

The Auditor-General
Audit Report No.7 2001–2002
Audit Activity Report

Audit Activity Report: January to June 2001

Summary of Outcomes

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ISSN 1036-7632
ISBN 0 642 44217 7

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Canberra ACT
9 August 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 first half of 2001, to the Parliament. The report is titled *Audit Activity Report: January to June 2001—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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For further information contact:
The Publications Manager
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Telephone (02) 6203 7505
Fax (02) 6203 7519
Email webmaster@anao.gov.au

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Contents

1.	Introduction	7
	A more contestable public sector	10
	A new dimension to accountability	12
	ANAO themes and balanced coverage	12
	Corporate governance	13
	Service delivery	17
	Procurement and contract management	18
	Information technology	21
	Report outline	22
2.	Performance Audits	23
	Human resource management	24
	Financial management	25
	Performance information	27
	Service delivery	28
	Procurement and contract management	30
	Information technology	32
3.	Financial Statement Audits	34
	Financial and budgetary reforms	35
	Internal control structures	36
	Controls over financial systems and processes	37
	Prospective issues to be addressed	38
	Appendices	
	Appendix 1: Audit Reports tabled in the period 1 January 2001 to 30 June 2001	43
	Appendix 2: Performance audit and other audit services in progress as at 30 June 2001	77
	Appendix 3: Presentations and papers given by the Auditor-General and ANAO staff during the period January to June 2001	79
	Series Titles	81
	Better Practice Guides	82

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 outputs delivered 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. They also include organising and participating in conferences, seminars and workshops aimed at disseminating better practice and lessons learnt from auditing activity.

1.3 This report is the ninth in a series of reports tabled at six monthly intervals. It summarises the audit and other related activities of the ANAO for the period January to June 2001. 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.

1.5 In February this year the JCPAA released its review of Auditor-General's audit reports tabled in the third and fourth quarters of 1999–2000.¹ Of the 28 audit reports reviewed, the Committee selected three for further examination. These were Audit Report No.26, 1999–2000, *Army Individual Readiness Notice (AIRN)*; Audit Report No.30, 1999–2000, *Examination of the Federation Cultural Heritage Projects Program*; and Audit Report No.44, 1999–2000, *Management of Job Network Contracts*.

1.6 In relation to Audit Report No.26, *Army Individual Readiness Notice*, the Committee concluded that, although Army is now reviewing the AIRN, a particular concern to the Committee was the apparent lack of analysis being applied to what constitutes sufficient warning time in a conflict, what constitutes a sufficient level of readiness, and the cost implications of readiness sustainability. The Committee recommended accordingly.

1.7 In reviewing Audit Report No.30, *Examination of the Federation Cultural Heritage Projects Program*, the Committee strongly supported a rigorous needs assessment process to ensure program funds are well targeted. It therefore recommended that the Department of Communications, Information Technology and the Arts implement the department's draft guidelines for the administration of grant programs.

1.8 The Committee was informed by the Department of Employment, Workplace Relations and Small Business that it had taken into consideration all the ANAO's recommendations in Audit Report No.44, *Management of Job Network Contracts* in its development of the Job Network 2 contracts. In addition, it had ensured that the Auditor-General would have access to premises of Job Network providers and access to confidential information involved in contracts, should the ANAO request these.

¹ Joint Committee of Public Accounts and Audit (JCPAA), 2001, *Report 380—Review of Auditor-General's Reports 1999–2000, Third Quarter*, Canberra, February.

1.9 The JCPAA is currently involved in other significant activities including:

- a review of the Accrual Budget Documentation;
- an inquiry into the *Auditor-General Act 1997*; and
- a review of issues raised in Audit Report No.28, 1999–2000, *Coastwatch—Australian Customs Service*.

1.10 In its submission to the JCPAA's inquiry into the *Auditor-General Act 1997*, the ANAO considered that the Act was working effectively and, with the exception of a small number of matters, the ANAO suggested that there was no evidence to support substantial amendments to the Act at this time. As could be expected, one result of moving from the *Audit Act 1901*, which was very detailed and prescriptive in many respects, to an Act which is principles-based and written in simple and easily understood language, has been the need to obtain legal advice on the application of various aspects of the Act from time to time. The legal advice received has, with a few exceptions, confirmed the original intentions of the Act and, importantly, has confirmed that the Act provides an effective legislative framework within which the Auditor-General can perform his/her statutory responsibilities.

1.11 One particular issue facing the ANAO is that of access to contractor records and other information relevant to public accountability. The ANAO has experienced problems in accessing contractor information both through audited agencies and in direct approaches to private sector providers. This matter is of concern not only to the ANAO but also to public agencies in their role as contract managers, to Ministers as decision-makers, and to the Parliament when scrutinising public sector activities.

1.12 In September 1997, the ANAO drafted model access clauses (reflecting the provisions of the *Auditor-General Act 1997*) which were circulated to agencies for the recommended insertion in appropriate contracts. These clauses give the agency and the ANAO access to contractors' premises and the right to inspect and copy documentation and records associated with the contract.

1.13 Since that time, the JCPAA subsequently recommended that the Minister for Finance make legislative provision for such access.² The Government response to that report stated that:

...its preferred approach is not to mandate obligations, through legislative or other means, to provide the Auditor-General and automatic right of access to contractors' premises.

and that

...the Government supports Commonwealth bodies including appropriate clauses in contracts as the best and most cost effective mechanism to facilitate access by the ANAO to a contractor's premises in appropriate circumstances.

1.14 The Minister for Finance and Administration has now approved revised standard access clauses developed in consultation with the ANAO. The ANAO considers their use to be particularly important in large contracts for services and/or facilities, such as outsourcing contracts. They would not normally be necessary for 'products' or 'commodity type' services procured in the normal course of business. It is expected that the need for ANAO access would be the exception rather than the rule, particularly if the agency concerned has a robust control environment including sound monitoring and review of private sector involvement.

A more contestable public sector

1.15 During the past decade, Australian governments at both the Commonwealth and State levels have been focussing increasingly on achieving a better performing public sector. A major imperative has been the successful management of change to provide a more responsive public service able to provide less costly, more tailored—or better directed—and higher quality services to citizens.

1.16 This new direction in public sector administration has been brought about by both a reassessment of the role of government together with emerging trends associated with globalisation and the information age, which have the potential to transform dramatically the way governments do business.

1.17 Australian Governments have reacted to budgetary pressures on expenditure and, at the same time, strong demand from the community for the maintenance, and even extension, of government services, by seeking to make the administrative elements and structures that provide public services more efficient and effective. The Commonwealth

² Joint Committee of Public Accounts and Audit 1999, *Review of Audit Report No.34, 1997–98, New Submarine Project, Department of Defence*, Report 368, June, p. xiv.

Government's aim for the Australian Public Service (APS) has been outlined by the then Minister Assisting the Prime Minister on Public Service Matters as follows:

*The Government is looking at more effective ways of serving the Australian public. It is no longer appropriate for the APS to have a monopoly. It must prove that it can deliver government services as well as the private or non-profit sectors. This will require a new emphasis on contestability of services, outsourcing those functions which the private or non-profit sector can undertake better and ensuring APS commitment to the process of performance benchmarking and continuous improvement.*³

1.18 This imperative has seen the APS steadily evolve towards a more private sector orientation with a particular emphasis on:

- the contestability of services;
- the outsourcing of functions which the private sector can undertake more efficiently;
- adapting, or adopting, private sector methods and techniques;
- an accent on continuous improvement to achieve better performance in an environment of devolved authority and greater management flexibility;
- ensuring a greater orientation towards outcomes, rather than mainly on process;
- direct participation by the private sector in providing public services, even so-called and traditionally regarded 'core services' such as policy advice and determination of citizens' welfare entitlements; and
- increasing use of information technology and telecommunications to assist program delivery.

1.19 A key message of the Government's reform agenda is that it is no longer considered appropriate for the APS to have a monopoly even in traditional service delivery areas such as policy advice and in the determination of welfare entitlements. It must now prove that it can deliver government services as efficiently and effectively as the private and/or non-profit sectors. This is reflected in the increasing emphasis being placed on the contestability of services; the outsourcing of functions which can be undertaken more efficiently by the private sector; and ensuring an orientation more towards outcomes, rather than processes, as well as to continuous improvement, to achieve required performance/ results.

³ Reith, P. The Hon.1996, *Towards a Best Practice Australian Public Service: Discussion Paper*, AGPS, Canberra, p. x.

A new dimension to accountability

1.20 Underpinning the changes to both program delivery, and its supporting systems, is the evolution of a more contract-oriented and contestable public service. There has also been a shift from central agency control to a framework of devolved authority with enhanced responsibility and accountability being demanded of public sector agencies and statutory bodies.

1.21 These reforms are intended to allow the APS to manage and respond better to new challenges brought about by the changing environment. However, they can also involve greater management risks, particularly in an environment of devolved authority. Importantly, the privatisation of the public sector does not obviate, or limit, the need for accountability to stakeholders. To the contrary, in a more contestable environment which is highlighted by less direct relationships and greater decision-making flexibility, it is essential that the APS maintains and enhances its accountability; improves its performance; and finds new and better ways of delivering public services, while meeting required ethical and professional standards.

1.22 From a Parliamentary perspective, greater flexibility in decision-making needs to be matched by at least a commensurate focus on strengthening the associated accountability arrangements to ensure that decisions are appropriately made and that those public servants making decisions can be properly called to account should the question arise. To provide such assurance, public sector entities need to have robust corporate governance arrangements, including sound financial management and other suitable control structures in place, as well as meaningful performance information.

ANAO themes and balanced coverage

1.23 The ANAO undertakes an on-going planning approach to ensure that its outputs are well integrated and continue to meet the needs of Parliament and public sector bodies. In planning its audit coverage, the ANAO has regard to the need to provide the Parliament with an assurance, over time, of the performance of public sector bodies and the need to respond to emerging issues of interest to the Parliament. For 2000–01, ANAO themes included:

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

Corporate governance

1.24 Simply put, corporate governance is about how an organisation is managed, its corporate and other structures, its culture, its policies and strategies, and the ways in which it deals with its various stakeholders. The framework is concerned with structures and processes for decision-making and with the controls and behaviour that support effective accountability for performance outcomes/results. Key components of corporate governance in both the private and public sectors are business planning including human resource management, financial management, performance monitoring, accountability to stakeholders and internal controls including risk management. The framework requires clear identification and articulation of responsibility as well as a real understanding and appreciation of the various relationships between the organisation's stakeholders and those who are entrusted to manage resources and deliver required outputs and outcomes. This is not a simple task. It takes time, effort and commitment throughout an organisation.

1.25 In the last decade, APS agencies have put in place many of the elements of good corporate governance. These include corporate objectives and strategies; corporate business planning; audit committees; control structures, including risk management; agency values and codes of ethics; identification of stakeholders; performance information and standards; evaluation and review; and a focus on client service to name just a few. However, too often these elements are not linked or interrelated in such a way that people in the organisation can understand both their overall purpose and the various ways the various elements need to be coordinated in order to achieve better performance. This orientation is also necessary to ensure that a mutually supportive framework is produced that identifies outcomes for identified stakeholders and processes for compliance assurance that goes with the demands for greater accountability.

1.26 Therefore, the challenge for management is not simply to put the various elements of corporate governance in place but to ensure that those elements are effectively integrated; are well understood; and applied effectively throughout those organisations. If implemented properly, corporate governance frameworks should provide the integrated strategic management framework necessary to achieve the output and outcome performance required to fulfil organisational goals and objectives as well as discharging their accountability obligations.

Governance—human resource management

1.27 Underpinning the success of the various APS reforms is the capability of people to deliver business outputs and outcomes. It is recognised in both the public and private sectors that a high performing workforce—with the appropriate knowledge and expertise—is the key to the efficient and effective delivery of quality public services. Successful organisations are going beyond the rhetoric about people being their most important asset and recognising that the ‘people dimension’ is becoming the crucial element of business success. Physical assets no longer solely determine the ‘value’ of an organisation or its capacity to produce results.

1.28 Many organisations, including APS agencies, are taking action now to shape their workforce for the future to enable them to be confident they can continue to conduct their business successfully in the longer-term. However, the ability to recruit and retain high performing staff with the right skills is one of the most significant challenges facing the APS.

1.29 The Public Service and Merit Protection Commission found that the APS does not have in place robust means of forecasting the staffing and skill implications of the changing environment.⁴ If workforce needs are not anticipated, agencies end up competing for the same people who can command high salaries, for example, in the areas of financial management, information technology and contract management. This is an area where the APS can do better—an example of inadequate workforce planning is the difficulty agencies have been experiencing in recruiting appropriate staff to work in the accrual based financial management environment referred to below.

1.30 The ANAO worked with other APS organisations to prepare a Better Practice Guide on Workforce Planning in the APS which was launched in March 2001.⁵ The Guide will assist agencies to understand the key elements and stages of workforce planning and to develop linkages between strategic business plans and human resource management policies.

⁴ Public Service and Merit Protection Commission (PSMPC), *State of the Service Report 1999–2000*, Canberra, 2000.

⁵ Australian National Audit Office, 2001, Better Practice Guide titled *Planning for the Workforce of the Future*, Canberra, March 2001.

