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THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA
JOINT COMMITTEE OF PUBLIC ACCOUNTS

REPORT 314

EIGHT PERFORMANCE AUDITS

April 1992

The Parliament of the Commonwealth of Australia

Joint Committee of Public Accounts

**REVIEW OF EIGHT AUDITOR-GENERAL'S PERFORMANCE
AUDITS TABLED MAY - NOVEMBER 1990**

April 1992

Commonwealth of Australia 1991

JOINT COMMITTEE OF PUBLIC ACCOUNTS

SEVENTEENTH COMMITTEE

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1. Appointed 6 March 1991
2. Discharged 6 March 1991

DUTIES OF THE COMMITTEE

Section 8(1) of the *Public Accounts Committee Act 1951* reads as follows:

- (a) to examine the accounts of the receipts and expenditure of the Commonwealth including the financial statements transmitted to the Auditor-General under sub-section (4) of section 50 of the *Audit Act 1901*;
- (aa) to examine the financial affairs of authorities of the Commonwealth to which this Act applies and of inter-governmental bodies to which this Act applies;
- (ab) to examine all reports of the Auditor-General (including reports of the results of efficiency audits) copies of which have been laid before the Houses of the Parliament;
- (b) to report to both Houses of the Parliament, with such comment as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Parliament should be directed;
- (c) to report to both Houses of the Parliament, any alteration which the Committee thinks desirable in the form of the public accounts or in the method of keeping them, or in the mode of receipt, control, issue or payment of public moneys; and
- (d) to inquire into any question in connexion with the public accounts which is referred to it by either House of the Parliament, and to report to that House upon that question,

and include such other duties as are assigned to the Committee by Joint Standing Orders approved by both Houses of the Parliament.

PREFACE

This Report contains the results of the Committee's examination of eight performance audit reports by the Auditor-General in 1990. Examination of the Auditor-General's reports and the auditees' responses to his recommendations is carried out by the Committee in accordance with the *Public Accounts Committee Act 1951*. The Committee regards its role in scrutinising the operations of the Executive through the Auditor-General's reports as an important aspect of its work. In so doing, it supports the vital task of the Auditor-General in promoting the efficiency and effectiveness of public sector operations.

The Committee acknowledges the cooperation of the departments covered by the eight reports considered here in providing information relevant to the Committee's review.

For and on behalf of the Committee

Hon G F Punch, MP
Chairman

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EXECUTIVE SUMMARY

The Auditor-General's reports reviewed in this report cover programs in six departments, and a departmental outrider (the Royal Australian Mint) and the first stage of a cross-portfolio examination of internal audit in the Commonwealth public sector.

The Committee notes with approval the generally high rate of acceptance by auditees of recommendations made by the Auditor-General.

Of the relatively few areas of concern identified by the Committee, the most significant is the rejection by the Department of Finance of the Auditor-General's recommendation concerning new financial administration legislation. This legislation requires all Commonwealth organisations to have an internal audit function to assist their senior managers and/or boards in the discharge of their obligations under the legislation. The Committee is critical of the Department of Finance's attitude on this matter and recommends that it reconsider its stance.

Other areas of concern include:

- the absence of an adequately funded, efficiently operating internal audit program in the Department of Employment, Education and Training;
- deficiencies in the system of making payments for recurrent grants in the same Department's Higher Education Sub-program;
- the difficulties encountered by the Department of Social Security in monitoring the operation of its program to pay pensions to overseas recipients;
- the failure by the Department of the Arts, Sport, the Environment, and Territories to prepare an adequate cost analysis in the chartering of an Antarctic supply vessel;
- the slow development of a corporate plan by the Royal Australian Mint; and
- the failure to guard adequately against malfunction of equipment in the Central Sterilising Supply Department of the Repatriation General Hospital Concord, as it was then constituted.

The Committee's recommendations are listed on page xi.

RECOMMENDATIONS

The Committee recommends that:

1. The Department of Employment, Education and Training ensure it has an adequately resourced internal audit unit to undertake the Department's audit program. (paragraph 4.11)
2. The new financial administration legislation require that all Commonwealth organisations establish an effective internal audit function. (paragraph 5.21)

Chapter 1

INTRODUCTION

1.1 This Report details the results of the Joint Committee of Public Accounts' examination of eight Auditor-General's reports tabled in Parliament between May and November 1990.

1.2 In 1979, amendments to the *Audit Act 1901* gave the Australian National Audit Office (ANAO) formal authority to conduct efficiency audits. In carrying out an efficiency audit, ANAO assesses the efficiency of the administrative systems and processes employed by departments and agencies in the deployment and use of financial, staffing and other resources. It also evaluates the procedures existing in the audited organisations to review the efficiency and economy of their own operations in achieving the objectives specified by the Government.

