an appropriate risk assessment. The fraud control plan did not address protective security or include firm timetables for action plans as required by Government policy.

The ANAO made three recommendations to improve ISR's fraud control framework directed at ISR's performance assessment framework for fraud control; the conduct, recording and reporting of fraud investigations; and promotion of ISR staff awareness and knowledge of fraud control.

Audit Report No.6 2000–2001

Performance Audit

Fraud Control Arrangements in the Department of Health and Aged Care.

Department of Health and Aged Care (DHAC)

The objective of the audit was to assess the framework and systems that DHAC had in place to prevent, control, monitor, detect and investigate fraud. The effectiveness of these arrangements in relation to departmental administrative functions and program operations was assessed as part of the audit.

The ANAO found that DHAC had taken appropriate steps to protect Commonwealth resources under its administration from fraudulent misappropriation by developing a sound fraud control framework, the effectiveness of which is illustrated by the relatively low incidence of reported fraud in the department over the last few years. The framework also includes key elements for preventing and dealing with fraud in line with the Commonwealth's Fraud Control Policy. However, the ANAO concluded that the performance assessment framework was not sufficient to properly assess the performance of the fraud control function on an ongoing basis. In particular, performance benchmarks and targets were not being utilised in quarterly reports to the audit committee and arrangements to monitor progress made by program areas were not systematic or formalised.

The ANAO made two recommendations to improve DHAC's fraud control framework directed at addressing the limitations in DHAC's monitoring and reporting of fraud control performance assessment framework.

Audit Report No.7 2000–2001*Performance Audit***Australian Taxation Office's Use of AUSTRAC Data****Australian Taxation Office (ATO)**

The objective of the audit was to examine the administrative effectiveness of the ATO's use of AUSTRAC data. The Financial Transaction Reports (FTR) provided by AUSTRAC are an important source of intelligence for the Australian Taxation Office (ATO) in administering and enforcing taxation laws and collecting revenue.

The audit focussed on the ATO's use of AUSTRAC data at the strategic and operational levels and its management of AUSTRAC data. Aspects examined included the ATO's relationship with AUSTRAC as well as training, data quality, data privacy and security issues.

The ANAO found the ATO has used AUSTRAC data to achieve a significant improvement in the collection of taxation revenue. The ANAO considers there are wide-ranging benefits to be gained by the ATO if greater emphasis is given to its strategic relationship with AUSTRAC and the adoption of a networking approach. This would contribute to each organisation achieving its outcomes more effectively; would extend the strategic focus of the ATO's use of AUSTRAC data; and would facilitate the effective management of emerging issues and potential risks.

Reporting on AUSTRAC activities would also provide assurance to the ATO Executive that AUSTRAC data is being used effectively within the ATO. The development and implementation of a performance management system to provide accurate and relevant feedback to AUSTRAC would help to improve the value and effectiveness of AUSTRAC data to the ATO.

The ANAO made six recommendations to improve the effectiveness and use of AUSTRAC data directed at the development of a networking approach; the monitoring and reporting of performance information; the enhancement of training; and the exploration of further opportunities for the use of AUSTRAC data.

Audit Report No.8 2000–2001

Performance Audit

Amphibious Transport Ship Project

Department of Defence

The objective of the audit was to assess Defence's management of the project to acquire and modify two former US Navy transport ships now commissioned as HMA Ships *Manoora* and *Kanimbla*.

The ANAO found that, once completed, the two ships are expected to enhance the amphibious lift capabilities of the Australian Defence Force (ADF). Problems associated with cost increases and delays can be traced back to the capability development and acquisition stages. The lack of clear guidance on the capability being sought and lack of detailed analysis of the capability options increased the risks to the project. The decision to purchase the ships as an 'opportunity buy' before available funds lapsed, and without a rigorous examination of their condition, caused difficulties that are still being overcome.

Inadequacies in the pre-acquisition survey led to an overly optimistic assessment of the ships' condition. The result has been that the amount of repair and refit work required to bring the ships up to Royal Australian Navy standards was underestimated. There have also been increases approved in the cost and number of capabilities added to the ships. This work, together with the additional repair and refit work, has resulted in a significant increase in the amount of unplanned emergent work required to be undertaken on the ships.

To improve management of the project, the ANAO made five recommendations directed at the identification of all costs and risks associated with the acquisition and operation of the vessels; the development of guidance on the review of projects experiencing significant increases in cost; and the formalisation and dissemination of lessons learned by Defence as a result of the acquisition.

Audit Report No.9 2000–2001

Performance Audit

Implementation of Whole-of-Government Information Technology Infrastructure Consolidation and Outsourcing Initiative Cross-agency

The objectives of the audit were to examine the administrative and financial effectiveness of the implementation of the Whole-of-Government Information Technology Infrastructure Consolidation and Outsourcing Initiative (IT Initiative). The focus was on the first four major tenders completed—Cluster 3, Department of Employment, Education, Training and Youth Affairs/Employment National, Group 5 and Australian Taxation Office. Specifically the audit examined the overall management of the implementation of the IT Initiative by the Office of Asset Sales and IT Outsourcing (OASITO); the tendering process of the first four major tenders; and on the management by the relevant agencies of the resulting Agreements.