Governance—financial management

1.31 The first accrual budget was presented to Federal Parliament in May 1999 covering the 1999–2000 financial year. As part of the preparation of accrual budgets agencies are expected to:

- specify the outputs that they will deliver and describe the planned government policy outcomes to which the outputs will contribute;
- demonstrate the delivery of outputs in terms of price, quality and quantity and other key attributes;
- provide performance information on the achievement of planned outcomes and the contribution of outputs and administered items to those outcomes; and
- make a clear distinction between the outputs over which they have control, and items they administer on behalf of the Government.

1.32 This framework includes accrual-based management (which delivers information about the full costs and benefits of new and existing activities), output (product) based management (which focuses management both on what, and to whom, services are delivered) and the outcomes to be achieved (which are often referred to simply as the ‘results required’).⁶

1.33 With its explicit focus on outputs and outcomes, this framework complements the shift to a performance culture where the APS is expected to be more responsive to the Government’s objectives. At the heart of this new framework are two important and complementary developments:

- a change in how the public sector measures finances—from cash-based budgeting to accrual budgeting, reporting and accounting; and
- a change in what is measured—to a much greater focus on outputs associated with the achievement of the Government’s outcomes.⁷

⁶ Auditor-General 1999, *Use of Financial Information in Management Reports*, Audit Report No.2 1999–2000, Australian National Audit Office, Canberra, p. 11.

⁷ Management Advisory Board 1998, *Beyond Bean Counting: Effective Financial Management in the APS—1998 & Beyond*, Public Service and Merit Protection Commission, Canberra, p. 12.

Governance—performance information

1.34 Under the current public sector reforms, the public sector is subject to increased levels of scrutiny of its performance and effectiveness. The focus is now very much on achievement of outcomes as well as outputs. A culture of ongoing performance assessment is therefore important to maintain Parliamentary and public confidence in the public sector. The establishment of a performance culture supported by clear lines of accountability is an essential part of the government's approach to reform in the APS. Such a culture will provide the discipline and integrity required to undertake credible benchmarking, market-testing and pricing reviews for agency and entity outputs in the budget context as part of resource management and performance assessment.

1.35 Performance information is a critical tool in the overall management of programs, organisations and work units. It is important not as an end in itself, but in assisting agencies and bodies to manage effectively and to protect Commonwealth and public interests. Valid and reliable performance information has an expanding role in an environment where the APS is exploring new ways of delivering public services. It is therefore a key component of good corporate governance. Performance information fits within the wider management framework that includes objectives, strategies for achieving objectives and mechanisms for collecting and using such information. The latter is essential for assessing the impact of identified risks as well as to assist management to take timely action to deal pro-actively with identified risk whether by turning it to advantage or implementing credible preventative measures.

1.36 Having developed the mechanisms to allow the assessment of performance, it is important that performance information is used for ongoing monitoring as well as for 'point in time' assessment and reporting. Ongoing monitoring at different levels in an organisation assists to ensure that programs are on the right track and that resources are being used to maximise outputs and related outcomes. Such checks also provide assurance to top management as well as allowing them to take timely, strategic action if performance is not satisfactory.

1.37 Even though the focus of public sector reform is very much on results, it also matters how those results are achieved. Organisations that are successful in achieving a credible, trusted performance management framework will earn the confidence and support of all their stakeholders, including those who work, and want to work, in the public sector. The culture is also very much affected by the public sector values outlined in the *Public Service Act 1999*.

Service delivery

1.38 As part of a fundamental reassessment of the role of the public sector over the past decade, there has been considerable attention given to the delivery of services by Australian governments. Public sector performance is now recognised as a key contributing factor to Australia's competitive position in the world economy. Australian governments are continually examining more efficient ways of producing and delivering services to the community.

1.39 These developments have given rise to a focus on what constitutes 'core' public sector activities as opposed to 'non-core' ones. The Minister Assisting the Prime Minister for the Public Service has stated that the Government's objective:

...has been to focus the APS on its core activities of policy development, legislative implementation and the contracting and oversight of service delivery.⁸

1.40 This approach has created a market for public sector service delivery, such as employment services, resulting in greater choice and more competition. The prevailing rationale is that public services would be provided more efficiently and effectively, with greater client satisfaction, in a more market-oriented environment which provides greater flexibility for management decision-making and the discipline of competition. Recently the Employment Services Minister indicated that the Productivity Commission review of the Job Network model would assess '*the potential for application of the model to other types of Commonwealth Government services*'.

1.41 One of the greatest challenges for government organisations in implementing the reforms has been in the area of program delivery. Implementation of the purchaser-provider dichotomy, often as part of a policy/administration split, along with a greater emphasis on client focus and public service responsiveness, have changed the way in which government programs are delivered. These changes have been most apparent in the areas of employment, health care and social welfare.

1.42 Not only has the nature of service delivery changed but so have the options as to how it is provided. For example, information and communications technology is revolutionising the way the public sector actually operates. It has improved the ability of public organisations to communicate, to share critical information and to organise political and bureaucratic processes in a more efficient and effective way.

⁸ Kemp The Hon. Dr David MP 1998, '*Building the Momentum of APS Reform*', Address to PSMPC Lunchtime Seminar, Canberra, 3 August, p. 3.

1.43 Information technology has also enhanced productivity by providing new, more responsive and efficient ways of delivering public services and providing information to citizens. It potentially provides the vehicle to deliver better quality products to the public more quickly, cost effectively and conveniently. The result could be programs designed primarily around the needs of citizens, rather than just largely reflecting the organisational structure of the public sector. This will require the redesign of current governance systems. These are some of the challenges that will have to be met with the introduction of e-government as discussed later in this report.

1.44 As dependence on information technology grows and new high risk areas emerge, public sector agencies need to adopt modern practices to correct underlying management problems that impede effective system development and operations, even where these are outsourced. Effectively managing these risks will, in many cases, have a major impact on achieving business objectives. Robust corporate governance processes that are pervasive throughout an organisation will both help to identify and deal with such problems.

1.45 In this environment, it is important to recognise that, although the public sector may contract-out service delivery, this does not equate to contracting-out the accountability for the delivery of the service or output. It is the responsibility of the agency to ensure that the service delivery is both cost-effective and acceptable to individual recipients and key stakeholder groups. The challenge is how to make this happen when the agency is not directly involved in that service delivery.

Procurement and contract management

1.46 A major objective of the current Government's reform agenda, as noted earlier, has been to focus the APS on its core activities described as policy development, legislative implementation, and the contracting and oversight of service delivery. As a result of the greater use of outsourced services as significant elements of program delivery, project and contract management has become a major element of public administration.

1.47 Outsourcing represents a fundamental change to an agency's operating environment. It brings with it new risks, including opportunities, which require managers to develop different approaches and greater commercial acumen. Managing the risks associated with the increased involvement of the private sector in the delivery of government services, in particular the delivery of services through contract arrangements, will require the development and/or enhancement of a range of commercial, negotiating, project and contract management skills across the public sector and will be a key accountability requirement of

public sector managers. The APS has quickly learnt that outsourcing places considerable focus and emphasis on project and contract management, including management of the underlying risks involved both within and outside the public sector. The problem has been to achieve both management understanding of, and action on, these imperatives in a reasonable time period.

1.48 The ANAO has recently released a Better Practice Guide on Contract Management.⁹ The Guide was developed from the experiences gained in a Financial Control and Administration (FCA) audit on the management of contracts for the delivery of business support processes. The results of this audit were presented to Parliament in 1999 in Audit Report No.12 1999–2000, titled *Management of Contracted Business Support Processes*. The Guide has achieved widespread endorsement and acceptance both within Australia and overseas.

1.49 The Better Practice Guide on Contract Management was developed to provide better practice examples for the ongoing, day-to-day management of contracted services and evaluation of the overall performance of the contract to enable effective succession planning. These stages in the contract management lifecycle are addressed in terms of the application of practical risk management approaches and techniques. The Guide includes practical examples drawn from public and private sector experiences and examples of these identified issues to consider in ensuring effective contract management.

Commercial confidentiality

1.50 Virtually all traditional accountability mechanisms rely on the availability of reliable and timely information. As a result of contracting out to the private sector, the flow of information available to assess performance and satisfy accountability requirements has on the whole been reduced. This situation has arisen where performance data is held exclusively by the private sector or through claims of commercial confidentiality that seek to limit or exclude data in agency hands from wider parliamentary scrutiny. Thus accountability can be impaired where outsourcing reduces openness and transparency in public administration. For this reason, the issue of commercial confidentiality is likely to be of increasing importance as the extent and scope of outsourcing grows.

1.51 A particular concern has been the insertion of confidentiality clauses in agreements/contracts which can impact adversely on Parliament's 'right to know' even if they do not limit a legislatively protected capacity of an Auditor-General to report to Parliament.

⁹ Australian National Audit Office, 2001, Better Practice Guide titled *Contract Management*, Canberra, February 2001.

1.52 This issue was addressed also by the Senate Finance and Public Administration References Committee in a 1998 report following its Inquiry into Contracting Out of Government Services.¹⁰ In making recommendations to that Committee, the ANAO suggested, as did the Commonwealth Ombudsman, that in relation to commercial confidentiality claims by private sector contractors, a reverse onus of proof test should be applied. The Committee agreed and in addressing matters of commercial confidentiality concluded that:

*The Committee is firmly of the view that only relatively small parts of contractual arrangements will be genuinely commercially confidential and the onus should be on the person claiming confidentiality to argue the case for it. A great deal of heat could be taken out of the issue if agencies entering into contracts adopted the practice of making contracts available with any genuinely sensitive parts blacked out. The committee accepts that some matters are legitimately commercially confidential. If Parliament insists on a 'right to know' such legitimately commercially confidential matters, the most appropriate course to achieve this would be the appointment of an independent arbiter such as the Auditor-General to look on its behalf and, as a corollary, to ensure that he has the staff and resources to do it properly.*¹¹

1.53 In a recent audit the ANAO worked cooperatively with several agencies to distil their experience with confidentiality provisions in contracts and so provide a sound framework for wider applicability across the Australian public/private sector interface. The purpose of Audit Report No.38 *The Use of Confidentiality Provisions in Commonwealth Contracts* was to raise awareness of agencies about the circumstances when confidentiality provisions should be applied in contracts, and importantly when their use was not appropriate.¹² The audit report included criteria to assist agencies' decisions in this respect and, for guidance, provided some practical examples of how to determine what information should be considered confidential. In addition, the report outlined an approach for agencies to protect the rights of Parliament and its committees to access confidential information in contracts, if required.

¹⁰ Senate Finance and Public Administration References Committee (SFPARC) 1998, *Contracting Out of Government Services*, Second Report, Canberra May, pp. 49–52.

¹¹ *ibid.*, p. 70.

¹² ANAO Report No.38 2000–2001, *The Use of Confidentiality Provisions in Commonwealth Contracts*, Canberra, 24 May 2001.

Information technology

1.54 The past decade has seen a radical transformation take place in the role of information technology (IT) within organisations worldwide, not to mention the impact it has had on individuals' lives. This brings into sharp focus a range of access, security, privacy, storage and retrieval issues, particularly in a contestable or outsourced service delivery environment where public servants do not have direct access and control.

1.55 Government policy is to establish the Commonwealth as a leading-edge user of technology, with all appropriate services internet-deliverable by 2001. Internet services are to complement—not replace—existing written, telephone, fax and counter services, as well as improving the quality, availability, responsiveness and consistency of those services. It is clear that Government agencies' use of the internet will continue to evolve in response to government policy, the needs of the programs' clients, and in response to developments in information and communications technology.

1.56 Against this background, recent ANAO financial statement audits have identified several emerging issues regarding the security and internal control mechanisms of IT systems in public sector agencies. IT supports various entity programs and can be integral to the validity, completeness and accuracy of financial statements. Consequently, the audit of IT systems and processes is fundamental to forming an opinion on the adequacy of proper accounts and records that support entities' financial statements. The 1999–2000, ANAO audit of financial statements identified several specific IT control issues, including:

- system access rights were found to be greater than functionally necessary;
- inadequate review and approval of users' access to systems; and
- inadequate review and monitoring of access logs.

1.57 Similar concerns were identified in Audit Report No.1 2001–2002 *Control Structures as Part of the Audit of Financial Statements of Major Commonwealth Agencies for the Period ended 30 June 2001* (see Section 3: Financial Statement Audits in this activity report).

1.58 Where there is Internet service delivery, agencies' clients can incur financial and other kinds of loss or damage through agencies (or their contractors) publishing incorrect or misleading information on their websites. This may be a result of ignorance, negligence, abuse or deliberate sabotage, and lead to legal liabilities for the agency. In other words, the delivery of services via the Internet introduces new risks and exposures that can result in a legal liability for government. Well-designed security and privacy policies can minimise risks and liabilities while informing agencies' clients of important aspects of the services they can expect to receive. The ANAO considers that, where they have not done so already, agencies should develop policies and operational strategies for the security of their websites together with policies and strategies regarding information related to individuals or organisations available from the site.

1.59 To fully address such concerns, a Better Practice Guide, recently prepared by the ANAO,¹³ suggests that agency Internet websites should incorporate a prominently displayed Privacy Statement which states what information is collected, for what purpose, and how this information is used, if it is disclosed and to whom. It should also address any other privacy issues. The risks involved in broadening networks and Internet use also raise issues associated with who has access to the records. This has consequences for the privacy and confidentiality of records, which are of considerable concern to Parliament. This is particularly the case during outsourcing, where private sector service providers have access to collections of personal records that could be used for inappropriate purposes, such as sales to other private sector organisations of mailing lists.