1.3 In Report 296, the Joint Committee of Public Accounts (the Committee) made a number of recommendations relating to ANAO's role in carrying out performance audits. The recommendations covered:

- the need for sufficiently skilled, multi-disciplinary teams, which may include auditee staff members;
- ANAO commenting on auditees' evaluation plans;
- cross-program and cross-agency audits, such as the survey of internal audit in the Commonwealth public sector reviewed later in this Report;
- consultation with the Department of Finance and parliamentary committees on topics for efficiency audits;
- reporting within six months of initiating an efficiency audit;
- efficiency audits of commercially oriented government organisations, government business enterprises and incorporated companies;
- publication in the Auditor-General's annual report of details of ministerial refusal to allow an efficiency audit to be conducted;
- follow-up of performance audits; and

advising the Parliament of deficiencies in the consideration and implementation of efficiency audit recommendations.

1.4 All the recommendations in Report 296 relating to matters within the Auditor-General's responsibility were accepted, although it was clear that more resources would be needed to implement them. When the Government responded to the Committee's recommendations, it provided additional funds to ANAO which have enabled the ANAO to undertake an increased number of performance audits.

1.5 Follow up of the Auditor-General's reports is carried out by the Department of Finance, the Committee and, in some cases other House of Representatives Standing Committees and the ANAO. At present, ANAO has planned to follow up five of the Auditor-General's reports issued in 1990-91.

1.6 The Minister for Finance receives advice each quarter from the Ministers of departments and agencies that have been the subject of efficiency audits. The Ministers report to the Minister of Finance on their portfolios' responses to the Auditor-General's recommendations, and copies of these reports are sent to the Auditor-General and the Committee.

1.7 The Accountability Projects Section of the Department of Finance and the relevant supply divisions examine the Ministers' quarterly reports and assess the actions taken by the auditees in response to the Auditor-General's recommendations against the following categories:

- action completed;
- action progressing satisfactorily - no further reporting required;
- action progressing satisfactorily - further reporting required;
or
- action not progressing satisfactorily.

Matters that are not progressing satisfactorily are brought to the attention of the Minister for Finance who is required to pursue those matters with the responsible Minister and, if necessary, to report on them to the Prime Minister.

1.8 Under the *Public Accounts Committee Act 1951*, the Committee is required to examine all reports of the Auditor-General, including reports of efficiency audits. As indicated above, the number of efficiency audits carried out by ANAO has increased since the Government's and Auditor-General's acceptance of recommendations concerning efficiency auditing contained in the Committee's Report 296. The number of efficiency audit reports tabled in the Parliament rose from four in 1989-90 to 15 in 1990-91, and more are scheduled for 1991-92. At this time, few of these reports have been referred to the House of Representatives Standing Committees, which leaves the majority of them to be examined by the Joint Committee. This increase in the number of reports presents a challenge to the Committee in its scrutinising role.

1.9 This report concerns the Committee's examination of eight reports of the Auditor-General which were tabled in the period May to November 1990. They are:

<u>Report No</u>	<u>Name</u>	<u>1989-90</u>	<u>Date Tabled</u>
30	Department of Veterans' Affairs - Repatriation General Hospital Concord - Central Sterilising Supply Department		15.05.90
34	Royal Australian Mint - coin production		01.06.90
<u>1990-91</u>			
4	Department of Employment, Education and Training Portfolio - Risk Management - Higher Education: recurrent grants - Industry Training Support		15.11.90
6	Survey of Internal Audit in the Commonwealth Public Sector		19.09.90
7	Department of Foreign Affairs and Trade - Passport issue and control		19.09.90
8	Department of Social Security - payment of pensions overseas		18.10.90
9	Department of the Arts, Sport, the Environment, Tourism and Territories - Antarctic Supply Vessel - chartering arrangements		12.11.90
11	Department of Community Services and Health - National Aids Program		13.11.90

1.10 A further report, Squirrel training helicopters - utilisation and maintenance Report No 33 of 1989-90 which was tabled on 31 May 1991, was also considered by the Committee. This report requires further investigation and will be dealt with in a future review of Auditor-General's reports.

Chapter 2

DEPARTMENT OF VETERANS' AFFAIRS: REPATRIATION GENERAL HOSPITAL CONCORD - CENTRAL STERILISING SUPPLY DEPARTMENT

Introduction

2.1 The Auditor-General's Report No 30 of 1989-90 deals with the Central Sterilising Supply Department (CSSD) of the Repatriation General Hospital (RGH) at Concord in Sydney. CSSD provides sterilising services for all sections of the hospital, except the operating theatres, and includes preparing, sterilising, storing, distributing and recording of instruments, equipment, consumables and other items. At the time of the audit in 1988-89, the CSSD faced staffing difficulties as well as the prospect of acquiring new equipment, relocation and amalgamation with the sterilising unit that serviced the operating theatres.