The ANAO found that implementation of the IT Initiative required significant effort on the part of OASITO and participating agencies. It involved the tendering of an unprecedented volume of business to industry in a limited period of time. Shortfalls in expected industry capacity and participation are a significant factor in the need to revise and extend the implementation schedule. Implementation of the IT Initiative by OASITO is now expected to be completed in 2001, some two years after the initial date; and to cost nearly three times as much as was originally budgeted.

The outsourcing Agreements considered in this audit have operated for relatively short periods and their longer-term effectiveness in delivering the expected service and financial benefits will be determined over their five-year terms. The extent to which those benefits have been realised by agencies in their initial implementation phases has been variable. Considerable progress has been achieved across a number of areas of importance to the Cluster 3 agencies, albeit with significant service delivery difficulties for extended periods. Operational services were generally delivered to expected levels by the ATO External Service Provider (ESP) as from hand-over in late June 1999, but there were significant levels of service instability following the hand-over to the Group 5 ESP in July 1999.

In each tender reviewed, the successful tenderer: offered the lowest price by a clear margin compared to that of other tenderers; was assessed as either preferred or comparable in terms of service and risk; and proposed industry development (ID) commitments that were assessed as adequately meeting the Government's ID objectives as set out in the RFTs. In each case, the tender evaluation reported actual and/or potential service benefits from the solution proposed by the successful tenderer, and identified a level of savings expected to accrue from outsourcing.

The ANAO considers that the financial evaluation methodology applied in these tenders did not allow for two key factors which, in ANAO's view, were material to the assessment of savings arising from outsourcing the relevant IT&T services. These were the service potential associated with agency assets expected to be on hand at the end of the evaluation period, under the business-as-usual case, and the costs arising from the Commonwealth's guarantee of asset values, under the outsourcing case.

The ANAO made 20 recommendations identifying opportunities for improvement in the management and ongoing implementation of the IT Initiative. Specific areas for improvement include: on-going strategic oversight and evaluation of IT outsourcing by Commonwealth agencies; enhancing the transparency and accountability of tender processes and evaluation outcomes; the financial evaluation method adopted to reflect the agreed financial value to the Commonwealth from the proposed arrangements, including the appropriate treatment of end-of-period assets; and overall contract management.

The Finance and Public Administration References Committee has begun an inquiry into the question of IT outsourcing and the issues raised by the audit report. The Government also requested an independent review of the implementation of the Government's information technology outsourcing initiative. The report was released on 12 January 2001.

Audit Report No.10 2000–2001

Performance Audit

AQIS Cost-Recovery Systems

Australian and Inspection Service (AQIS)

The objective of the audit was to assess the efficiency and effectiveness of the management of AQIS' cost-recovery systems and provide assurance to the Parliament that the cost-recoverable programs are identifying and recovering the full costs of services provided, without cross-subsidisation. The audit focused on the cost-recoverable programs in operation during 1998–99. Particular attention was paid to the key areas of AQIS' cost-recovery policy framework; identifying and attributing costs; recovering costs; setting fees and charges; managing undue cross-subsidisation; and consulting with industry.

The ANAO found that, overall, that AQIS' cost-recovery systems are mature and stable and, with some exceptions, have delivered near cost-recovery for the AQIS recoverable programs. However, AQIS' cost-recovery systems contained a number of inherent weaknesses that potentially impair the efficiency and effectiveness of the management of those systems. In particular, as AQIS generally seeks to recover its costs at a recoverable program level, it is not able to sufficiently assure itself, or stakeholders, that the programs are identifying and recovering the full costs of each type of service provided, without not insubstantial cross-subsidisation for some services. More effective cost-recovery systems would seek to achieve a substantial degree of assurance in this regard, whilst recognising that there are practical constraints to this aim in an organisation providing a large number of different services.

The ANAO made six recommendations designed to assist AQIS to improve the efficiency and effectiveness of the management of its cost-recovery systems directed at documentation of AQIS' cost recovery policies; improving the accuracy of staffing-related cost allocations; dissemination of cost-recovery program performance information to clients; and review of fees against costs and the basis of imposing certain charges.

Audit Report No.11 2000–2001

Performance Audit

Knowledge System Equipment Acquisition Projects in Defence

Department of Defence

The objective of the audit was the review of Defence's higher-level management of its knowledge system equipment acquisition projects. The focus of the audit was on the opportunities for Defence to adopt a much more coherent and integrated approach to knowledge systems management prospectively, rather than on emphasising current system compatibility issues.

The ANAO found that Defence's new arrangements for a Chief Knowledge Officer, supported by revised governance and accountability arrangements, will help ensure that Defence's numerous separate knowledge systems provide their maximum contribution to ADF capability, particularly by maximising synergies and improving coherence and integration between those systems. However, institutional, organisational and procedural difficulties in Defence remain, and these need to be overcome if the above aims are to be achieved. The most substantial risks to knowledge system projects may be those associated with development and retention of skilled individuals needed in all parts of the Defence information environment.