Report outline

1.60 Audit findings from performance audits and financial statement audits are summarised in the following chapters. Appendix 1 provides a short summary of each of the reports tabled between 1 January 2001 and 30 June 2001. Complete copies of all audit reports are available at <http://www.anao.gov.au>. Appendix 2 lists the performance audit and other audit services in progress as at 30 June 2001. Appendix 3 lists presentations and papers given by the Auditor-General and ANAO staff during the period January 2001 to June 2001.

¹³ Australian National Audit Office, 2001, Better Practice Guide titled *Delivery Decisions—A Government Program Manager's Guide to the Internet*, Canberra, April 2001.

2. Performance Audits

The key issues arising from performance audits tabled between January and June 2001 are summarised in this chapter.

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 The ANAO undertakes an on-going planning approach to ensure that its outputs are well integrated and continue to meet the needs of Parliament and public sector bodies. The ANAO reviews its planned approach annually, as part of its budget preparation, and brings the results together in an Audit Work Program. The Audit Work Program is developed against the background of the APS environment, including the business risks that are likely to impact on the APS during the period under review. These risks are taken into account in identifying themes to be addressed in developing the annual performance audit work program. For 2000–01, ANAO themes included:

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

2.4 In reports tabled in the last six months, the ANAO made 146 recommendations aimed at improving the efficiency, effectiveness and accountability of public sector service delivery. Agencies agreed with 133 of the recommendations and a further eleven with qualification. Two recommendations were disagreed but, in the opinion of the ANAO, their implementation would result in improvements to public administration and/or accountability.

Human resource management

2.5 A highly performing APS, involving people with the appropriate skills and expertise, is the key to the efficient and effective delivery of quality public services. The loss of experience and expertise has the potential to affect adversely the ability of APS agencies to conduct their core business efficiently and effectively and fulfil their accountability requirements if this problem is not actively managed. Many agencies are under pressure to develop recruitment and retention strategies to ensure that they have sufficient ongoing skills and corporate knowledge that, in association with complementary skills contracted from outside the APS, enables them to deliver their agreed outputs and outcomes.

2.6 Two ANAO audits in the Department of Defence addressed human resource management issues. Audit Report No.33 *Australian Defence Force Reserves* sought to identify possible areas for improvement in the ADF's management of its Reserve forces. The ANAO found the integration of the Permanent Naval Force and Australian Naval Reserve workforce to be an effective means of delivering Navy capability during peacetime. A major issue confronting the Army Reserve is the need to develop suitable roles and tasks to reflect current strategic requirements. The collective military capability of the Army Reserve is very limited. Previous efforts to revitalise the Reserve have not been successful, largely because roles have not been clearly defined and resources allocated to the Army Reserve have been insufficient to achieve the capability required by Army. The ANAO made 13 recommendations to improve Reserve effectiveness, rationalise the Army Reserve force structure to a level sustainable in the long term, increase Army Reservist attendance at collective training activities and to focus on ways to improve Reservists' recruitment and retention rates.

2.7 Audit Report No.41 *Causes and Consequences of Personnel Postings in the Australian Defence Force* examined the posting process and sought to provide assurance that Defence had identified and examined salient postings issues and was addressing them effectively. As Defence had already established the Posting Turbulence Review Team (PTRT) in 2000

to examine postings' issues, the scope of the audit was limited to ensure that it did not duplicate work done by the PTRT. The ANAO found that the PTRT's separations-as-driver model provides a reasonable rationale for the current posting cycles and posting turbulence, and that an efficient way to manage postings and reduce posting turbulence is to improve retention rates. The audit made four recommendations that addressed ADF personnel postings, recruitment and retention issues.

Financial management

2.8 The financial management framework within an organisation is integral to the structures, processes, controls and behaviours that constitute effective corporate governance. Managerial responsibility and accountability for performance outputs and outcomes include financial performance and control. It is important, therefore, that these imperatives are explicitly recognised and established.

2.9 Recognition of financial management responsibility is achieved by including financial management objectives as part of the overall objectives of an organisation. In establishing overall financial management objectives, 'generic' organisational control objectives should cover:

- the efficiency and effectiveness of operations;
- compliance with applicable laws and regulations; and
- the reliability of financial reporting.

2.10 In Audit Report No.34 *Assessment of New Claims for the Age Pension by Centrelink* the ANAO concluded that assessments of new claims for the Age Pension conducted during the audit sample period demonstrated a significant degree of non-compliance with the provisions of the Social Security Law, the Guide to the Social Security Law and other relevant guidelines. Using Centrelink's own definition of an accurate assessment, the audit estimated the error rate for new claims assessments as 52.1% (+/- 6.8 percentage points). The corresponding error rate for the same period reported by Centrelink to the Department of Family and Community Services was 3.2%, based on Centrelink's compliance monitoring software in operation at the time covered by the audit sample period. The ANAO also concluded that Centrelink's compliance monitoring systems significantly underestimated the level of claims' assessment error, adversely affecting the integrity of Centrelink's external reporting and impeding Centrelink's capacity to evaluate the effectiveness of its internal quality controls. The ANAO made eleven recommendations aimed at improving the accuracy of assessment decisions, improving the monitoring of assessment accuracy, and reducing the complexity of rules and guidelines.

2.11 Audit Report No.37 *The Use of Audit Compliance Management of Individual Taxpayers* reviewed the Australian Taxation Office's use of audit of individual taxpayers as part of its approach to encouraging taxpayer compliance. The ANAO found that the ATO had developed a strong strategic framework for addressing its compliance management responsibilities and based compliance activities on a sound risk management process. Recommendations were made to improve the effectiveness of compliance management function including improving the ease of understanding of correspondence to taxpayers about discrepancies in their tax returns.

2.12 Audit Report No.42 *Bank Prudential Supervision* assessed the efficiency and effectiveness of the Australian Prudential Regulation Authority (APRA) prudential supervision of banks. Prudential supervision aims to protect depositors by ensuring that financial institutions adopt prudent risk management practices designed to ensure their continuing solvency and liquidity. The ANAO concluded that there are steps APRA could take in a number of areas to improve its supervisory practices, including improving the administration of the supervisory levy; strengthening its risk management approach; and maintaining closer adherence to international standards for prudential supervision issued by the Basle Committee on Banking Supervision. The ANAO made five recommendations concerning administration of levies, risk-based supervision and supervision of cross-border banking.

2.13 Audit Report No.52 *Payment of Accounts* assessed whether organisations implemented appropriate risk management strategies for the processing of accounts and payment for goods and services have been properly authorised. The audit also reviewed progress since the payment of accounts audit (Report No.16, 1996–97, Financial Control and Administration Audit, *Payment of Accounts*) undertaken in 1996. The ANAO concluded that the payment of accounts function was being administered satisfactorily. However, better practices could be achieved through two avenues: improvements in the organisation's internal control framework, including the implementation of formal process risk assessments, the development of appropriate performance measures and increased use of monitoring and review mechanisms; and greater use of advanced cost-effective information technology.

2.14 A theme in these audits was the importance of control structures within a corporate governance framework to provide assurance to clients and Parliament that an agency is operating in the public interest and has established clear lines of responsibility and accountability for its financial management. To be effective, the various elements of any control structure should be accompanied by appropriate and timely risk management strategies.

Performance information

2.15 It is essential that all public sector organisations (whether statutory authorities, government agencies, corporations or local authorities) are transparent, responsive and accountable in their activities. The public is entitled to explanations about the activities of government. Consistent, clear reports of performance and publication of results, are important to record progress and exert pressure for improvement. Such transparency is essential to help ensure that public bodies are fully accountable.

2.16 Audit Report No.43 *Performance Information for Commonwealth Financial Assistance under the Natural Heritage Trust* examined the design, management and reporting of performance information for the Natural Heritage Trust (NHT) by the Commonwealth Departments of Agriculture, Fisheries and Forestry, and Environment and Heritage. Overall, the ANAO found that the performance information used to support the administration of \$1.5 billion in Commonwealth financial assistance had strong design features but significant management and reporting challenges. A key issue was the absence of a finalised core set of performance indicators. While the administering agencies have made substantial efforts to fully comply with the provisions of general public sector and NHT specific requirements under various Acts, this remains an area requiring further attention. The ANAO made six recommendations directed at improved performance management of environmental and natural resource management programs.

2.17 The objective of Audit Report No.46 *ATO Performance Reporting under the Outcomes and Outputs Framework* was to report to Parliament on the ATO's management of its performance reporting within the outcomes and outputs framework. The audit found that, while the ATO has established an outcome and outputs framework, there was scope to improve the specification, clarity and measurability of its outcome, outputs and performance measures and to enhance its performance monitoring and reporting arrangements. In relation to Annual Reporting on outputs, the ANAO considered that, by specifying performance targets and reporting on them in its PBS and Annual Report, the ATO could provide a more focused analysis of its progress against outputs and more readily identify areas for ongoing improvement. The ANAO made ten recommendations aimed at improving the ATO's management of its performance reporting under its current outcome and outputs framework.

2.18 Audit Report No.48 *Air Traffic Data Collection* examined the accuracy of the data on air traffic movements collected by Airservices Australia. Aviation traffic data plays an important role in informing decisions about the safety of the airways system, including such matters as the need for navigation facilities, communication links, air traffic control towers and rescue/fire fighting services. The ANAO reported that although a number of factors currently impact on the accuracy of aircraft movements recorded by Airservices, the present system is a considerable improvement over that in place about three years ago. In general, the movements data automatically collected at larger airports is now reliable. However, there remain some problems affecting the accuracy of data manually collected at the smaller airports, which Airservices is moving to address.

2.19 A common theme in ANAO audits is that performance measurement and reporting are intrinsic to the whole process of public management, including planning, implementing, monitoring, evaluation and public accountability. Performance results included in agency annual reports provide an important record of an agency's progress towards meeting objectives and their publication makes it possible for stakeholders to exert pressure for improvement, where this is required. Well presented and informative reports can help Parliament and the public assess how well public money is being spent and what is being achieved with it.¹⁴ Such reports are therefore essential for stakeholder assurance.

Service delivery

2.20 In the past, the tendency in the public sector has been to focus primarily on ensuring conformance with legal and procedural (including budgetary and financial) requirements, with attention to program outcomes and improved performance being a secondary consideration. Consequently, reasonable administrative control processes have been put in place for the implementation of government policies and procedures over many years. In particular, public sector agencies have been particularly concerned to ensure that they met the requirements of relevant legislation.

¹⁴ United Kingdom, Comptroller and Auditor General, 2000, *Good Practice in Performance Reporting in Executive Agencies and Non-Departmental Public Bodies*, HC272 Session 1999–2000, NAO, London, 9 March.

2.21 On the other hand, the public sector has not been as effective in constructing robust control structures aimed at assuring that it achieves defined outputs and outcomes, nor in providing efficient client-oriented services. More attention is now being given to addressing government programs/services directly to public sector citizens, as clients or customers. This focus has been reinforced by the requirement for Public Service Charters, which should clearly signal to all concerned just what various client groups can expect of an agency and its staff.

2.22 Audit Report No.29 *Review of Veterans' Appeals Against Disability Compensation Entitlement Decisions* examined the management by the Department of Veterans' Affairs (DVA) and the Veterans' Review Board (VRB) of the review of decisions by the Repatriation Commission on veterans' claims for disability compensation. The ANAO concluded that, overall, DVA and VRB are managing reviews adequately within the legislation. However, the ANAO identified areas where improvements could be made to improve key aspects of reviews. The measures outlined are directed at reducing the cost of review action relative to the cost of administering the primary decision-making process for veterans' compensation. The ANAO noted that the department has implemented a range of initiatives over recent years, including, among other things, introduction of a computer-based decision support system and medical Statements of Principles to improve the consistency and accuracy of deciding veterans' claims for compensation. The ANAO made four recommendations aimed at improving the quality of initial decision making, thereby minimising the level of appeals and encouraging early settlement of appeals.

2.23 Audit Report No.31 *Administration of Consular Services* reviewed the adequacy of the Department of Foreign Affairs and Trade's (DFAT's) administration of consular services. In particular the audit focussed on DFAT's travel advice to alert Australian travellers to potential travel risks; its case management systems; the development, collection and use of performance information; and contingency planning for major consular incidents. The ANAO concluded that most aspects of consular services are satisfactorily administered. DFAT is focussed on providing responsive consular services. There have been improvements in the provision of services in recent years, particularly in terms of improved accessibility. In addition, DFAT has strengthened efforts to prevent Australians from experiencing difficulties abroad. Notwithstanding these improvements, there remain some weaknesses in management processes and administrative systems.

Procurement and contract management

2.24 Over recent years, reflecting the greater involvement of the private sector in providing a wide range of public services, there has been considerable focus through the audits of the ANAO on the necessity of having in place the 'right' contract, as well as appropriate contract management arrangements, to assist in meeting organisational objectives and strategies. One important lesson the ANAO has learnt, and that is constantly being reinforced, is that:

*...clear identification and articulation of contract requirements at the outset can save considerable time, cost and effort later in contract management.*¹⁵

2.25 A common theme of these audit reports has been the deficiencies in the project management skills of agency decision makers. This is of concern given that some of these projects involve substantial resources and complexity. As well, reports have flagged a need for care in assessing value for money and negotiating, preparing, administering and amending major contracts.