Audit Findings

2.2 ANAO's audit concentrated on the control of instruments and equipment on issue, and steriliser operations and quality control procedures.

2.3 ANAO commented that 'staff supervision and training, record keeping and established work routines were positive features of CSSD operations'.¹

2.4 Significant problems were identified in three areas. In particular, there were inadequate controls over instruments issued, deficiencies in the operation of the dry heat sterilisers and shortcomings in reporting to management on a variety of matters. ANAO made 38 recommendations relating to these points and related issues.

1. The Auditor-General. Audit Report No 30 1989-90 Department of Veterans' Affairs Repatriation General Hospital Concord - Central Sterilising Supply Department, AGPS, Canberra, 1990, p. vii.

Departmental Response

2.5 In its submission dated 5 August 1991, the Department reported that five of the 38 recommendations were based on what the RGH believed to be incorrect assessments of the situation pertaining at the time of the audit by ANAO.² One of these recommendations related to ANAO's conclusion that the malfunctioning of the heat sterilisers may have increased the risk of CSSD supplying unsterile equipment. Notwithstanding RGH's reservation about ANAO's conclusions, some changes to procedures were instituted by CSSD in the case of two of the recommendations that related to the operation of the heat sterilisers.

2.6 RGH agreed with all the remaining recommendations and has fully implemented all but one of them. Action is still continuing on the development of potential indicators for measuring CSSD's processing of consumable supplies.

Committee Comment

2.7 The response of RGH's management to the Auditor-General's report appears to be satisfactory. All but three recommendations led to the institution of revised practices.

2.8 There were a number of cases where RGH and ANAO presented contradictory evidence and conclusions. In such circumstances, the Committee is unable to judge the merits of the claims of the protagonists. However, improved procedures have been introduced by RGH and, since the audit, CSSD has been relocated to new facilities and new sterilising equipment installed.

2. Evidence, pp. S102-47.

Chapter 3

ROYAL AUSTRALIAN MINT: COIN PRODUCTION

Introduction

3.1 The Royal Australian Mint (the Mint) was established in Canberra in 1965 and is responsible for the production of Australia's circulating coins. It also produces numismatic coins, medallions and medals and, from time to time, coins for other countries. The Mint operates as part of the Department of the Treasury (the Treasury) portfolio.

3.2 Revenue is mainly from the sale of circulating coins at face value to the Reserve Bank of Australia. The large difference between the face value of the coins and the cost of production gives rise to seigniorage which is paid to the Consolidated Revenue Fund.

3.3 The ANAO's performance audit of coin production by the Mint was reported in the Auditor-General's Report No 34 of 1989-90.

Audit Findings

3.4 The Auditor-General's Report on coin production by the Mint examined the cost-effectiveness of coin production, focussing in particular on the follow up to a number of key recommendations made by Treasury's efficiency scrutiny of the Mint conducted in 1987.

3.5 The audit team found that the Mint was following the recommendations for change made by the efficiency scrutiny, although at the time of the audit all the changes were not in place. This was the case in the development of the Corporate Plan which, although prepared, was still the subject of some negotiation with Treasury and consequently had not been formally adopted.

3.6 The key findings of the audit were:

- the need to finalise the new arrangements for the costing of production and distribution of circulating coins which are currently being negotiated with the Treasury;
- the need to overcome the problems caused by division of responsibility for estimating the demand for circulating coins;
- the need to complete implementation of a new costing system and institute full analyses of cost variance reports; and
- the need to undertake analyses of the performance of numismatic products.

3.7 ANAO made four recommendations, requiring that action be taken:

- to conclude negotiations between the Treasury and the Mint on output price on coin production and formally adopt the Corporate Plan;
- to formalise the follow-up of variance reports and adequately control costs;
- to change the current distribution system for coin and introduce an element of payment for service; and
- to review the performance of each numismatic product to identify possible improvements for future products.

3.8 Additionally, ANAO criticised the Mint for its delay in reducing excess stocks of 20c coins which became apparent in 1982-83. It recommended that excess stocks of coins be melted down as quickly as possible to realise off-setting savings in the cost of 5c and 10c blanks and eventual savings in storage costs.

Departmental Response

3.9 The Mint has accepted the ANAO Report findings and has responded positively to the recommendations. The Mint noted that, while the Corporate Plan had not been finalised in a formal sense, attention had been given to developing and enhancing the corporate plan and the management planning process.