The ANAO made seven recommendations directed at the articulation of the architecture(s) for the future Defence Information Environment; the development of more disciplined program management processes; the clarification of the role of the Chief Knowledge Officer; monitoring of consistency of project management; and the necessary workforce planning activities.

Audit Report No.12 2000–2001

Performance Audit

Passenger Movement Charge—Follow-up Audit

Australian Customs Service (ACS)

The objective of the audit was to report on the action taken by the Australian Customs Service (ACS) to implement the recommendations of the 1996 Audit Report.

The ANAO found that the ACS has taken action to implement all recommendations in the 1996 Audit Report. The ANAO also found that the ACS estimates that it receives 98 per cent of Passenger Movement Charge (PMC) revenue it expects at the aggregate level. However, the ACS could manage PMC remittances at the individual Regular Public Transport (RPT) airline level more effectively. The ACS has enhanced its formal arrangements with airlines to collect and remit the PMC. However, there is scope for the ACS to pursue further improvements to the arrangements to better protect the Commonwealth's interests.

The inclusion of a 'tolerance range' in the current formal arrangements with airlines is contrary to the relevant legislation. The ACS has advised it intends to remove the tolerance range from future PMC arrangements. The ACS has been unable to agree to terms for formal arrangements with two airlines. The Commonwealth's interests would be better protected if the ACS were able to secure formal arrangements with all carriers, particularly the RPT airlines. The ANAO acknowledged the ACS' limited scope to secure formalised written arrangements under the *Passenger Movement Charge Collection Act 1978*.

The ANAO made four recommendations primarily directed at the ACS continuing to seek formal arrangements with airlines that provide the ACS with more detailed information to assist it to verify and reconcile PMC remittances; and increased access to information on airline procedures and processes for calculating PMC moneys.

Audit Report No.13 2000–2001

Performance Audit

Certified Agreements in the APS

Cross-Agency

The objectives of the audit were to provide an overview of the range of wage outcomes included in the first round of APS certified agreements; identify the administrative arrangements agencies have in place to measure any improvements in productivity; determine how agencies funded their certified agreements; review the reporting and accountability arrangements agencies have in place to monitor progress and to evaluate the outcomes of their certified agreements; determine the extent to which agencies complied with the employment terms and conditions outlined in their certified agreements; and examine the role of central coordinating agencies in reviewing agencies' certified agreements.

The ANAO found that the APS wage outcomes have been moderate when compared with those in the broader public and private sectors. Overall, agency certified agreements identified a link between wage increases and productivity improvements as required by the Government's policy parameters. All Budget-funded APS agencies reported that they met the cost of their certified agreements from within their appropriations, and the majority indicated that they had implemented, or were in the process of implementing, the employment terms and conditions included in their agreements. However, there was little evidence of specific monitoring of the impact of certified agreements on agency business performance. External reporting in annual reports is, on the whole, limited to reporting on the processes associated with agreement making rather than agreement making outcomes. The audit also found that the Department of Employment Workplace Relations and Small Business' (DEWRSB) advisory role could be further enhanced.

The ANAO made four recommendations aimed at further improving agreement making in the APS. These included strengthening the link between certified agreements and improvements in productivity; monitoring the achievement of the objectives of certified agreements; and enhancing the support provided by central agencies in the agreement making process.

Audit Report No.14 2000–2001

Benchmarking Study

Benchmarking the Internal Audit Function

Cross-Agency

This benchmarking report was the first in a series of benchmarking studies being undertaken by the ANAO into common business processes. The general objectives of these studies are to obtain and report quantitative and qualitative benchmarks of performance in the public sector; and compare the public sector benchmarks with equivalent international data to identify better practices and highlight opportunities for improvement.

In relation to internal audit, given the three-year duration of the study, these generic objectives have been extended to include an analysis of trends in internal audit over the past three years.

The ANAO found that the internal audit function was broadly effective. The Commonwealth group reported results equal to or better than the Global Auditing Information Network (GAIN) database in a number of important areas. However, the study revealed that the Commonwealth's Internal Audit function has potential to develop in the areas of the level of resources applied to the function; the cycle time to produce audit reports; the level of investment in training; and utilisation rates of formal client satisfaction surveys.

The ANAO made two recommendations aimed at improving the level of scrutiny and review by agency audit committees of the internal audit function and the changing internal audit environment.

Audit Report No.15 2000–2001

Performance Audit

Agencies' Performance Monitoring of Commonwealth Government Business Enterprises (GBE)

Cross-Agency

The objectives of the audit were to examine the effectiveness of agencies' implementation of the current GBEs governance framework; the extent to which agencies and GBEs comply with the Governance Arrangements and legislative requirements; and whether the GBE monitoring system provides an effective level of accountability to Ministers and to the Parliament.