2.26 Audit Report No.30 *Management of the Work for the Dole Program* examined the efficiency and effectiveness of the Department of Employment, Workplace Relations and Small Business (DEWRSB) administrative arrangements for the Work for the Dole Program. The audit focused on the Community Work Coordinator (CWC) tender assessment process, selection of projects, contract management arrangements and the mechanisms used for measuring the performance of the Program against its objectives. Despite pressures associated with the rapid expansion of the Program since its inception, the ANAO concluded that the administration of the Program by DEWRSB had been generally efficient and effective. However, the ANAO drew attention to areas that should be improved including risk assessment and project planning for the CWC tender assessment process, contract monitoring and better guidance for the selection of Work for the Dole projects. The ANAO made eight recommendations aimed at improving the efficiency and effectiveness of the management of the Program.

2.27 Audit Report No.35 *Family and Community Services' Oversight of Centrelink's Assessment of New Claims for the Age Pension* was conducted in parallel with the audit *Assessment of New Claims for the Age Pension by Centrelink*¹⁶. The audit focused on whether FaCS had established an

¹⁵ Australian National Audit Office, 2001, Better Practice Guide titled *Contract Management*, Canberra, February 2001, p. 3.

¹⁶ ANAO Audit Report No.34 2000-01, *Assessment of New Claims for the Age Pension by Centrelink*, Canberra, May 2001.

appropriate business framework; adopted an appropriate risk management approach; appropriately monitored and evaluated Centrelink's performance; and provided relevant business support to Centrelink. The ANAO concluded that the business arrangements FaCS had established with Centrelink were not fully effective in terms of helping to ensure that new Age Pension claims assessments complied with the Social Security Law and the Guide to the Social Security Law. The business framework and risk management approach were generally appropriate. In addition, FaCS provided Centrelink with effective business support. However, FaCS was unable to monitor and evaluate Centrelink's performance effectively. FaCS relied upon Centrelink's performance monitoring systems that did not produce accurate data on new claim assessment compliance. As a result, FaCS did not detect the significant level of non-compliance in Centrelink's new Age Pension claim assessments identified by the ANAO. FaCS was therefore not in a position to take appropriate remedial action. The ANAO made five recommendations aimed to assure FaCS that in relation to new Age Pension claim assessment Centrelink is providing accurate performance information and taking appropriate measures to achieve assessment compliance, and that the very large number of rules and guidelines are all warranted.

2.28 Audit Report No.38 *The Use of Confidentiality Provisions in Commonwealth Contracts* arose out of a draft Senate motion which led to a Senate inquiry on a 'Mechanism for Providing Public Accountability to the Senate in Relation to Government Contracts'.¹⁷ The audit approach was to work cooperatively with several agencies to distil their experience and so provide a sound framework for wider applicability across the Australian public/private sector interface. The report noted several weaknesses in how agencies generally deal with the inclusion of confidentiality provisions in contracts as follows:

- consideration of what information should be confidential is generally not addressed in a rigorous manner in the development of contracts;
- where there are confidentiality provisions in contracts, there is usually no indication of what specific contractual information in the contract is confidential; and
- there is uncertainty among officers working with contracts over what information should properly be classified as confidential.

¹⁷ Senate Finance and Public Administration References Committee, 2000, *Inquiry into the Mechanism for Providing Accountability to the Senate in Relation to Government Contracts*, Canberra, June.

2.29 The audit report made three recommendations, which were generally agreed by the agencies concerned. As well, the ANAO developed some criteria for agencies in determining whether contractual provisions should be treated as confidential. These criteria are designed to assist agencies to make a decision on the inherent quality of the information before the information is accepted or handed over—rather than focusing on the circumstances surrounding the provision of the information. The report also gave examples of what would not be considered confidential and examples of what would be considered confidential.¹⁸

2.30 Audit Report No.54 *Engagement of Consultants* was the first Compliance Assessment Audit (CAA) to be tabled in Parliament. CAAs have been developed to specifically look at compliance issues. The audits are conducted within approximately 500 hours and are reported on an agency specific basis. The audit reviewed the engagement of consultants in four Commonwealth agencies. The objective of the audit was to provide assurance to Parliament that the procurement framework for the APS was being adhered to in relation to engaging consultants. The audit concluded that generally agencies had established appropriate control frameworks to comply with external and internal requirements. However, the audit found a number of instances in which internal controls were not adhered to. The audit made six recommendations to assist agencies in the engagement of consultants. The key areas for improvement included the use of procurement thresholds; controls supporting the reporting framework for the engagement of consultants; documentation of procurement activity; linking performance reviews to contract payments; and the need for a clearer definition of consultants as opposed to contract employees.

Information technology

2.31 The delivery of programs and services by the vast majority of agencies is supported significantly by information technology (IT). The Commonwealth has a considerable investment in IT to support program objectives. Accordingly, IT systems are integral to the completeness, accuracy and validity of financial statements. Many agencies are now outsourcing the management of their IT services. In addition, agencies have been implementing new IT financial management and human resource management systems. This has been done to support the ongoing financial management reform process, in particular, the introduction of full accrual accounting and reporting.

¹⁸ ANAO Report No.38 2000–2001, *The Use of Confidentiality Provisions in Commonwealth Contracts*, Canberra, 24 May 2001, p. 13.

2.32 The ANAO's audits of IT continue to identify deficiencies that pose risks to agencies achieving their objectives. The following areas continue to be of concern:

- management of system implementations;
- access and logical security controls; and
- program change controls.

2.33 Audit Report No.39 *Information and Technology in Centrelink*, Audit Report No.44 *Information Technology in the Department of Veterans' Affairs (DVA)*, and Audit Report No.49 *Information Technology in the Health Insurance Commission (HIC)* examined information technology at Centrelink, DVA and the HIC. The reports were designed to provide assurance to Parliament that the IT operations of those agencies were satisfactory.

2.34 The audits were conducted as a joint financial statement and performance audits of the agencies' IT systems. The objective of the financial statement component of the audit was to express an opinion on whether the agency could rely on its IT systems to support production of a reliable set of financial information for the financial statements. The objective of the performance audit component was to determine whether the agency's IT systems' outputs adequately met quality and service delivery targets.

2.35 Overall the audits concluded that the management of IT in these three agencies was satisfactory. Recommendations were made to address specific issues in each agency. The ANAO made three recommendations aimed at assisting Centrelink to: monitor the implementation of its IT Strategic Plan; implement Activity Based Costing; and obtain a comprehensive picture of IT performance by designing IT indicators and targets with reference to comparable better practice. In the case of DVA, the ANAO made two recommendations aimed at improving the monitoring of the time taken to implement changes to systems, and improving the development and use of IT performance measures. The ANAO made six recommendations in the HIC report aimed at strengthening controls, improving its risk management framework, recording IT project costs and aligning HIC's IT performance measures with its Charter of Care.

3. Financial Statement Audits

Financial audits and other financial audit activities conducted by the ANAO during the period January to June 2001 are summarised in this chapter.

3.1 The ANAO undertakes financial statement audits of all Commonwealth entities each year. The *Financial Management and Accountability Act 1997*, the *Commonwealth Companies and Authorities Act 1997* and the Corporations 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.1 2001–2002 Control Structures as Part of the Audit of Financial Statements of Major Commonwealth Agencies for the Period ended 30 June 2001*, summarises issues relating to internal control structures, financial systems, controls and processes arising from the interim phase

of the financial statement audits of major Commonwealth entities for 2000–2001. Examinations of such issues are designed to assess the reliance that can be placed on control structures, systems, specific controls and processes to produce complete, accurate and valid information for financial reporting purposes.

3.7 A second report will follow in December of this year following completion of the financial statement audits of entities. The ANAO will also report, at that time, on the operational and financial management issues arising out of the audits and their relationship to internal control structures. Together these reports will summarise the results of the audits of financial statements of all Commonwealth entities for 2000–2001.

Financial and budgetary reforms

3.8 Over the past two years, the APS has implemented a number of financial management and budgetary reforms designed to encourage a more efficient and effective public sector. The implementation of these reforms has generally been challenging in an environment of scarce accounting and financial skills and tight time deadlines. The reforms have impacted directly on entities' internal control structures, including business and accounting processes and financial systems. ANAO Audit Reports No.52 of 1999–2000¹⁹ and No.23 of 2000–2001²⁰ have identified specific implementation and internal control issues where improvements were required. In particular, these reports highlighted the need for improvements in:

- information technology controls;
- asset management controls;
- accounting systems and controls, including financial reconciliation controls;
- functionality of financial management information systems;
- quality of management reporting and financial monitoring; and
- financial and accounting skills.

3.9 Audit findings have been classified into two groups; first, those concerned with internal control structures and second, specific controls over financial systems and processes. These are summarised below.

¹⁹ The Auditor-General, Audit Report No.52, 1999–2000, *Control Structures as Part of the Audits of Major Commonwealth Agencies for the Period Ended 30 June 2000*, ANAO, Canberra, June 2000.

²⁰ The Auditor-General, Audit Report No.23, 2000–2001, *Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2000*, ANAO, Canberra, 2000.

Internal control structures

3.10 As part of the financial statement audit process, the ANAO seeks to ensure internal control structures comprise measures that contribute positively to sound corporate governance. The measures in place need to mitigate identified risks and reflect the specific requirements of each entity but for financial reporting purposes will normally include:

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

3.11 Internal control structures have been enhanced in most entities over the past year. Entities have consolidated their activities in their implementation of suitable financial systems, covering, for example, banking, payroll and accrual based financial reporting. Other contributory factors to improvements include:

- greater managerial participation by executives and audit committees in ensuring issues relating to the control environment, business practices and risk management have been addressed and advanced; and
- the performance of accounting and financial groups in raising the quality of internal financial reporting on actual results and performance against budget. This has enabled management, for example, to monitor and review financial performance in a more timely and effective manner.

3.12 Nevertheless, improvements are still required with all entities generally acknowledging that enhancements are necessary in areas such as: building risk awareness and better management into operational processes; achieving consistency in systems of authorisation; enhancing the quality of financial reporting; and integrating financial and non-financial data as part of the development of performance measurement frameworks.

3.13 These are areas that the ANAO will look to monitor, and report on further improvements over the coming year as well as to identify better practice for wider dissemination to entities.

Controls over financial systems and processes

3.14 This part of the audit concentrated on internal controls within significant business and accounting processes, and financial systems relating to key financial statement reporting elements. In most entities, key areas covered included appropriations and other revenues, payment of expenses, employment and related costs, cash management, asset management, and the IT environment.

3.15 Greater stakeholder assurance is provided by the improvements achieved in internal control and financial reporting in most entities over the past year. However, several entities continue to experience particular internal control difficulties. These will be the subject of further audit focus in the coming months leading to the preparation and audit of the annual financial statements. Significant internal control findings across entities include the following:

- IT controls—security controls need to be improved through, for example restricting access to authorised personnel thus reducing the possibility that unauthorised access can be gained to confidential and/or private, including security information or that unauthorised changes can be made to programs or data;
- business continuity planning also needs to be addressed effectively in a number of entities; and
- financial system reconciliation processes need to be enhanced relating to bank accounts, payroll processing, appropriations, interface systems and asset registers. Reconciliations are integral to ensuring the information in financial systems is complete, accurate and valid. Evidence indicates that most entities recognise the need to complete these reconciliations. However, there is inconsistency in the application of end of month procedures to ensure all reconciliations are prepared and reviewed in a timely and complete manner.

3.16 To overcome these deficiencies, entities will need to develop comprehensive IT risk analysis and control systems to mitigate these risks which demonstrate a sound accountability process as part of good corporate governance. This analysis will need to balance affordable IT security against expected costs. In addition, and in terms of adequate financial reporting, entities will need to introduce greater discipline into end of month procedures to ensure that all necessary steps are completed in a timely fashion.

3.17 These are also areas that the ANAO will review in future audit coverage.

Prospective issues to be addressed

3.18 The majority of the Commonwealth's financial activities are concentrated in taxation and excise revenue, welfare and benefit payments, other payment programs, defence and property assets, and debt financing. A relatively small number of Commonwealth entities manage the vast majority of the Commonwealth's financial activities. These entities operate the more significant and complex financial systems and are the subject of the majority of audit comments made in this report.

3.19 In aggregate, the audit findings are in relative proportion to the size and scale of activity undertaken by Commonwealth entities and indicate a risk range extending from moderate to significant exposure. Elimination of these findings will involve a compliance cost. Prudent governance standards dictate that these issues need to be resolved unless the compliance cost exceeds the benefits generated.

3.20 Commonwealth activity not only has to be controlled, it has to meet efficiency, effectiveness and ethical tests. For this to be achieved, there is a fundamental issue involving performance measurement. In this latter area, and in so far as financial stewardship is concerned, there is a need for entities to enhance performance information over time, particularly relating to program effectiveness or outcome measures and the contribution of outputs to intermediate and final outcomes.

3.21 The APS business environment has significant program outlays that involve major IT activities. These include large IT networks and information systems, together with complex technical environments, which are dynamic and diverse. These environments include different physical access, and multiple logical access, methods that cover a myriad of work practices.