3.10 Central to this process has been the shift in emphasis by the Mint from a primarily engineering organisation to a commercial agency seeking to produce a net profit. An important aspect of this change has been the development of a fully commercial set of management systems and accounts and the use of new software. This software can produce 'push-button' profit and loss balance sheets and the compilation of performance indicators by cost centre managers to produce 'layered' reporting and performance evaluation at organisation, branch and cost centre level.

3.11 The Mint responded to criticism of the delay in addressing the problems of excess stocks of coins by citing three major factors that made the demand for coins difficult to predict. These were the need to increase production to provide for demand while the Mint was refurbished, a decline in the demand for coin, and a structural change in the demand for coin due to the introduction of the \$1 and \$2 coins. The Mint noted that excess stocks of blanks and coin have been reduced to reflect demand, and new arrangements for forecasting coin demand have been made by Central Treasury.

3.12 In line with ANAO's recommendation concerning the distribution of coin, the Mint has formed a working party together with the Reserve Bank and Central Treasury to review current arrangements. It is expected that this working group will complete its report in the near future.

3.13 The Mint has initiated product performance reviews for its numismatic products.

Committee Comment

3.14 The response of the Mint to the Auditor-General's Report indicates that the Mint has accepted the recommendations of the Report, and is actively seeking ways to improve its efficiency and produce a net profit.

3.15 The delay in finalising and implementing the Corporate Plan for the Mint is a cause for concern, as the Corporate Plan would define clear targets for the Mint and enable performance indicators to be developed to measure the Mint's operation against these targets.

3.16 The Mint has addressed the problems associated with excess stocks of coin and blanks, both in terms of disposal of these stocks and the underlying forecasting reasons which led to this situation arising.

3.17 The Mint, Central Treasury and the Reserve Bank have formed a working group to review the current arrangements for circulating coin. It is expected to report by June 1992 and ANAO has undertaken to assess the report when it is presented.

Chapter 4

DEPARTMENT OF EMPLOYMENT, EDUCATION AND TRAINING: - RISK MANAGEMENT - HIGHER EDUCATION: RECURRENT GRANTS - INDUSTRY TRAINING SUPPORT

Introduction

4.1 As part of an audit program to regularly review the operations of the Department of Employment, Education and Training (DEET), performance audits were completed in respect of three diverse programs within DEET, namely:

- Risk Management;
- Higher Education - recurrent grants; and
- Industry Training Support.

4.2 The Auditor-General's Report No 4 of 1990-91 contains the findings of ANAO's examination of these three programs.

Risk Management

4.3 This audit sought to evaluate the performance of DEET's risk management program against a six phase program recommended in a Government report of March 1987 entitled *Review of Systems for Dealing with Fraud on the Commonwealth* (the Review Report).

Audit Findings

4.4 ANAO considered DEET had made significant progress in the development of a Risk Assessment and draft Fraud Control Plan by mid-1988 but that the subsequent completion of the Plan and the development of procedures for dealing with fraud had been unduly slow.

4.5 Furthermore, ANAO criticised DEET for failing to maintain a viable internal audit unit during the 1987 amalgamation of the former Departments of Education, and Employment and Industrial Relations. ANAO recognised, in DEET's response to the audit, significant recent progress in the finalisation of a Fraud Control Plan, the establishment of a Corporate Audit Committee, the development of a centrally co-ordinated internal audit program, and the allocation of a more appropriate level of resources to internal audit.

Departmental Response

4.6 The Department accepted in general the criticisms made by ANAO but considered much had happened since the audit report was finalised. In particular, the Department pointed to a range of initiatives, including:

- the establishment of a well resourced, separate Fraud Control Unit in its Central Office;
- the completion of a second risk assessment of all programs at component or sub-program level, in all regions, and the development of a second Fraud Control Action Plan;
- the audit of administrative arrangements and financial procedures for all new programs and major modifications to existing programs;
- a comprehensive training program on risk management for all regions placing particular emphasis on individual responsibility, accountability and adherence to proper accounting procedures;
- the signing of a Memorandum of Understanding with the Australian Federal Police in respect of guidelines for the referral of fraud cases for investigation; and
- the development and use of sophisticated information technology for the identification, evaluation and monitoring of suspected fraudulent activity.

4.7 The Department has indicated that fundamental reform of its financial management systems and procedures has been in train since 1990-91. The process of reform was managed by three executive level committees and a number of organisational changes have taken place. The Department considered these initiatives fully addressed ANAO's criticisms of risk management in DEET.

Committee Comment

4.8 The Committee recognises the work that has been undertaken by the Department since 1989 to implement a comprehensive and active fraud control program in the context of a positive risk management strategy. This has been coupled with action to implement an effective internal audit system. In particular, the Committee notes the establishment within DEET of a Corporate Audit and Accounting Committee.