The ANAO found that the current GBE governance framework represents a marked improvement over the system applying until June 1997. The ANAO also identified room for improvement in the areas of consistent application of legislative requirements, development and monitoring of performance against financial targets and reporting to Parliament via the Statement of Corporate Intent process. The ANAO considers that an essential element of the effectiveness of any corporate governance structure is comprehensive compliance with the legislative framework underpinning it.

The ANAO made three recommendations for amendments to the GBE Governance Arrangements relating to the monitoring of GBE's compliance with legislative requirements; the classification of GBEs; and enhancements to performance reporting in annual reports.

Audit Report No.16 2000–2001

Performance Audit

Australian Taxation Office Internal Fraud Control Arrangements

Australian Taxation Office (ATO)

The objectives of the audit were to assess the administration of internal fraud control arrangements in the ATO and to identify areas with potential for improvement as well as identified better practice. The ANAO focussed on five key areas. These were the application of the ATO's corporate governance processes to the internal fraud control activities; the prevention of internal fraud within the ATO; the related use of information technology to minimise fraud risks; the detection of internal fraud within the ATO; and ATO fraud investigation procedures and practices.

The ANAO found that the ATO has demonstrated a strong commitment to comprehensive fraud control by investing significant resources in establishing and supporting fraud prevention and control capability and creating an ethical workplace culture and environment. The ATO has also implemented public sector better practice in critical areas of fraud control planning, staff education and training, and investigations.

The ANAO identified areas that can be further improved. In particular, the risk to the ATO's Information Technology (IT) systems which are an integral part of its fraud control framework, must also be adequately managed with sound planning, assessment, treatment and monitoring given their significance to the ATO. These risks relate primarily to the storage of taxpayer data on the ATO's Wide Area Network contrary to its IT security policy and procedures, and the granting and monitoring of access to the ATO IT systems.

The ANAO made 11 recommendations to improve the administration of internal fraud control arrangements in the ATO.

Audit Report No.17 2000–2001

Performance Audit

Administration of the Waterfront Redundancy Scheme

Department of Transport and Regional Services (DoTRS)

The objectives of the audit were to assess compliance with the *Stevedoring Levy (Collection) Act 1998* and *Stevedoring Levy (Imposition) Act 1998* and other relevant legislation; assess the effectiveness of the administrative and financial controls regarding the collection of the Stevedoring Levy by DoTRS and the provision of redundancy payments to eligible employees of stevedoring companies; and the management of the funding of those payments by way of borrowings by the Maritime Industry Finance Company. (MIFCo.) The audit also sought to review the administrative efficiency of the redundancy payment and levy collection aspects of the scheme.

The ANAO found that substantial compliance with the relevant legislation has been achieved. Further, a high level of efficiency and effectiveness has been achieved in the design and implementation of the administrative and financial controls governing the provision of redundancy payments to eligible employees of stevedoring companies by MIFCo. However, the ANAO also found that the potential exists for the levy collection compliance strategy to be improved in order to sustain the current high level of industry compliance.

The ANAO made four recommendations directed at the monitoring and review of levy collection trends using a broader range of data sources to enhance future levy collection estimates; improved the mechanisms to identify new entrants and/or stevedoring companies handling leviable freight; and a review of DoTRS' risk management strategy and targeting of audit activity.

Audit Report No.18 2000–2001

Performance Audit

Reform of Service Delivery of Business Assistance Programs

Department of Industry, Science and Resources (ISR)

The objective of the audit was to assess the management by ISR and, in particular, by AusIndustry, of the implementation of the changes arising from the Government's December 1997 policy statement in Investing for Growth. This statement required ISR to separate administration of policy from the delivery of products and to improve its service to customers through a 'one stop shop' approach and by streamlining its processes. The audit focussed in particular on the overall strategic management of the change process by AusIndustry; the detailed implementation of the new service delivery arrangements, notably the separation of policy and product delivery; and the implementation of the enhanced customer focus.

The ANAO found that AusIndustry has been able to maintain its service to clients during the change process. However, the pace of change has fallen well short of targets. While the separation of policy and product delivery has been achieved, a number of organisational and management structures require further development. Service level agreements (SLAs) in place have a number of strengths, including clear specification of roles and responsibilities, duration and consultative mechanisms. However, some SLAs do not clearly detail the level of service to be provided or the costs of providing the services.

The ANAO made three recommendations aimed at strengthening project management; providing accurate information on costs associated with product and service delivery; and strengthening the service level agreements.

Audit Report No.19 2000–2001

Financial Control and Administration Audit

Management of Public Sector Travel Arrangements—Follow-up audit

Cross-Agency

In 1997–98, the ANAO undertook reviews of travel arrangements in the Commonwealth Public Sector and published the following:

- Audit Report No.14—*Official Travel by Public Sector Employees*;
- Audit Report No.28—*Contracting Arrangements for Agencies' Air Travel*; and
- Better Practice Guide—*Public Sector Travel*.