3.22 With IT security, every business initiative should include a focus on security at all levels of the organisation. IT security should be considered on a risk management basis, striking an appropriate balance between risk free security and affordable security. Risk management should define the performance measures in relation to IT security. The performance measurement processes should include forecasting capability of related events to enable problems to be identified and addressed. Suitable analysis should be conducted of such events to assess the degree of impact, amount of damage and/or disruption and frequency of occurrence. The establishment of data metrics would allow a sensible judgement to be made in this respect. As a result, appropriate reporting regimes should be developed over such issues as:

- virus protection, detection and occurrence;

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

3.23 These issues will be examined by the ANAO and will feature in a subsequent audit report as noted earlier. The ANAO will be looking for the inclusion of the above structured data metrics in cost-benefit deliberations as part of entity risk management analysis.



Canberra ACT
9 August 2001

P. J. Barrett
Auditor-General

Appendices

Appendix 1

Audit Reports tabled in the period 1 January 2001 to 30 June 2001

Audit Report No.28 2000–2001

Summary of Outcomes

Audit Activity Report: July to December 2000

Cross Agency

The report summarised the audit and other related activities of the ANAO in the period July to December 2000. Key issues to emerge from the ANAO's performance audit activity in the period were: Risk Management in a Corporate Governance Framework; Outsourcing and Asset Sales; Contract Management; Service Delivery; Data Management and Management Information Systems; and Legislative implementation.

The Report also provided an overview of two reports arising from the ANAO's financial statement audits: 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*, and Audit Report No.23 2000–01 *Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2000*. Together these reports summarise the results of the audits of financial statements of all Commonwealth entities for 1999–2000.

Audit Report No.29 2000–2001

Performance Audit

Review of Veterans' Appeals Against Disability Compensation Entitlement Decisions

Department of Veterans' Affairs

Veterans' Review Board

The objective of this audit was to examine the management by the Department of Veterans' Affairs (DVA) and the Veterans' Review Board (VRB) of the review of decisions by the Repatriation Commission on veterans' claims for disability compensation.

The ANAO examined the management of the review process from the time of the veteran's submission of an appeal against a primary decision until the notification of a decision by the VRB. The focus of the audit was on management of internal review within DVA and the first level of external review at the VRB. Higher levels of external review at the Administrative Appeals Tribunal (AAT) and the courts were excluded from the audit scope.

The ANAO concluded that, overall, DVA and VRB are managing reviews adequately within the legislation. However, the ANAO identified areas where improvements could be made to improve key aspects of reviews. The measures outlined are directed at reducing the cost of review action relative to the cost of administering the primary decision-making process for veterans' compensation.

The ANAO noted that the department has implemented a range of initiatives over recent years, including, among other things, introduction of a computer-based decision support system and medical Statements of Principles to improve the consistency and accuracy of deciding veterans' claims for compensation. In addition, the department has adequately implemented all the recommendations of ANAO Report No.3 1996–97 *Compensation Pensions to Veterans and War Widows*.

Both the department and the VRB have developed and continue to maintain good working relationships with Ex-Service Organisations, which are generally satisfied with the improvements that have been put in place.

The ANAO made four recommendations in this report. DVA and VRB agreed with these recommendations aimed at improving the quality of initial decision making, thereby minimising the level of appeals and encouraging early settlement of appeals.

Audit Report No.30 2000–2001

Performance Audit

Management of the Work for the Dole Program

Department of Employment, Workplace Relations and Small Business

The objective of the audit was to examine the efficiency and effectiveness of DEWRSBs administrative arrangements for the Work for the Dole Program. The audit focused on the Community Work Coordinator (CWC) tender assessment process, selection of projects, contract management arrangements and the mechanisms used for measuring the performance of the Program against its objectives.

Despite pressures associated with the rapid expansion of the Program since its inception, the ANAO concluded that the administration of the Program by DEWRSB had been generally efficient and effective. However, the ANAO drew attention to areas that should be improved including risk assessment and project planning for the CWC tender assessment process, contract monitoring and better guidance for the selection of Work for the Dole projects.

DEWRSB is communicating satisfactorily with relevant stakeholders, and has appropriate mechanisms in place for measuring the performance of Work for the Dole against its objectives. The ANAO noted that there were potential difficulties that could arise with some aspects of the revised administrative model that came into operation fully in July 2000. Certain elements of the CWC administrative model contained risks that, if not dealt with appropriately, could adversely affect the longer-term efficiency and administrative effectiveness of the Program.

The ANAO made eight recommendations aimed at improving the efficiency and effectiveness of the management of the Program. DEWRSB agreed with all the recommendations.

Audit Report No.31 2000–2001

Performance Audit

Administration of Consular Services

Department of Foreign Affairs and Trade

The objective of the audit was to assess the adequacy of DFAT's administration of consular services. The audit focussed on DFAT's travel advice to alert Australian travellers to potential travel risks; its case management systems; the development, collection and use of performance information; and contingency planning for major consular incidents. The audit also reviewed action taken by DFAT and other agencies to address recommendations of the Senate Foreign Affairs, Defence and Trade References Committee's 1997 report on consular services.

The ANAO concluded that most aspects of consular services are satisfactorily administered. DFAT is focussed on providing responsive consular services. There have been improvements in the provision of services in recent years, particularly in terms of improved accessibility. In addition, DFAT has strengthened efforts to prevent Australians from experiencing difficulties abroad. Notwithstanding these improvements, there remain some weaknesses in management processes and administrative systems in the above four focus areas.

The ANAO also concluded that DFAT and other agencies have taken action to address partly or wholly 17 of the 21 Senate Committee recommendations that the Government accepted, or agreed to consider further. One recommendation—relating to counselling referral arrangements—has not been actioned and DFAT is now reviewing procedures in this area. There was no documentary evidence that the remaining three recommendations had been pursued. DFAT advised that it had given these matters due consideration, but has undertaken to consider the recommendations afresh.

The ANAO made six recommendations aimed at improving administration of client communication; travel warnings; case management information; performance management; contingency planning; and the registration of Australians abroad. DFAT commented that it found the audit to be a useful exercise and agreed fully to each of the six recommendations.

Audit Report No.32 2000–2001

Performance Audit

Defence Cooperation Program

Department of Defence

The audit reviewed the Defence Department's management of the Defence Cooperation (DC) Program, through which Australia interacts with and provides assistance to security forces in South East Asia and the South Pacific. The primary aim of the program is to support Australia's defence relationships. Activities conducted through the program include training, study visits, personnel exchanges and combined exercises with elements of the various regional armed forces. The Pacific Patrol Boat Project is part of the program.

The ANAO found that the DC Program is valued highly by participating countries. Stakeholders see it as making a positive contribution to the overall work of Australia's overseas missions and in helping to advance Australia's interests. The ANAO concluded, however, that Defence has not assessed the benefits systematically, having regard to the costs of the program. More data are needed on program costs and benefits to assist in adequately assessing program cost-effectiveness.

In the absence of a specific statement of Government policy on the program, Defence should develop program objectives that would assist in selecting, ranking and managing individual DC activities and in overall program management and evaluation. Broad Government goals and policy directions on aspects of DC activities are not specific enough for use as program objectives to provide adequate management guidance.

Recent developments in Australia's geographic region reinforce the need for DC activities to be planned with regard to the interests and activities of other contributors in bilateral and multilateral relationships and for regular, formal exchanges of information at the national level.

Several improvements could be made to the management of DC finances and activities. Financial data could not be exchanged adequately between Defence and its overseas posts and with the Department of Foreign Affairs and Trade. DC systems and practices were not effective in preventing, or detecting misallocations and overspending on individual DC activities. Management of individual DC activities should desirably have more regard to better practice relating to approving, monitoring and assessing projects.

The ANAO made seven recommendations to improve the targeting of decisions on the selection and prioritisation of DC activities and their subsequent evaluation and financial administration. Defence agreed to all the recommendations, one with qualification.

Audit Report No.33 2000–2001

Performance Audit

Australian Defence Force Reserves

Department of Defence

The audit sought to identify possible areas for improvement in the ADF's management of its Reserve forces. It focused on major aspects of the Reserves, including roles and tasks, force structure, capability, training, individual readiness, equipment, facilities, recruitment, retention, conditions of service and administration. The audit covered Reserves in all three Services, but focused mainly on the Army Reserve because of its size and cost.

The ANAO derived an indicative cost for ADF Reserves in 1999–2000 of \$1 billion, of which over \$950 million was the cost of the Army Reserve. ADF Reserves use some 300 facilities Australia-wide, with an asset value in excess of \$1.1 billion. The total value of equipment used by Reserve units was around \$850 million.

The ANAO found the integration of the Permanent Naval Force and Australian Naval Reserve workforce to be an effective means of delivering Navy capability during peacetime. A major issue confronting the Army Reserve is the need to develop suitable roles and tasks to reflect current strategic requirements. The collective military capability of the Army Reserve is very limited. Previous efforts to revitalise the Reserve have not been successful, largely because roles have not been clearly defined and resources allocated to the Army Reserve have been insufficient to achieve the capability required by Army.

The 'hollowness' of the force structure constrains Army Reserve capability. Recruitment has fallen short of recruitment targets. The large number of partially staffed and equipped Reserve units has been justified in the past as an expansion base from which to generate additional capability. Given current resource constraints, the fundamental force structure choice that may have to be made is between maintenance of a large but poorly resourced and ill-trained Reserve or a much smaller but better resourced and trained force that can supplement the permanent force capabilities.

The Air Force Active Reserve provides trained Reserve personnel available for operational deployment or associated support activities during a contingency. Proposals are being considered to develop appropriate structures to provide the capabilities to meet the requirements of a total Air Force and to provide a clear statement of the role and function of the Air Force Reserve. Current proposals for the Air Force Reserve will

entail a considerable expansion over the present active establishment and will require greater effort to administer and train if they are to be an adequate supplement to the permanent force.

The ANAO made 13 recommendations to improve Reserve effectiveness, rationalise the Army Reserve force structure to a level sustainable in the long term, increase Army Reservist attendance at collective training activities and to focus on ways to improve Reservists' recruitment and retention rates. Defence agreed, or agreed in principle, to all the recommendations.

Audit Report No.34 2000–2001

Performance Audit

Assessment of New Claims for the Age Pension by Centrelink

Centrelink

The objective of the audit was to assess the extent to which new claims for Age Pension had been assessed in compliance with the legislation, and with other relevant guidelines developed by Centrelink, and whether Centrelink employed appropriate mechanisms to help ensure such compliance. The focus was on compliance management, an important element of corporate governance, and the assurance needed for all stakeholders on accountability and performance.

The audit also examined preventive quality controls, as a means of ensuring the accuracy of new claims assessments with legislation and guidelines. Specifically, the audit examined Customer Service Officer training, availability of guidance material and access to expert advice, and performance management within Centrelink.

The ANAO concluded that assessments of new claims for the Age Pension conducted during the audit sample period demonstrated a significant degree of non-compliance with the provisions of the Social Security Law, the Guide to the Social Security Law and other relevant guidelines. Using Centrelink's own definition of an accurate assessment, the audit estimated the error rate for new claims assessments as 52.1% (+/- 6.8 percentage points). The corresponding error rate for the same period reported by Centrelink to the Department of Family and Community Services was 3.2%, based on Centrelink's compliance monitoring software in operation at the time covered by the audit sample period. The ANAO also concluded that Centrelink's compliance monitoring systems significantly underestimated the level of claims assessment error, adversely affecting the integrity of Centrelink's external reporting and impeding Centrelink's capacity to evaluate the effectiveness of its internal quality controls.

The relatively high rate of error in the assessment of new Age Pension claims indicated that Centrelink's quality controls had not been fully effective in ensuring adequate compliance with relevant legislation and guidelines. In particular, there was a need to refocus training on technical assessment skills.

The ANAO made eleven recommendations aimed at improving the accuracy of assessment decisions, improving the monitoring of assessment accuracy, and reducing the complexity of rules and guidelines. Centrelink agreed to all 11 recommendations.

Audit Report No.35 2000–2001

Performance Audit

Family and Community Services' Oversight of Centrelink's Assessment of New Claims for the Age Pension

Department of Family and Community Services

The objective of the audit was to assess whether FaCS had established effective business arrangements with Centrelink to help ensure that new claims for Age Pension were properly assessed in accordance with the Social Security Law and the Guide to the Social Security Law. This audit was conducted in parallel with the audit *Assessment of New Claims for the Age Pension by Centrelink*²¹ to determine the compliance of its assessments with the *Social Security Law* and the *Guide to the Social Security Law*.

The audit focused on whether FaCS had established an appropriate business framework; adopted an appropriate risk management approach; appropriately monitored and evaluated Centrelink's performance; and provided relevant business support to Centrelink.

The ANAO concluded that the business arrangements FaCS had established with Centrelink were not fully effective in terms of helping to ensure that new Age Pension claims assessments complied with the Social Security Law and the Guide to the Social Security Law. The business framework and risk management approaches were generally appropriate. In addition, FaCS provided Centrelink with effective business support. However, FaCS was unable to monitor and evaluate Centrelink's performance effectively. FaCS relied upon Centrelink's performance monitoring systems that did not produce accurate data on new claim assessment compliance. As a result, FaCS did not detect the significant level of non-compliance in Centrelink's new Age Pension claim assessments identified by the ANAO. FaCS was therefore not in a position to take appropriate remedial action.

The ANAO made five recommendations aimed to assure FaCS that in relation to new Age Pension claim assessment Centrelink is providing accurate performance information and taking appropriate measures to achieve assessment compliance, and that the very large number of rules and guidelines are all warranted. FaCS agreed to all five recommendations.