4.9 The Committee considers that some of the delay in instituting the procedures required by the Review Report can be attributed to the Machinery of Government changes of 1987, and welcomes the current commitment demonstrated by the Department to risk management, fraud control and internal audit.

4.10 The Committee is, however, concerned at the continuing level of resources being devoted to audit functions given the extensive audit program that has been identified by the Department. From the figures provided at May 1991, only 50% to 60% of planned audits could be expected to be completed by the end of the year. It would appear that either audit functions are inadequately funded or too ambitious an audit program has been identified. The Committee suggests that the Department's priorities in this area be developed more carefully.

4.11 The Committee recommends that:

the Department of Employment, Education and Training ensure it has an adequately resourced internal audit unit to undertake the Department's audit program.

4.12 The Committee notes that the Department has established a centrally controlled internal audit function and approves this move. The Committee believes that an independent internal audit section is an essential part of the process of determining priorities and allocating resources in accordance with a strategic audit plan.

Higher Education - Recurrent Grants

4.13 Financial assistance to higher education institutions is provided by DEET to meet economic and social needs for a more highly educated and skilled population.

4.14 ANAO sought to evaluate the efficiency and effectiveness of the administration of the higher education recurrent grants scheme through an examination of the recurrent grants component of DEET's Higher Education Sub-program. The audit was undertaken in the Australian Capital Territory and concentrated principally on the payment of recurrent grants to institutions in 1988.

Audit Findings

4.15 ANAO identified a number of procedural and system deficiencies in the administration of higher education recurrent grants in the ACT. Seven specific findings were made, ranging from a lack of procedural guidelines to deficiencies in the manner in which documents were entered into the recurrent grants payment system. ANAO noted that the Department had moved quickly and positively to respond to the majority of matters raised.

Departmental Response

4.16 The Department has taken action to rectify all the deficiencies identified by ANAO. In particular DEET has reviewed cost supplementation indices with the Australian Vice-Chancellors' Committee and is currently working on the development of a new academic salaries index. It has also amended its procedures for recording recurrent grants payments and preparing reconciliation reports.

4.17 Problems identified with payments made to specific ACT institutions have been resolved, while the staffing structure and responsibilities of the Branch within DEET responsible for the recurrent higher education grants are being addressed.

4.18 DEET notes that ANAO has undertaken thorough audit examinations of the financial administration of the higher education program in connection with the audit of the Department's 1989/90 and 1990/91 financial statements.

Committee Comment

4.19 The Committee acknowledges the action taken by DEET to rectify deficiencies identified by ANAO in the higher education recurrent grants program.

4.20 The Committee is, however, concerned at the continuing problems in the area of certification of payments and, in particular, the absence of appropriate delegations under section 34(2) of the Audit Act. This matter was raised in the Auditor-General's Report No 32 of 1989-90 and, at that time, DEET advised details of improved administrative arrangements which would ensure that the problem was resolved. However the matter was again raised in the Auditor-General's Report No 22 of 1990-91.¹

4.21 The Committee will further consider this issue when reviewing more recent Auditor-General's reports that deal with DEET.

Industry Training Support

4.22 The Industry Training Support (ITS) is a sub-program of the Skills Formation Program, a major Government initiative in the area of labour force skills and structures. ITS provides assistance to coordinate and increase the quantity and quality of systematic training in all sectors of industry and commerce. ITS seeks to overcome skill imbalances and to promote efficiency, productivity and safety, as well as industry's capacity to cope with new equipment, techniques and changes in processing and marketing requirements. Assistance is provided under the program to 117 Industry Training Committees and Boards (ITC/ITB) in eighteen major industries, representing over half the private sector workforce.

4.23 Financial assistance is provided under ITS to offset operational costs of ITC/ITBs, such as training and research project costs. The audit objective involved assessing the efficiency and effectiveness of the administration of the industry training support program as it was then operating in Victoria.

1. The Auditor-General. Audit Report No 22 1990-91 Aggregate and Departmental Financial Statements 1990. AGPS, Canberra, pp. 81-2.

Audit Findings

4.24 ANAO was concerned at the lack of evaluation given to ITC/ITBs performance. It noted that there were significant variations in the level of activity and achievements of ITC/ITBs. These performance variations were exacerbated by the absence of an up-to-date Industry Training Network Handbook.

4.25 ANAO further reported on procedural and administrative deficiencies identified in the operation of the ITS program, including payments made under expired agreements, failure to update payment record cards, the absence of guidelines for departmental officers dealing with ITC/ITBs and a lack of liaison between the department's Central Office and officers of the State Office and local DEET ITC/ITB representatives.