The objective of the audit was to provide assurance to the Parliament by ascertaining the degree of acceptance, and the extent of implementation, of the previous audit recommendations and better practice principles; and establishing whether organisations were managing travel efficiently and effectively, taking into consideration recommendations and findings detailed in the above audit reports and the Better Practice Guide.

The ANAO found that the establishment of cluster travel contracts has delivered significant savings on airfares. However, organisations have taken only limited action to re-engineer their travel management processes in response to the recommendations made in the audit reports and the ANAO Better Practice Guide.

The ANAO made 13 recommendations aimed at negotiating improved access to information and premises; encouraging organisations to develop positive relationships with travel management companies; the development of management reports; sharing of information, including levels of rebates; reviewing processes and procedures; the introduction of an employer-sponsored charge card for frequent travellers; the possible implementation of a reimbursement system for travel expenses; management of frequent flyer points; risk assessment; and improvement of control and compliance activities.

Audit Report No.20 2000–2001

Performance Audit

Second Tranche Sale of Telstra Shares

The Office of Asset Sales and IT Outsourcing (OASITO)

The objective of the audit was to examine the October 1999 second sell-down by the Commonwealth of its shareholding in Telstra Corporation Limited. Specifically the audit examined the extent to which the Government's sale objectives were achieved; the effectiveness of the management of the public share offer; and principles of sound administrative practice to facilitate improved administrative arrangements for future Commonwealth public share offers. The Telstra 2 share offer was one of the largest public share offers conducted worldwide in 1999.

The ANAO found that the sale was conducted in a timely manner, within a tight time frame. OASITO was responsible for the management of the Telstra 2 sale. Overall OASITO's management was effective as the sale was concluded within the timetable and on budget. OASITO gave greater attention to its tendering and contract management procedures in the Telstra 2 sale than in the case of Telstra 1. Financial administration of contracts was improved and the management of sub-contractors was also generally of a high standard.

The ANAO made two recommendations directed at obtaining and coordinating appropriate and timely expert advice to inform risk management assessments and decision making; and procedures to ensure transparency when selecting advisers.

Audit Report No.21 2000–2001

RESERVED

Audit Report No.22 2000–2001

Performance Audit

Fraud Control in Defence

Department of Defence

The objective of the audit was to establish whether Defence had developed sound fraud control arrangements that are consistent with better practice and fulfil its responsibilities for the protection of public property, revenue, expenditure, and rights and privileges from fraudulent exploitation.

The ANAO found that the level of detected fraud in or against Defence is low. However, fraud control in Defence could be improved, particularly in corporate governance and fraud intelligence, which underpin the fraud control process. Specifically, the Defence Audit Committee could give more attention to monitoring and developing Defence's fraud control plans. Defence does not have a suitable fraud intelligence capacity that would enable Defence to benchmark its fraud control work against comparable organisations and would enhance fraud risk assessment. The ANAO found that there are delays between assessing risks and developing fraud control plans, the level of feedback to Defence Groups on fraud related matters and the qualifications of personnel engaged in the process.

The ANAO made six recommendations relating to the monitoring and review of fraud control plans; the development of a fraud intelligence capacity; the appropriate underpinning of fraud control plans by fraud risk assessments; the awareness, training and qualifications of relevant staff; and the development of a comprehensive set of fraud investigation procedures.

Audit Report No.23 2000–2001

Financial Statement Audit

Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2000

Cross agency

The report summarises the final results of the audits of the financial statements of Commonwealth entities, forming the second report on financial statement audits for the period ended 30 June 2000. It complements Audit Report No.52 1999–2000 *Control Structures as Part of the Audits of Financial Statements of Major Commonwealth Agencies for the Period Ended 30 June 2000*.

Part One of the report is a commentary on the structure and status of the new financial framework, focusing on the quality and timeliness of the preparation of the annual financial statements. While there has been a significant improvement in the timeliness of the preparation of the annual financial statements in the past year, financial statement reporting issues in relation to reporting of appropriations, classification of administered and departmental items and accounting for information technology (IT) outsourcing contracts still need to be further addressed. The major areas of potential improvement continue to be in obtaining appropriately skilled staff and achieving the effective implementation, and staff understanding, of new information systems. In addition to commentary on these financial reporting issues, this part of the report also includes a summary of current control issues. Sound controls contribute greatly to the integrity, validity and reliability of the Commonwealth's financial and other data.

Part Two discusses the summary final results of the audits of the financial statements, providing details regarding audit qualifications and any matters emphasised in audit reports.

Part Three provides the results of the individual financial statement audits and any additional significant control issues identified since Audit Report No.52.

Audit Report No.24 2000–2001*Performance Audit***Family Relationships Services Program (FRSP)****Department of Family and Community Services (FaCS)**

The objective of the audit was to examine the effectiveness and efficiency of the management of the Family Relationships Services Program (FRSP) by the Department of Family and Community Services (FaCS) subsequent to that department becoming responsible for the administration of the program in December 1998. The audit focussed on issues related to program risk management, the development and management of contractual agreements and whether the performance management and reporting framework enabled an assessment of service provider performance and overall program outcomes.