²¹ ANAO Audit Report No.34 2000–01, *Assessment of New Claims for the Age Pension by Centrelink*, Canberra, May 2001.

Audit Report No.36 2000–2001

Performance Audit

Municipal Services for Indigenous Communities

Aboriginal and Torres Strait Islander Commission

The objective of the audit was to form an opinion on ATSIC's management of the Municipal Services component of Community Housing and Infrastructure Program (CHIP), and the arrangements ATSIC employs to coordinate the funding efforts of the various stakeholders in provision of municipal services to ATSIC's clients. The audit examined how effectively ATSIC specifies and implements its role; the adequacy with which it identifies relative needs among Indigenous communities for support from the program; and how it leverages improved outcomes from other funding sources such as from other areas of government.

The ANAO concluded that ATSIC's Municipal Services activities enable specific Indigenous communities, particularly those in remote areas, to obtain some services they need for maintaining essential living and environmental health standards. The activities are managed in a way that is broadly consistent with financial reporting and accountability requirements. However, aspects of ATSIC's management of the program of grants do not reflect some important dimensions of the role being played by the program. In particular, there are ways in which ATSIC could better manage its role definition, data collection and coordination for better outcomes. One of ATSIC's legislative tasks is to ensure coordination in the formulation and implementation of policies of Commonwealth, State and local government affecting Indigenous people. ATSIC's ability to perform this task would be enhanced by improvements in management of municipal services activities.

The ANAO made eight recommendations aimed mainly at ATSIC clarifying its roles in Municipal Services funding for improved performance. ATSIC agreed to all recommendations. In its response to the proposed report, ATSIC acknowledged that

the report will provide Parliament and the general public with a useful overview of this element of the CHIP program and the fairly complex and difficult environment in which it operates. Furthermore, the audit recommendations will assist ATSIC in improving delivery of key services to rural and remote communities, including through more constructive engagement with other Commonwealth, State and local government agencies.

Audit Report No.37 2000–2001

Performance Audit

The Use of Audit Compliance Management of Individual Taxpayers

Australian Taxation Office

The objective of the audit was to examine the use of audit as an element of the compliance management function within the Individuals Non-Business line (INB) of the Australian Taxation Office (ATO). In doing so, the audit reviewed both the strategic framework and operational elements in relation to INB audit activities.

The audit focused on INB's audit strategy, risk assessment, audit planning, performance measurement and reporting and its operational effectiveness. In reviewing operational effectiveness, the ANAO considered a range of issues, including performance outcomes, the handling of complaints, management control practices, use of the data warehouse, quality assurance and control, correspondence with taxpayers and staff training.

The ANAO concluded that the use of audit to be an effective element of INB's approach to encouraging taxpayer compliance. The ANAO also concluded that INB is working to achieve the outcome of improved taxpayer compliance by:

- developing a strong, strategic framework for addressing its compliance management responsibilities, including its use of audit;
- basing compliance activities on a sound risk management process; and
- using planning and management tools to provide a robust and effective structure for managing compliance functions, including audit activities.

The ANAO identified a number of areas where improvement would add to the effectiveness of INB's compliance management and made seven recommendations aimed at improving the effectiveness of INB's use of audit, including:

- the timeliness of developing INB's risk management plan;
- the need to consider computer system reliability in determining operational risks;
- extending quality assurance processes to audit related telephone communication and computer note-taking activities; and
- the ease of understanding of correspondence to taxpayers about discrepancies found as a result of audit activity.

The ATO agreed with all the recommendations.

Audit Report No.38 2000–2001

Performance Audit

The Use of Confidentiality Provisions in Commonwealth Contracts

Cross Agency

In an Inquiry in early 2000, the Senate Finance and Public Administration Committee considered a draft Senate Motion that sought to provide greater transparency of Commonwealth contracts. The Motion had been initiated as a result of concern that senate committees were being prevented from accessing information in contracts because the information was considered to be commercial-in-confidence. During the Inquiry, the ANAO agreed to include an audit of the use of confidentiality provisions²² in contracts in its 2000–2001 Audit Work Program.

The audit objectives were to: examine the guidance on the use of confidentiality clauses in contracts and agencies' use of such clauses; develop criteria to assist agencies in determining what information in a contract is confidential; and assess the effectiveness of the existing accountability and disclosure arrangements for Commonwealth contracts.

Overall, the ANAO considered that the reverse onus principle should apply to Commonwealth contracts. That is, information in contracts should be disclosed unless there is a good reason for confidentiality. Potential contractors should be informed of this principle and asked to identify specific information that they consider to be confidential at the time the contractual proposal is put to the Commonwealth.

The ANAO found that there was no consolidated guidance available to agencies or contractors on how to determine what information should be classified as confidential, and there was uncertainty among agencies on how to deal with the issue. The ANAO in conjunction with the Australian Government Solicitor, developed guidelines to assist with the consideration of confidential information, provided an approach on how to implement the guidelines developed in the report and gave examples of the sort of information that could be considered confidential. Agencies' approach should provide for contractors to indicate what information they consider should be classified as confidential and for agencies to consider these in terms of the guidelines.

²² In the audit context, the term confidential refers to commercial-in-confidence information but not to information protected with a national security classification.

The ANAO made three recommendations designed to: alert prospective tenderers to the public accountability responsibilities of agencies; ensure that agencies were able to provide summarised performance information on progress against relevant measures in contracts to parliamentary committees; and improve the contract reporting mechanisms. The recommendations were agreed or agreed with qualification or in principle by eight of the nine agencies audited. The remaining agency did not agree fully with one recommendation and disagreed with another.

Audit Report No.39 2000–2001

Performance Audit

Information and Technology in Centrelink

Centrelink

The audit was conducted as a joint financial statement and performance audit of Centrelink's Information and Technology (I&T) systems. The objective of the financial statement component of the audit was to express an opinion on whether Centrelink could rely on its I&T systems to support production of a reliable set of financial information for the financial statements. The objective of the performance audit component was to determine whether Centrelink's I&T systems' outputs adequately met quality and service delivery targets.

The audit concluded that:

- reliance could be placed on Centrelink's I&T systems and controls, and accuracy of the accounts and records, to the extent necessary to form an opinion on the agency's financial statements;
- while Centrelink was meeting the quality and delivery targets it had set itself for I&T services, the development and future use of I&T performance measures could be improved;
- Centrelink's I&T procedures and management of changes were generally satisfactory, however, records and relevant documentation describing the impact and testing of I&T changes did not completely address all recent changes and was not always updated promptly;
- Centrelink had arrangements in place to ensure the continuous service of the I&T systems that support its business processes, however, the ANAO considered that costing and budgeting for the services it assessed had not yet been fully developed by Centrelink; and
- Centrelink had developed adequate internal performance measures for its I&T system, however, it was not in a position to compare its performance against targets that represented recognised better practice.

The ANAO made three recommendations aimed at assisting Centrelink to: monitor the implementation of its I&T Strategic Plan; implement Activity Based Costing; and obtain a comprehensive picture of I&T performance by designing I&T indicators and targets with reference to comparable better practice. Centrelink agreed with all three recommendations.

Audit Report No.40 2000–2001

Performance Audit

Management of the Adult Migrant English Program Contracts

Department of Immigration and Multicultural Affairs

The objective of the audit was to examine the Department of Immigration and Multicultural Affairs (DIMA's) management of the Adult Migrant English Program Contracts, focusing on performance outcomes; contract management and coordination; and program expenditure. The emphasis was on contract funding arrangements and whether contract monitoring and performance information adequately support effective program management.

The audit concluded that DIMA's management of the AMEP through contracted out arrangements delivers benefits to the Commonwealth and to those eligible migrants who take up their entitlement to English language tuition in line with the Program's overall objectives. The Program is widely regarded as a major contributor to DIMA's settlement aim of enabling migrants to participate equitably in society. The contractual arrangements provide tuition services at a similar annual cost per participant to that for the previous arrangements, but also provide enhanced flexibility in providing tuition to meet the needs of eligible migrants. Notwithstanding the greater flexibility, the extent to which eligible migrants participate in the Program has not increased and other aspects of contract management do not sufficiently support cost effective delivery of Program outputs and related outcomes.

The ANAO made six recommendations aimed at improving program performance management and reporting; strategic management and coordination; management of financial risks; and monitoring of contractor performance. All six recommendations were accepted by DIMA.

Audit Report No.41 2000–2001

Performance Audit

Causes and Consequences of Personnel Postings in the Australian Defence Force

Department of Defence

The audit arose from a Defence Efficiency Review (1997) recommendation that Defence make savings on its large volume of postings. The audit examined the posting process and sought to provide assurance that Defence had identified and examined salient postings issues and was addressing them effectively. As Defence had already established the Posting Turbulence Review Team (PTRT) in 2000 to examine postings issues the scope of the audit was limited to ensure that it did not duplicate work done by the PTRT.

The main conclusion of the PTRT is that personnel postings are largely driven by separations from the ADF and an efficient way to manage postings and reduce posting turbulence is to improve retention rates. This finding was based on modelled data, developing a capability to gain full access to actual data would allow Defence to better understand the postings cycle and facilitate effective, informed remedial action as well as improved workforce planning.

The ANAO found that the PTRT's separations-as-driver model provides a reasonable rationale for the current posting cycles and posting turbulence, and that an efficient way to manage postings and reduce posting turbulence is to improve retention rates.

The main audit conclusions were:

- the ADF is finding it increasingly difficult to recruit sufficient personnel to meet recruitment targets and to retain existing members. Personnel numbers are below desired levels;
- lateral recruitment may offer some opportunities for the ADF to address its recruitment difficulties; and
- defence should consider evaluating the success of recruitment advertising. Significantly increased advertising activity has produced more inquiries about joining the ADF but resulted in only a small increase in actual enlistments.

The audit made four recommendations that addressed ADF personnel postings, recruitment and retention issues. Defence agreed to the recommendations.

Audit Report No.42 2000–2001

Performance Audit

Bank Prudential Supervision

Australian Prudential Regulation Authority

The ANAO's objectives for this audit were to assess the efficiency and effectiveness of the Australian Prudential Regulation Authority's (APRA's) prudential supervision of banks. Specifically, the audit objectives involved:

- examining APRA's adoption and implementation of internationally accepted banking supervisory standards and developments;
- evaluating APRA's prudential supervision of banking activities; and
- assessing APRA's financial governance arrangements.

The 1997 Core Principles for Effective Banking Supervision and other guidance on supervisory practice published by the Basle Committee represent the global standard for prudential supervision. The ANAO found that APRA complies with most aspects of the Core Principles but there are a number of areas where APRA's supervision does not comply with the Core Principles in relation to banks' large exposures, information sharing with overseas supervisors and the conduct of on-site bank inspections.

APRA seeks to reduce the burden of supervisory compliance on industry by leveraging off financial institutions' internal risk management systems as far as possible. APRA also places extensive reliance on the work of banks' external and internal auditors. The ANAO also found that the bank supervision function was under-resourced at the time of the ANAO performance audit, with only 30 to 34 full-time staff equivalents allocated to the supervision of banks.

In July 2000, APRA adopted a risk-based supervisory methodology for sophisticated financial institutions (including most banks). The new methodology involves a less intrusive '*consultative*' off-site supervision regime. The risk-based methodology is applied across all APRA supervised institutions and is to drive APRA's allocation of resources. The ANAO found that the risk ratings provide a less than sufficient basis for prioritising supervisory activities for entities within the banking sector.

The Authorised Deposit-taking Institutions Supervisory Levy enables APRA to identify the extent of bank supervision required, the expected costs of this supervision and then to recover these costs from the supervised industries. However, there are indications that other

industries may be subsidising the cost of supervising banks and other deposit-taking institutions.

The ANAO made five recommendations concerning administration of levies, risk-based supervision and supervision of cross-border banking. APRA agreed, or agreed with qualifications, to all recommendations, as well as agreeing with the overall audit conclusions.

Audit Report No.43 2000–2001

Performance Audit

Performance Information for Commonwealth Financial Assistance under the Natural Heritage Trust

Department of Agriculture, Fisheries and Forestry—Australia

Department of the Environment and Heritage

The objective of the audit was to examine and report on the performance information used to support the administration of \$1.5 billion in Commonwealth financial assistance under the Natural Heritage Trust; and compliance with legislative requirements for performance monitoring and reporting. The audit focussed on design, management (including monitoring), and reporting on performance information. The audit did not examine project approval processes or financial accountability. Most emphasis was given to the four most significant programs: National Landcare Program, Bushcare, Coasts and Clean Seas Initiative, and Murray-Darling 2001.

Overall, the ANAO concluded that the performance information used to support the administration of \$1.5 billion in Commonwealth financial assistance had strong design features but significant management and reporting challenges.

The ANAO found that the draft design of performance information for the NHT was comprehensive, took into account better practice principles, lessons learned from past experience and was informed by expert advice. However significant shortcomings were the absences of a finalised set of core indicators, the absence of an agreed position on resourcing prior the commencement of the NHT and the limited availability of baseline data. The implementation of the performance information system has fallen short of expectations, largely due to the absence of an agreement on funding. The ANAO identified areas in which the quality and depth of reporting to Parliament could be improved.

The ANAO made six recommendations directed at improved performance management of environmental and natural resource management programs. Recommendations covered the development of baseline data and a core set of performance indicators; a consistent approach to data validation; streamlining the collection and analysis of performance information; the implementation of intermediate performance measures; strengthening of joint performance management arrangements between the Commonwealth and States/Territories; and improving the quality and content of reporting to Parliament. The administering agencies agreed with all of the recommendations.