Departmental Response

4.26 The concern expressed by ANAO about the uneven performance of ITC/ITBs is shared by DEET. From 1 July 1991, ITC/ITBs have been required to produce medium term (3 to 5 year) strategic plans, underpinned by detailed annual operational plans. These plans must detail key outcomes to be achieved and completion of these plans is a precondition for Commonwealth funding. Moreover, the plans must contain both performance indicators for each element of ITC/ITB operations, together with an overall strategy for monitoring and evaluating performance against the plan.

4.27 Furthermore, DEET noted that a major, independent review of ITC/ITBs has been completed by the Employment Skills Formation Council (ESFC) of the National Board of Employment, Education and Training. A continuing role has been foreshadowed for the ESFC in conducting a program of cyclical reviews of ITC/ITBs and the ITS program.

4.28 In response to the other matters raised by ANAO, DEET pointed out that:

- work has commenced on the production of a substantially revised Industry Training Handbook which should be fully completed and issued June 1992;

- existing contracts with ITC/ITBs have been replaced with Annual Performance Agreements and funding is now subject to satisfactory continued performance by the ITC/ITB;

- an improved financial management information database has been established in Central Office to record and monitor program payments with copies of printouts of project approvals distributed to DEET State Offices;
- a handbook for all new staff dealing with ITC/ITBs was produced in Victoria and circulated to all IT Branches. This document will be used in other States and varied to take account of the local operations of ITC/ITBs;
- a two day training course for DEET directors of ITC/ITBs has been developed in consultation with the Institute of Company Directors; and
- an information system now operates to provide to Regional Offices regular statements of project approvals, associated payments, and any conditions applying to those approvals.

Committee Comment

4.29 The Committee acknowledges that the Department has acted swiftly to respond to the recommendations made in the Audit Report. The introduction of performance based funding agreements is welcomed, as is the development of training programs for staff involved in the ITS program.

4.30 The Committee notes the proposed role of the ESFC in future monitoring of ITC/ITBs and considers this a positive development.

Chapter 5

SURVEY OF INTERNAL AUDIT IN THE COMMONWEALTH PUBLIC SECTOR

Introduction

5.1 ANAO's survey of internal audit in November 1989 represents the first part of a two-stage project that is being carried out in response to a recommendation made by the Committee in its Report 296.¹ The results of the survey were published in Auditor-General's Report No 6 of 1990-91.

5.2 Stage 1 of the survey of internal audit in the Commonwealth public sector involved the use of a survey questionnaire which was distributed to 142 Commonwealth agencies. Stage 2 is focussing on the internal audit practices of eight agencies, identified on the basis of the survey, as especially satisfactory or especially unsatisfactory. Stage 2 is underway at present, with the tabling of the report planned for June 1992.

5.3 Stage 1 of the survey covered:

- the nature, level and scope of internal audit activity;
- internal audit organisation and management arrangements;
- internal audit staff; and
- internal audit performance including management's perceptions about the value and standard of performance of internal audit.²

1. Joint Committee of Public Accounts. Report 296. The Auditor-General: Ally of the People and Parliament, Reform of the Australian Audit Office, AGPS, Canberra, 1989, p. 206.
2. The Auditor-General. Audit Report No 6 1990-91 Survey of Internal Audit in the Commonwealth Public Sector, AGPS, Canberra, 1990, p. 1.

Audit Findings

5.4 ANAO found that, at the end of 1989, about 70% of Commonwealth departments and agencies had internal audit units. In half the organisations, the audits were carried out by their own staff; other organisations used outside contractors or the internal audit units of other organisations. In 77% of organisations, the internal audit mandate extended beyond audits of financial systems and regularity auditing to audits of operations and performance auditing. However, only 57% of organisations conducted regular performance audits. The emphasis on audits of financial systems and regularity auditing was most evident in statutory bodies and companies and bodies audited externally.

5.5 About 85% of senior managers considered that internal audit gave value for money and were satisfied with the standard of performance and progress with developing internal audit. ANAO found that most aspects of internal audit, were satisfactorily pursued. It did, however, pinpoint smaller organisations as having particular problems, including problems with follow-up arrangements. Such problems were especially apparent among agencies relying on services provided by the internal audit units of another organisation.

5.6 Approximately 44% of senior managers expressed dissatisfaction with some aspects of internal audit. One source of dissatisfaction was the narrow focus of internal audit activity. Another was the quality of the internal audit units: they had insufficient staff, whose skills and experience were limited, and there was a high rate of staff movement to non-audit positions. Although training in audit skills was provided, the appropriateness of the training was criticised and not all needs were being met, especially in relation to ADP and performance auditing.

5.7 These inadequacies contributed to the failure of half the internal audit units to complete their planned work program in 1988-89 and the unsatisfactory quality of work produced by a third of the units surveyed.