The ANAO found that the key elements of a framework to manage the FRSP effectively and efficiently were in place or being developed. The Family Relationships Branch (FRB) had implemented a business plan that has clear links to the FaCs Strategic plan. The approach used by FRB for the procurement of services and the letting and management of contracts was consistent with Commonwealth Procurement Guidelines. The ANAO also concluded that the management procedures used by FRB to monitor the performance of service providers were appropriate. However, the ANAO found that although a FaCs had a risk management policy, risk assessment and action plans specific to the FRB had not been prepared.

The ANAO made two recommendations relating to undertaking a risk assessment of the FRSP and the enhancement of procurement and application assessment procedures.

Audit Report No.25 2000–2001

Benchmarking Study

Benchmarking the Finance Function

Cross agency

The report is another in a series of benchmarking studies being undertaken by the ANAO into common business processes. The objective of the finance function benchmarking study was to obtain, and report on over time, quantitative and qualitative data relating to finance function activities as they operate in Commonwealth organisations. The study examined aggregated benchmarking measures of cost; efficiency, quality and better practice reported by 19 Commonwealth organisations for the 1998–99 financial year. The report provides results from the first year of the benchmarking study.

The ANAO study collected benchmarking data on the overall cost of the finance function; financial budgeting and analysis; fixed assets; accounts payable; ‘close the books’ and financial reporting; accounts receivable; payroll; travel; billing; and tax.

The key findings of the study were that the Commonwealth organisations participating in the study perform well in relation to quality in terms of lower error rates for some functions; level of staffing in the finance function; use of shared services; number of actual budgets; number of days between invoicing and receipt of payment; processing cost per pay; greater use of reimbursement; and some elements of cost. The study also indicated areas where Commonwealth organisations had opportunities for improvements including higher costs for the financial function overall and for some activities; shorter lengths of employee service and lower levels of qualifications for finance function staff; and lower efficiency and higher error rates for some activities.

The ANAO recommended that organisations compare their performance against the benchmarks in the report (and any other relevant benchmarks) in order to assist in the identification and diagnosis of areas where improvements may be made in their business processes.

Audit Report No.26 2000–2001

Performance Audit

Defence Estate Facilities Operations

Department of Defence

The objective of the audit was to assess the efficiency and effectiveness of Defence Estate Organisation's (DEO's) management of selected Defence facilities operations, with a view to adding value with practical recommendations for enhancing operations.

The ANAO found that DEO has implemented many recommendations arising from the Defence Efficiency Review in 1997 and has achieved savings through the reduction of duplicated services in each region and from the development and implementation of more efficient delivery methods. Staff numbers associated with the delivery of the Facilities Operations (FACOPS) Program were reduced by more than 50 per cent between 1997 and 2000. This has resulted in ongoing salary savings of more than \$10 million a year.

DEO has made a significant effort to develop and implement a strategic, corporate-focused framework for the delivery of maintenance work through the FACOPS Program. Initiatives, such as the Comprehensive Maintenance Contract (CMC), offer economies and efficiencies that earlier approaches and/or methods lacked.

The ANAO found there was scope for improvement in various areas of the FACOPS Program, particularly in relation to the management of contracts and resources. The staff reductions have resulted in DEO contract management staff lacking the appropriate skills to manage large, complex facilities maintenance contracts in the Defence environment.

The ANAO made six recommendations relating to linking individual facilities costs to outputs and outcomes; the training and qualification of relevant staff; contract monitoring and management; the transparency of decision-making; and improvement of information systems.

Audit Report No.27 2000–2001

Performance Audit

Program Administration Training and Youth Division—Business Reengineering

Department of Education, Training and Youth Affairs (DETYA)

The audit used Business Process Reengineering (BPR) principles and applied these to the business processes of the Training and Youth Division (TYD) of the Department of Education, Training and Youth Affairs.

The ANAO found that the application of BPR principles to selected sub-processes of program administration in TYD identified opportunities to improve these processes by redirecting the focus away from checking inputs to monitoring results achieved in the programs examined. In particular, the reduction in duplication of the number of hand offs and the level of manual processing would allow resources currently involved in detailed payments processing to be redirected to a greater focus on monitoring program effectiveness.

The ANAO recommended that the monitoring of results could be enhanced by clearly defining key performance indicators and collecting the appropriate data for measuring those indicators. This would mean that instead of collecting large amounts of data that is not used effectively, information would be available to provide accountability for results and for decision-making. The report noted the importance of developing a business case to guide implementation.