Audit Report No.44 2000–2001

Performance Audit

Information Technology in the Department of Veterans' Affairs

Department of Veterans' Affairs

The audit was conducted as a joint financial statement and performance audit of the Department of Veterans' Affairs (DVA's) information technology (IT) systems. The objective of the financial statement component of the audit was to express an opinion on whether DVA could rely on its IT systems to support production of a reliable set of balances for the financial statements. The objective of the performance audit component was to determine whether DVA's IT systems' outputs met quality and service delivery targets.

The ANAO concluded that:

- the results of testing indicated that reliance could be placed on DVA's IT systems and controls, and accuracy of the accounts and records, to the extent necessary to form an opinion on the department's financial statements;
- the outputs of the three systems used to support DVA's income support and compensation responsibilities met DVA's quality and service delivery performance parameters;
- DVA's planning and organisation of IT was satisfactory;
- DVA's IT delivery and support controls require some improvement over the local area network and windows environment, and particularly in the regular review of access logs to IT systems; and
- DVA had only a limited ability to identify the costs of the use of IT to deliver services, and to link IT system performance measures directly to client quality and performance targets.

The ANAO made two recommendations aimed at improving the monitoring of the time taken to implement changes to systems, and improving the development and use of IT performance measures. DVA agreed with these recommendations.

Audit Report No.45 2000–2001

Performance Audit

Management of Fraud Control

Department of Family and Community Services

The objective of this audit was to assess whether the Department of Family and Community Services (FaCS) had implemented appropriate fraud control and arrangements in line with the Fraud Control Policy of the Commonwealth and that these arrangements operated effectively in practice. It also examined whether FaCS had fulfilled its responsibilities as a purchaser of services in relation to fraud control.

The ANAO concluded that FaCS had implemented appropriate fraud control arrangements in line with the Commonwealth Fraud Control Policy and better practice. Within FaCS these arrangements operated effectively in practice.

FaCS had fulfilled its responsibilities in relation to fraud control for Centrelink services, in that the Business Partnership Agreement between them specified the roles and responsibilities of both FaCS and Centrelink and clearly specified key performance indicators. Reporting against these indicators was undertaken regularly and the reports were monitored. However, the indicators focussed on inputs and processes, that is the number of reviews undertaken, rather than measuring reductions in the level of fraud and incorrect payment occurring.

FaCS has recognised the need to shift the focus to reducing fraud and incorrect payment rather than just detecting it once it has occurred. The agency is undertaking research to better understand the causes of fraud and error. Driving an estimate of the level of fraud and error by income support payment type, could also assist FaCS and Centrelink develop more meaningful indicators to demonstrate the impact of compliance activities and other factors on the level of losses from fraud and error.

For services delivered by other providers, that is CRS Australia, Child Support Agency and non-government organisations, the ANAO found that FaCS had adequate arrangements in place. These were being developed further to ensure that FaCS reviews greater assurance about the fraud control arrangements in these agencies. Arrangements in relation to fraud control in Family Assistance Office were also appropriate.

The ANAO made two recommendations, both of which focussed on improving the relationship between FaCS and Centrelink in relation to fraud control. FaCS and Centrelink agreed to these recommendations.

Audit Report No.46 2000–2001

Performance Audit

ATO Performance Reporting under the Outcomes and Outputs Framework

Australian Taxation Office

The objective of the audit was to report to Parliament on the Australian Taxation Office's (ATO's) management of its performance reporting within the outcomes and outputs framework and to identify potential areas for improvement in specifying, measuring, administering and reporting under that framework.

The audit reviewed the ATO outcome and outputs framework published in the 1999–2000 ATO Portfolio Budget Statements (PBS), including the measures used to assess ATO performance in achieving its outcome. The audit examined the alignment of the ATO outcome and outputs framework with internal corporate and business planning and reporting documents. The audit also reviewed linkages between information in the ATO PBS and in its Annual Report, as well as the ATO approach to measurement and reporting of its performance in its Annual Report.

The audit found that, while the ATO has established an outcome and outputs framework, there was scope to improve the specification, clarity and measurability of its outcome, outputs and performance measures and to enhance its performance monitoring and reporting arrangements.

The ANAO made 10 recommendations aimed at improving the ATO's management of its performance reporting under its current outcome and outputs framework. The ATO effectively agreed with all of the recommendations subject to a review of its outcome and outputs framework in the context of the 2002–2005 ATO Resourcing Agreement, and an internal review of its governance process.

Audit Report No.47 2000–2001

Performance Audit

Managing for Quarantine Effectiveness

Department of Agriculture, Fisheries and Forestry—Australia

The objective of this audit was to assess AFFA's management of plant and animal quarantine services, and the implementation and impact of the Government Response (1997) to the Quarantine Review Committee (QRC) Report. The audit in particular assessed the setting of quarantine priorities through assessing and managing risk; management of the continuum of quarantine operations; and management of Import Risk Analyses (IRA) to deliver and review quarantine policies. Stakeholder consultation and advisory processes were also assessed in addressing these issues.

On the basis of information available from AFFA's financial management systems, funds allocated to implement the Government's response to the QRC Report were generally spent and managed appropriately. AFFA's quarantine operations are now markedly more effective across the board, particularly in those areas identified by the QRC as needing improvement and for which additional funding was provided by the Government. There has been an expansion and restructuring of the IRA process; greater quarantine coverage of the border, both through application of a more risk based approach to targeting quarantine operations within programs, and through greater use of detector dogs and x-rays; provision of new plant health infrastructure; and implementation of an expanded consultation and advisory structure.

Despite these improvements, the ANAO concluded that there remain weaknesses in management of the quarantine function, which need to be addressed to improve both operational effectiveness and quarantine outcomes. Areas which warrant management attention include extending risk management practices to ensure that risk treatments appropriately address quarantine risks across different modes of entry; appropriately assessing and monitoring performance; and reducing the extent to which aspects of the IRA process result in avoidable controversy and uncertainty.

A key finding relating to the effectiveness of quarantine border operations was that ANAO estimates (developed during the audit from available AFFA data) indicate that almost 90 per cent of seizable material arriving by mail, and more than half arriving carried by international airline passengers, enters Australia undetected. These rates, and differences in the rates between entry routes within these two programs, suggest aspects

of border operations warrant priority management review and action, including assessing the consequences of barrier breaches, and appropriate cost-benefit options for dealing with them.

The ANAO made eight recommendations aimed at improving operational risk based resource allocation; pre-border management of quarantine risk; the effectiveness of quarantine operations at the Australian border; and priority setting and transparency of the IRA process. AFFA agreed to all eight ANAO recommendations.

Audit Report No.48 2000–2001

Performance Audit

Air Traffic Data Collection

Airservices Australia

The objective of this limited scope audit was to examine and report on the accuracy of the data on air traffic movements collected by Airservices Australia. The audit focused on the accuracy of air traffic movements data over the last two to three years and included examination and selective testing of the manual procedures and computer systems supporting the collection and validation of the air traffic movements data published by Airservices.

Airservices derived some \$596 million in total revenue during 1999–2000; maintained a \$400 million fixed asset base; and employed over 3100 staff. Traffic data plays an important role in informing decisions about the safety of the airways system, including such matters as the need for navigation facilities, communication links, air traffic control towers and rescue/fire fighting services. It is also used for a variety of other purposes, including as a basis for environmental and local government planning and community consultation. Accurate movements data is crucial for raising Airservices' revenue of some \$568 million annually from aviation charges of which \$176 million is derived from terminal navigation charges arising from aircraft movements at airports.

The ANAO concluded that although a number of factors currently impact on the accuracy of aircraft movements recorded by Airservices, the present system is a considerable improvement over that in place about three years ago. In general, the movements data automatically collected at larger airports is now reliable. However, there remain some problems affecting the accuracy of data manually collected at the smaller airports, which Airservices is moving to address.

As action taken or proposed by Airservices adequately addresses issues raised during the audit, the ANAO did not make formal recommendations. Airservices noted the improvements in the collection and validation of movement data in recent years and the general reliability of data automatically collected at larger airports. However, Airservices agreed that there remain some problems affecting the accuracy of data manually collected at the smaller airports, and action to address these is expected towards the end of 2001.

Audit Report No.49 2000–2001

Performance Audit

Information Technology in the Health Insurance Commission

Health Insurance Commission

The audit was conducted as a joint financial statement and performance audit of Health Insurance Commission's (HIC's) information technology (IT) systems. The objective of the financial statement component of the audit was to express an opinion on whether HIC could rely on its IT systems to support production of a reliable set of balances for the financial statements. The objective of the performance audit component was to determine whether HIC's IT systems' outputs met quality and service delivery targets.

The ANAO concluded that:

- the results of testing indicated that reliance could be placed on HIC's IT systems and controls, and accuracy of the accounts and records, for its business systems (Medicare, PBS) to the extent necessary to form an opinion on the Commission's financial statements. However, the ANAO concluded that the HIC's financial management system controls could not be fully relied on, leading to the ANAO extending its testing around the system in order to provide adequate assurance on the financial statements;
- the outputs of the four systems used to support HIC's payment responsibilities met HIC's quality and service delivery parameters;
- HIC's IT planning and organisation were satisfactory, recognising that much of these aspects of HIC's IT was in the process of change;
- HIC's operational IT procedures and processes were satisfactory and change control processes were sound;
- HIC had satisfactory performance, capacity and problem management procedures. However, HIC's contingency planning could be improved by extending the IT disaster recovery plan beyond solely IT issues; and
- arrangements to monitor IT processes could be improved by aligning IT performance targets with HIC's Charter of Care, and by Audit Branch conducting IT audits.

The ANAO made six recommendations aimed at strengthening controls, improving its risk management framework, recording IT project costs and aligning HIC's IT performance measures with its Charter of Care. HIC agreed with all six recommendations.

Audit Report No.50 2000–2001

Performance Audit

The National Cervical Screening Program

Department of Health and Aged Care

The objective of the audit was to provide an assurance to Parliament that the Department of Health and Aged Care's (DHAC) administration of the National Cervical Screening Program is sound. The audit focused on DHAC's administration of the National Cervical Screening Program. It also examined the links between the NCSP and other programs administered by DHAC. However, with one exception, the audit did not examine DHAC's administration of these other programs in detail. The exception was, where in order to determine whether quality assurance procedures for the processing of Pap smears were complete, the ANAO examined DHAC's oversight of pathology-industry quality assurance procedures.

The Health Insurance Commission's (HIC) administration of the payment of Medicare benefits for pathology services provided in relation to the NCSP was included in the scope of the audit, to the extent that it impacted on DHAC's administration of the Program.

The ANAO concluded that DHAC's administration of the National Cervical Screening Program is generally sound. The ANAO found that the department has a key role in the Program by providing secretariat services and other support to the NAC, which provides policy advice to AHMAC, and by supporting initiatives to further develop the Program.

Some areas of DHAC's administration of the Program provide examples of good practice. Related examples are the early identification of the need to monitor the Program, the early identification of possible data sources for monitoring, and the use of an independent body to provide advice, through the Australian Institute of Health and Welfare, on performance indicators and data sources. A further example is DHAC's administration of the provision of cervical screening funding assistance to the States and Territories through Public Health Outcome Funding Agreements, which complies with the principles for sound Specific Purpose Payments program administration advocated by the Joint Committee of Public Accounts and Audit in their Report 362. On the other hand, the ANAO has identified areas for improvement in quality assurance for the analysis of Pap smears by pathology laboratories.

The ANAO made four recommendations aimed at improving the efficiency and effectiveness of the management of the Program. DHAC agreed with all the recommendations.

Audit Report No.51 2000–2001

Performance Audit

Australian Defence Force Health Services Follow-up Audit

Department of Defence

This audit is a follow-up of Audit Report No.34 1996–97 *Australian Defence Force Health Services*, which focused on the delivery of non-operational health services to entitled ADF members. Of the 19 recommendations to improve the efficiency and administrative effectiveness of ADF health services, Defence agreed to all but one. The report was reviewed in 1998 by the JCPAA, who were supportive of the audit report and made recommendations consistent with the ANAO's conclusions.

The objective of this follow-up audit was to assess Defence's implementation of recommendations made in the original audit report and their effectiveness in improving ADF health services. In view of the number of recommendations made in the original audit report and by the JCPAA, the follow-up audit did not make further recommendations but identified where recommendations have not been fully implemented and where further action is required.

The ANAO found that Defence has made progress in fully, or partially, implementing all of the ANAO's recommendations and these actions have improved the efficiency and effectiveness of ADF health services. There has been commendable work in several areas and the ANAO also supports initiatives and developmental work in progress in other areas. Although there has been substantial organisational change in ADF health services, and shortages in uniformed health personnel still persist, implementation of the ANAO's recommendations has been slow. Many of the recommendations have only been partially implemented and considerable work remains to be done. In particular, up-to-date information on the cost of providing health services is still not readily available, and this is impairing effective management decision-making.

Progress is needed in the following areas: developing further strategic alliances; completing a review of pathology services; reviewing the usage and availability of therapeutic substances; devolving responsibility for costs associated with compensable injuries and illness to sub-program managers; and improving command and control arrangements associated with delivery of non-operational health services.