5.8 ANAO identified a number of important issues among its findings. They included:

- the limited scope of internal audit in smaller organisations;
- the questionable viability of internal audit units of less than three staff;

- the adverse impact on internal audit effectiveness of auditors being required to perform other duties;
- inadequate resources for auditors to carry out their tasks adequately and the need for a greater appreciation of the importance of internal audit to management;
- the scope for improving relationships between internal and external audit; and
- the perceived lack of training and the shortage of suitably qualified and experienced internal audit staff, especially ADP auditors.

5.9 ANAO made eight recommendations designed to provide, to a greater degree, direction and assistance in internal auditing in the Commonwealth public sector. Most of the recommendations were directed to the Department of Finance which the ANAO considered to be the appropriate agency to take a leading role in dealing with the issues raised in its report.

Departmental Response

5.10 In its submission to the Committee, the Department of Finance described its initial response to the ANAO's report and how this had changed in the light:

- the deliberations of the Management Improvement Advisory Committee in October 1990;
- questioning by the Senate Estimates Committee A in September 1990 and May 1991; and
- its experience in drafting the new financial management and accountability legislation.

5.11 The Department accepted four of ANAO's recommendations, relating to the provision of assistance in the development and issue of appropriate standards for the practice of internal audit for all Commonwealth organisations. It stated that the standards would be based on those issued by the Institute of Internal Auditors and updated on a regular basis.

5.12 The Report's other recommendations received qualified support from the Department. They related to:

- improving the proficiency and skills of internal auditors in the Commonwealth public sector by encouraging the enrolment of auditors in professional accreditation programs and making use of the Institute of Internal Auditors' quality assurance program;
- providing practice statements on internal audit that would include:
 - establishing and operating audit committees; and
 - the role of audit committees in relation to internal and external audit;
- assisting the Institute of Internal Auditors and the EDP Auditors' Association to advise on internal audit standards and practices and develop internal audit in the public sector; and
- making the internal audit function mandatory.

5.13 In only partially accepting these recommendations, the Department of Finance argued that the level of prescription recommended by ANAO did not accord with the spirit of recent public sector reforms. The current regime lays responsibility for establishing proper financial accountability on departmental secretaries and heads of agencies. Under these circumstances, the Department felt that:

All factors surrounding internal audit are ultimately a matter for agency management.³

5.14 For this reason, the Department proposed that the new financial administration legislation should not make an internal audit function mandatory for Commonwealth entities, departments and agencies. The establishment of audit committees, however, should be required, with their primary purpose being to inform agency heads about efficiency and effectiveness as a means of improving program performance.

3. Evidence, p. S157.

5.15 The Department argued in a similar vein that too detailed a prescription about dealing with the training and development of internal auditors and setting of standards was not appropriate. For example, in relation to using accreditation programs and standards developed by professional bodies, it stated that:

... decision on the level of contact which internal audit groups might have with them [professional bodies] will more appropriately be considered by relevant levels of management within individual agencies.⁴

5.16 In its submission, the Department also looked ahead to the second stage of ANAO's audit of internal audit and suggested that it would be useful were ANAO to 'review internal audit's role in the overall internal review function, specifically in relation to program evaluation'.

Committee Comment

5.17 The Committee is concerned at the Department's rejection of the recommendation that the new financial administration legislation require all Commonwealth organisations to have an internal audit function. In the Committee's view, it is inconsistent to make audit committees mandatory but not the function that they oversight.

5.18 The Committee recognises the importance of recent public sector reforms in devolving to heads of organisations the discretion to select the appropriate means for establishing a proper level of financial accountability. However, it does not accept that the establishment of an internal audit function interferes with the flexibility of operation available to heads of organisations.

5.19 The Committee believes that, by requiring the establishment of an internal audit function in all Commonwealth organisations, the responsibilities for the establishment and maintenance of effective systems of internal control on the part of the heads of these organisations can be made clear and explicit. Simply referring to a general responsibility to establish and review internal controls fails to do this.

4. Evidence, p. S157.

5.20 The Committee also notes the inconsistency in the Department's agreement to inform agencies about the means whereby the performance of internal audit units and auditors might be improved without at the same time insisting on establishing such audit units.

5.21 The Committee recommends that:

the new financial administration legislation require that all Commonwealth organisations establish an effective internal audit function.

5.22 The Committee recognises that ANAO's report on internal audit in the Commonwealth public sector represents only the first part of an ongoing project, which will consider the issues raised in the report and the Department's responses to it. The Committee will review the Auditor-General's report on the second stage of his audit of internal audit in the public sector with interest.