Appendix 2

Performance audit products in progress as at 31 December 2000

Agency	Audit title
Aboriginal and Torres Strait Islander Commission	Municipal Services in Indigenous Communities
Agriculture, Fisheries and Forestry—Australia	Commonwealth Fisheries Management—Follow-up audit to Audit Report No.32 of 1995–96 Improving Quarantine—Effectiveness of the Australian Quarantine Service and of the Implementation of Quarantine Reforms Management of Primary Industry Levies
Australian Taxation Office (ATO)	Administration of the Collection of Petroleum Excise ATO Performance Reporting under the Outcomes Outputs Framework Compliance Management—Taxpayer Audit Investigation of Alleged Sales Tax Fraud Management of the ATO's Rulings Program
Department of Communications, Information Technology and the Arts	Corporate Governance of the Australian Broadcasting Corporation
Department of Defence	ADF Health Services Follow-up ADF Reserve Force Management of Defence International Cooperation Activities <i>Preliminary Studies</i> ADF Personnel Postings Defence Major Capital Equipment—Acceptance into Service Defence Reform Program
Department of Employment, Workplace Relations and Small Business	Work for the Dole
Department of Family and Community Services (DFaCS).	Aged Pensions—Administration and Compliance (Centrelink) Aged Pensions—Administration and Compliance (DFaCS) Customer Services Officer Skilling (Centrelink) Information Technology Audit—Centrelink Management of Fraud Control in Centrelink Management of Fraud Control in DFaCS
Department of Finance and Administration	Management of Commonwealth Superannuation Benefits to Members

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Agency	Audit title
Department of Foreign Affairs and Trade	Administration of Consular Services
Department of Health and Aged Care	Information Technology Audit—Health Insurance Commission National Cervical Cancer Screening Program 30 per cent Private Health Insurance Rebate
Department of Immigration and Multicultural Affairs	Management of the Adult Migrant English Program Contracts
Department of Transport and Regional Services	Administration of Commonwealth Road Funding <i>Preliminary Study</i> Air Traffic Data Collection in Air Services Australia
Department of Veterans' Affairs (DVA)	Decision Making in War Veterans' Compensation Cases Information Technology Audit—DVA Management of Outsourced IT for Business Delivery
Cross-agency	Administration of the Federation Fund Administration of the Natural Heritage Trust Agencies' Oversight of Works Australia Advances Commonwealth Agency Management of Leased Property Commonwealth Estate Property Sales Controllershship; CFO (Benchmarking) Finance Function 2000 (Benchmarking) FMIS Implementation (Financial Control and Administration Audit) HR Management 2000 (Benchmarking) Internal Budgeting (Financial Control and Administration Audit) Internet Security within Commonwealth Agencies Parliamentarians' Entitlements 1999–2000 Portfolio Information in Portfolio Budget Statements Protective Security Audit—Staff Clearances and Vetting Prudential Supervision of Deposit Taking Institutions Transactional Banking in Selected Agencies Use of Confidential Provisions in Commercial Contracts <i>Better Practice Guides</i> Commonwealth Agency Delivery of Services via the Internet Contract Management Return to Work Workforce Planning in the Australian Public Service

Appendix 3

Presentations and papers given by the Auditor-General and ANAO staff during the period July to December 2000

Mr P.J. Barrett AM

Some Issues in Contract Management in the Public Sector

Presentation to Australian Corporate Lawyers Association and the Australian Institute of Administrative Law Conference on Outsourcing—
26 July 2000

Mr P.J. Barrett AM

Recordkeeping in Commonwealth Agencies: An Audit perspective

Presentation to the National Archives of Australia Advisory Council—
Canberra
11 August 2000

Mr P.J. Barrett AM

Corporate Governance in an Environment of Devolved Authority

Presentation to the Canberra Evaluation Forum
17 August 2000

Mr. G. Caine

Ensuring Accountability in your Alliance Contract—National Museum of Australia Experience

Presentation to Business Law Education Centre Conference on
Government Contracting
29 August 2000

Mr M.K. Lewis

Risk Management in Aviation Safety

Presentation to the 5th Tokyo International Audit Forum
5 September 2000

Mr P.J. Barrett AM

*Managing Compliance for Assurance and Performance: Setting the Course—
Integrating Conformance with Performance*

Presentation to a Joint Department of Finance and Administration,
Attorney-General's Department and Australian Competition and
Consumer Commission Seminar
7 September 2000

Mr P.J. Barrett AM

The Australian National Audit Office's Role and its Approach to Improving Public Sector Management

Presentation to the International Conference on 'Improving Oversight Functions: Challenges in the New Millennium'

11 September 2000

Mr P.J. Barrett AM

Governing Corporately in the Public Sector Within a National Governance Framework—Implications for Supreme Audit Institutions

Presentation to the 8th ASOSAI Assembly and Symposium on Good Governance

12 October 2000

Mr I. McPhee

How to Stay on the Front Foot in a Period of Rapid Change—Experience from an Auditing Perspective

Presentation to CPA Australia Public Sector Congress

16 November 2000

Mr P.J. Barrett AM

What's New in Corporate Governance

Presentation to the CPA Australia, Annual Congress, Adelaide

17 November 2000

Mr P.J. Barrett AM

The Compatibility of Risk Management and the Survival of Accountability in the Public Sector Environment

Presentation to the 24th National Conference of the Association of Risk and Insurance Managers of Australia