Audit Report No.52 2000–2001

Assurance and Control Assessment Audit

Payment of Accounts

Cross Agency

The objectives of the audit were to determine whether organisations implemented appropriate risk management strategies for the processing of accounts and payment for goods and services have been properly authorised. The audit also reviewed progress since the payment of accounts audit (Report No.16, 1996–97, Financial Control and Administration Audit, *Payment of Accounts*) undertaken in 1996.

The ANAO concluded that the payment of accounts function was being administered satisfactorily. However, better practices could be achieved through two avenues:

- improvements in the organisation's internal control framework, including the implementation of formal process risk assessments, the development of appropriate performance measures and increased use of monitoring and review mechanisms; and
- greater use of advanced cost-effective information technology.

The 1996 audit of the payment of accounts function also came to a similar conclusion. Notwithstanding the reforms noted below, the results of the current audit indicate that the findings of the 1996 audit and the opportunities identified in 1996 continue to be largely the same.

In the 1996 audit, ANAO also suggested that:

- organisations should be assessing the benefits and costs of the opportunities offered by the adoption of new financial management information systems (FMIS) and the new financial management and accountability legislation or be planning to do so in the near future; and
- the then Department of Finance should undertake a cost/benefit study comparing the then current centralised payment processing system and alternative methods, including individual organisations' processing payments.

Since 1996, the Department of Finance and Administration has ceased to provide a centralised payment processing and public sector organisations are now responsible for the payment of their own accounts. In conjunction with this reform, organisations have also become responsible for their own banking arrangements. Many have implemented, or are in the process of implementing, new FMISs.

The ANAO concluded that most organisations did not achieve the objective of paying all suppliers electronically by the end of 2000. As a result, significant work continues to be necessary to achieve the goal of conducting 90 per cent of purchase related transactions electronically by the end of 2001.

Audit Report No.53 2000–2001

Performance Audit

Commonwealth Agency Management of Leased Property

Cross Agency

This performance audit is the first property management audit that the ANAO has conducted since the FMA Act came into effect in 1997, with the associated devolution of responsibility to agency heads. The audit included coverage of office accommodation currently leased in Australia from the private sector. This office accommodation was housing the functions and activities of clerical, technical or professional staff, including conference and meeting rooms and ministerial suites but excluding basements, car parks, theatrettes, and cafeterias.

The audit gathered data from a survey of 59 FMA agencies and three case studies. Sinclair Knight Merz provided property management expertise for both the survey and case studies. Case studies were undertaken in Centrelink, the Department of Foreign Affairs and Trade, and the Department of Health and Aged Care, to supplement the data obtained from the survey.

The ANAO found:

- the amount of space leased per person is generally above the benchmark range of 15 to 25 square metres per person. This indicates that some responding FMA agencies may be renting space in excess of their needs and/or utilising existing space inefficiently. Comparison of the benchmark and survey data suggest that respondent FMA agencies were paying approximately \$89 million per annum for this above-benchmark space and an additional \$6.5 million in outgoings at 30 June 2000;
- survey results indicate that more than 70 per cent of the 1505 leases in the survey were for terms of fewer than five years. This suggests that many agencies forego the potentially lower per annum rentals available with longer-term leases for the flexibility provided by short term leases;
- agencies are paying above-benchmark rentals in city/metropolitan areas, with the exception of in NSW; and
- from the analysis of 43 leases managed by DFAT, Health and Centrelink, 32 leases contained clauses that prevent a decrease in rent. This form

of clause, known as a ratchet clause, does not allow rents to fall below the previous rent payable during the lease term. Depending on market forces at the time of the rent review, this may prevent the rent from being reviewed to a 'true' market rent.

The ANAO made three recommendations to two case study agencies aimed at improving their property management. The agencies agreed with these recommendations.

Audit Report No.54 2000–2001

Compliance Assessment Audit

Engagement of Consultants

Cross Agency

The audit reviewed the engagement of consultants in four Commonwealth agencies: the Department of Training and Youth Affairs (DETYA); the Department of the Senate; the National Capital Authority; and the Department of Communication, Information Technology and the Arts. The objective of the audit was to provide assurance to Parliament that the procurement framework for the APS was being adhered to in relation to engaging consultants.

The audit identified that agencies operate under two distinct, but related control frameworks. The first framework, consisting of the Commonwealth Procurement Guidelines issued by the Minister for Finance and Administration, the Mandatory Reporting Requirements issued by the Office for Government Online, and complementary internal instructions, guidelines and procedures, was designed to achieve the primary objective of obtaining value for money from procurement activities. The second framework, which consists of the *Requirements for Annual Reports* issued by the Department of Prime Minister and Cabinet, is concerned with the objective of openness and transparency of decision-making in procurement activities. Agencies have generally assessed that the engagement of consultants is a low risk activity and, as a result, have designed the control framework to reflect this assessment.

The audit found that organisational control structures were not always effective in minimising procurement risks. While controls have been established and reflect the level of risk assigned to the activity, compliance is not adequately monitored or tested. Further, agencies have not established self-assessment mechanisms to adequately assess the effectiveness of the controls in place and to achieve better practice. As a result, basic procurement steps, which were established to ensure value for money and open and transparent decision making, have not always been followed.

In addition, the audit identified that guidance provided to purchasing officials was not sufficiently clear to assist determination as to whether a specific task required a contracted employee or a consultant. Legal advice noted that inappropriately defining contract employees as consultants exposed agencies to a number of legal and financial risks, including liability for superannuation and workers' compensation.

The audit made six recommendations to assist agencies in the engagement of consultants. The key areas for improvement included the use of procurement thresholds; strengthening of controls supporting the reporting framework for the engagement of consultants; documentation of procurement activity; linking performance reviews to progressive contract payments; and, the need for a clearer definition of consultants as opposed to contract employees. Overall, the agencies reviewed responded positively to the report, generally agreeing with the recommendations made.

Appendix 2

Performance audit and other audit services in progress as at 30 June 2001

<i>Ministerial Portfolio</i>	<i>Audit Title</i>
Agriculture, Fisheries and Forestry—Australia	Management of Fraud Control in Payment Agencies—AFFA Commonwealth Fisheries Management (Follow-up Audit) Transactional Banking Practices in Selected Agencies
Attorney-General	Australian Customs Service Drug Detection Senate Inquiry Examination—Sales Tax Detection and Prevention of Unauthorised Entrants Transactional Banking Practices in Selected Agencies
Communications Information Technology and the Arts	Corporate Governance of the ABC Licence Area Planning—Australian Broadcasting Authority
Defence	Defence Reform Program Implementation Defence Equipment Test and Evaluation Status of Major Acquisition Projects Fuel Supplies for the ADF Management of Deployment to East Timor
Education, Training and Youth Affairs	Indigenous Education Strategies Transactional Banking Practices in Selected Agencies
Employment, Workplace Relations and Small Business	Regional Assistance Program Management of the Provision of Employment Services Information to the Unemployed
Environment and Heritage	Agencies' Oversight of Works Australia Advances
Family and Community Services	Human Resource Development—Customer Service Officers, Centrelink Management of Fraud and Incorrect Payment in Centrelink Age Pension Reviews Review of Centrelink's Balanced Scorecard
Finance and Administration	Commonwealth Estate Property Sales Agencies' Oversight of Works Australia Advances Integrity of the Electoral Roll Transactional Banking Practices in Selected Agencies Management of Commonwealth Superannuation Benefits to Members
Foreign Affairs and Trade	Austrade Client Service Initiatives—Follow-up Audit AusAID Contract Management
Health and Aged Care	Selected Aspects of Corporate Governance in Health Agencies' Oversight of Works Australia Advances Private Health Insurance Rebate Scheme
Immigration and Multicultural Affairs	Workforce Planning Detection and Prevention of Unauthorised Entrants Transactional Banking Practices in Selected Agencies
Industry, Science and Resources	Innovation Investment Fund

Ministerial Portfolio	Audit Title
Prime Minister and Cabinet	Transactional Banking Practices in Selected Agencies
Reconciliation and Aboriginal and Torres Strait Islander Affairs	Indigenous Education Strategies Agencies' Oversight of Works Australia Advances
Transport and Regional Services	Transactional Banking Practices in Selected Agencies
Treasurer	Transactional Banking Practices in Selected Agencies Implementation of GST The Administration of the Collection of Excise (Petroleum) The Implementation of the Recommendations of the Report of the Cash Economy Task Force by the ATO The Administration of the ATO's Rulings Program Private Health Insurance Rebate Scheme Senate Inquiry Examination—Sales Tax
Veterans' Affairs	DVA's Administration of its IT Contract for Service Delivery
General Performance Audits: cross-agency	Learning and Development in the APS Development of Social Policy Advice Review of Performance Information in Portfolio Budget Statements Internet Security Administration of the Federation Fund Audit of Parliamentarians' Entitlements: 1999–2000
Performance Audit and Other Audit Services: <ul style="list-style-type: none"> • financial control and administration audits • benchmarking studies • better practice guides 	FCA Audit—Internal Budgeting FCA Audit—FMIS Implementation Benchmarking—Finance Function (2 nd Year) Benchmarking—Human Resource Management—(1 st Year) Better Practice Guide—Administration of Grants
Assurance Audit and Other Services: <ul style="list-style-type: none"> • financial statement audits • assurance control and assessment audits • protective security audits 	Protective Security Audit—Security Clearances and Vetting ACA Audit—Accounts Receivable ACA Audit—Agency Banking ACA Audit—GST Processes ACA Audit—Disposal of Plant and Equipment ACA Audit—Payroll Management ACA Audit—Recordkeeping

Appendix 3

Presentations and papers given by the Auditor-General and ANAO staff during the period January to June 2001

Mr P.J. Barrett AM

Managing and Monitoring Privatisation and Outsourcing Initiatives—Challenges in Maintaining Accountability

Presentation to the Global Working Group Meeting, Washington, 11 January 2001

Mr P.J. Barrett AM

Retention of Corporate Memory and Skills in the Public Service—More Than Survival in the New Millennium

Presentation to the Australasian Council of Public Accounts Committees 6th Biennial Conference, Canberra, 6 February 2001

Ms A. Thurley

Evaluating the Results of the Australian National Audit Office Reports on Fraud Control

Presentation to the IIR Conference on Fraud Control, Sydney, 15 February 2001

Mr P.J. Barrett AM

Risk Management in the Australian Public Service Today and Tomorrow

Launch of the Australasian Risk Management Unit, Monash University, Melbourne, 21 February 2001

Mr P.J. Barrett AM

Launch of the ANAO Workforce Planning Better Practice Guide

Hyatt Hotel, Canberra, 5 March 2001

Mr P.J. Barrett AM

Trends in Public Sector Contracting—Some Issues and Better Practices

Address to Australian Corporate Lawyers Association, Old Parliament House, Canberra Wednesday, 21 March 2001

Mr P.J. Barrett AM

Address to the Institute of Internal Auditors—Australia National Conference, Melbourne, 26 March 2001

Mr P.J. Barrett AM

Audits Of Protective Security—Contributing To Sound Risk Management

Address to Security in Government 2001 SES Seminar, Canberra, 27 March 2001

Mr P.J. Barrett AM
'Wealth' of the Country
Address to the National Public Sector Convention 2001 (Concurrent Session 19), Gold Coast, 29 March 2001

Mr R Rundle
Protective Security Performance
Security in Government 2001 Conference
Canberra, 4–6 April 2001

Mr P.J. Barrett AM
Corporate Governance in a Public Sector Context
Presentation to Minter Ellison 'Public Service in the New Millennium' Series. Canberra, 18 April 2001

Mr P.J. Barrett AM
E-government: Its impact on Public Administration
Presentation to IPAA seminar, Canberra, 30 April 2001

Mr P.J. Barrett AM
Dealing with Risks to Ensure Greater Effectiveness
Presentation to IIR Conference 'Risks in Outsourcing in the Public Sector', Canberra, 1 May 2001

Ms A. Thurley
Performance Measures for Policy Advice
Presentation to the International Quality and Productivity Centre, Canberra, 29 May 2001

Mr P.J. Barrett AM
Governance and Compliance
Presentation to Public Sector Risk Management Conference, 'The Public Sectors in Australia—turning risk into opportunity', Brisbane, 30 May 2001

Mr P.J. Barrett AM
Auditing in an Outsourced Environment
Presentation to INTOSAI Working Group on the Audit of Privatisation, Budapest, June 2001

Series Titles

Titles published during the financial year 2001–02

Audit Report No.6 Performance Audit

Commonwealth Fisheries Management: Follow-up Audit

Australian Fisheries Management Authority

Audit Report No.5 Performance Audit

Parliamentarians' Entitlements: 1999–2000

Audit Report No.4 Performance Audit

Commonwealth Estate Property Sales

Department of Finance and Administration

Audit Report No.3 Performance Audit

The Australian Taxation Office's Administration of Taxation Rulings

Australian Taxation Office

Audit Report No.2 Performance Audit

Examination of Allegations Relating to Sales Tax Fraud

Australian Taxation Office

Audit Report No.1 Financial Statement Audit

Control Structures as part of the Audits of the Financial Statements of Major

Commonwealth Entities for the Year Ended 30 June 2001

Better Practice Guides

Rehabilitation: Managing Return to Work	Jun 2001
Internet Delivery Decisions	Apr 2001
Planning for the Workforce of the Future	Mar 2001
Contract Management	Feb 2001
AMODEL Illustrative Financial Statements 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