20 November 2000

Mr P.J. Barrett AM

Accountability and Performance in a Riskier Public Sector Environment

Address to Senior Western Australian Public Sector Executives

27 November 2000

Series Titles

Titles published during the financial year 2000–01

Audit Report No.27

Program Administration Training and Youth Division—Business Reengineering
Department of Education, Training and Youth Affairs (DETYA)

Audit Report No.26 Performance Audit

Defence Estate Facilities Operations
Department of Defence

Audit Report No.25 Benchmarking Study

Benchmarking the Finance Function

Audit Report No.24 Performance Audit

Family Relationships Services Program (FRSP)
Department of Family and Community Services (FaCS)

Audit Report No.23 Financial Statement Audit

*Audits of the Financial Statements of Commonwealth Entities for the Period Ended
30 June 2000*

Audit Report No.22 Performance Audit

Fraud Control in Defence
Department of Defence

Audit Report No.21

Reserved

Audit Report No.20 Performance Audit

Second Tranche Sale of Telstra Shares

Audit Report No.19 Financial Control and Administration Audit

Management of Public Sector Travel Arrangements—Follow-up audit

Audit Report No.18 Performance Audit

Reform of Service Delivery of Business Assistance Programs
Department of Industry, Science and Resources

Audit Report No.17 Performance Audit

Administration of the Waterfront Redundancy Scheme
Department of Transport and Regional Services
Maritime Industry Finance Company Limited

Audit Report No.16 Performance Audit

Australian Taxation Office Internal Fraud Control Arrangements
Australian Taxation Office

Audit Report No.15 Performance Audit

*Agencies' Performance Monitoring of Commonwealth Government
Business Enterprises*

Audit Report No.14 Information Support Services Report
Benchmarking the Internal Audit Function

Audit Report No.13 Performance Audit
Certified Agreements in the Australian Public Service

Audit Report No.12 Performance Audit
Passenger Movement Charge—Follow-up Audit
Australian Customs Service

Audit Report No.11 Performance Audit
Knowledge System Equipment Acquisition Projects in Defence
Department of Defence

Audit Report No.10 Performance Audit
AQIS Cost-Recovery Systems
Australian Quarantine and Inspection Service

Audit Report No.9 Performance Audit
Implementation of Whole-of-Government Information Technology Infrastructure Consolidation and Outsourcing Initiative

Audit Report No.8 Performance Audit
Amphibious Transport Ship Project
Department of Defence

Audit Report No.7 Performance Audit
The Australian Taxation Offices' Use of AUSTRAC Data
Australian Taxation Office

Audit Report No.6 Performance Audit
Fraud Control Arrangements in the Department of Health & Aged Care
Department of Health & Aged Care

Audit Report No.5 Performance Audit
Fraud Control Arrangements in the Department of Industry, Science & Resources
Department of Industry, Science & Resources

Audit Report No.4 Activity Report
Audit Activity Report: January to June 2000—Summary of Outcomes

Audit Report No.3 Performance Audit
Environmental Management of Commonwealth Land—Follow-up audit
Department of Defence

Audit Report No.2 Performance Audit
Drug Evaluation by the Therapeutic Goods Administration—Follow-up audit
Department of Health and Aged Care
Therapeutic Goods Administration

Audit Report No.1 Performance Audit
Commonwealth Assistance to the Agrifood Industry

Better Practice Guides

AMODEL Illustrative Financial Statements 2000	Apr 2000
Business Continuity Management	Jan 2000
Building a Better Financial Management Framework	Nov 1999
Building Better Financial Management Support	Nov 1999
Managing APS Staff Reductions (in Audit Report No.47 1998–99)	Jun 1999
Commonwealth Agency Energy Management	Jun 1999
Corporate Governance in Commonwealth Authorities and Companies–Principles and Better Practices	Jun 1999
Managing Parliamentary Workflow	Jun 1999
Cash Management	Mar 1999
Management of Occupational Stress in Commonwealth Agencies	Dec 1998
Security and Control for SAP R/3	Oct 1998
Selecting Suppliers: Managing the Risk	Oct 1998
New Directions in Internal Audit	Jul 1998
Life-cycle Costing (in Audit Report No.43 1997–98)	May 1998
Controlling Performance and Outcomes	Dec 1997
Management of Accounts Receivable	Dec 1997
Protective Security Principles (in Audit Report No.21 1997–98)	Dec 1997
Public Sector Travel	Dec 1997
Audit Committees	Jul 1997
Core Public Sector Corporate Governance (includes Applying Principles and Practice of Corporate Governance in Budget Funded Agencies)	Jun 1997
Administration of Grants	May 1997
Management of Corporate Sponsorship	Apr 1997
Return to Work: Workers Compensation Case Management	Dec 1996
Telephone Call Centres	Dec 1996
Telephone Call Centres Handbook	Dec 1996
Paying Accounts	Nov 1996
Performance Information Principles	Nov 1996
Asset Management	Jun 1996
Asset Management Handbook	Jun 1996
Managing APS Staff Reductions	Jun 1996