Chapter 6

DEPARTMENT OF FOREIGN AFFAIRS AND TRADE: PASSPORT ISSUE AND CONTROL

Introduction

6.1 Under the *Passports Act 1988* and associated *Passports Regulations* the Department of Foreign Affairs and Trade (DFAT) is responsible for providing Australians with travel documentation. In fulfilling this duty, the Department aims to:

- provide Australian citizens with passports in a prompt, efficient and courteous manner;
- ensure that only eligible persons are issued with Australian passports by taking all possible measures to verify and confirm the citizenship, identity and eligibility of passport applicants; and
- ensure, as far as possible, the security and integrity of Australian passports and other travel documents.¹

6.2 The Department employs a computerised process known as the Passport Issue and Control System (PICS II), which integrates the processing of applications, the issue of documents and a management reporting system to form the passports database. This database is shared on line, with some restrictions, by officers of the Australian Customs Service and the Department of Immigration, Local Government and Ethnic Affairs (DILGEA) to check the passports of travellers entering and leaving Australia.

6.3 The Auditor-General's Report No 7 of 1990-91 on the audit of passport issue and control by DFAT was carried out after a period of extensive planning, development and change of the computer-based systems in use. The Department welcomed this comprehensive examination of 'the adequacy, integrity and effectiveness of all the major systems, policies and procedures'.²

1. Evidence, p. S12.
2. Evidence, p. S11.

Audit Findings

6.4 ANAO concluded that:

...passport applications are processed promptly in an efficient manner. The PICS II database is inherently sound and the current processes for passport production offer a highly desirable level of security.³

6.5 ANAO noted, however, that there were weaknesses in some of the procedures in use, primarily in the control over passports subsequent to production and issue. The major weaknesses were found in:

- the security of stocks of forms and the destruction of spoiled documents;
- the system of access to 'alert' files which contain details of persons to whom passports should not be issued;
- the cooperation of DFAT, Customs and Immigration officers in detecting invalid passports at airport barrier controls and correcting errors in the database; and
- monitoring and control of the issue and custody of official passports.

6.6 ANAO also drew attention to the Department's failure to safeguard adequately, through patenting processes, the secure image processing system invented by an officer of the Department. In addition, it pointed to the need for a review of the policy relating to charges for diplomatic and official passports.

6.7 ANAO made thirty-eight recommendations relating to the findings of its audit.

3. The Auditor-General. Audit Report No 7 1990-1 Department of Foreign Affairs and Trade - Passport issue and control, AGPS, Canberra, p. 31.

Departmental Response

6.8 The Department reported to the Committee on 26 July 1991 that it had dealt with the thirty-eight recommendations. From its own analysis of the detailed responses provided by the Department, the Committee derived a slightly different set of figures, which is shown in brackets in the table below.⁴

Accepted:		
action completed	29	(26)
action continuing	5	(6)
Partially accepted:	3	(2)
Rejected:	0	(3)
Lapsed due to changed circumstances:	1	(1)

6.9 On 22 January 1992, the Department informed the Committee that action was complete with respect to three more of the recommendations and two are still being implemented. Finalisation of moves relating to another recommendation awaits ministerial action.⁵

6.10 With respect to the recommendations rejected or only partially accepted, staff resources were not available to implement ANAO's recommendation in one case and in another, alternative actions to those recommended were taken to address the weaknesses found. In two cases, existing practices were deemed to be sufficient.

6.11 The Department also provided information to the Committee that relates to four of the key findings of the audit:

the apparent lack of cooperation between DFAT and Customs and Immigration officers in relation to the information in use at airport barriers. The problem identified by ANAO was due principally to incompatibilities between PICS II and the system used at the time by DILGEA and Customs. The problem has

4. Evidence, pp. S24-39.

5. The letter from the Department of Foreign Affairs and Trade is in Appendix 1.

been largely overcome by DILGEA's introduction of a new system on which updated data derived from PICS II is loaded each day.

the need for DFAT to move quickly to protect fully the Commonwealth's interests in the advanced imaging technology used to produce passports.⁶ DFAT reported that the Commonwealth Patent Attorneys had advised that all reasonable steps had been taken to obtain patent protection for the secure image production technique. Furthermore, the apparent delay of twelve months between filing Australian and international patent applications is recommended practice.⁷ The Department also advised that it is working with consultants on the commercialisation of the technique.

DFAT's failure to apply the user pays principle in not charging for diplomatic and official passports which resulted in the loss of \$2m to DFAT. DFAT pointed out that the basis for not charging for these passports is the Minister's power to grant exemptions to Commonwealth government officials under the *Passports Regulations*. The Department undertook to submit this matter to the Minister for his decision. The Department also argued that the sum lost to the Commonwealth would not have been as large as \$2m but only of the order of \$160,000.⁸

ANAO recommended that DFAT obtain from the various sponsoring authorities periodic status reports on the official passports issued. DFAT did not accept this recommendation, believing that PICS programming will report on holdings of diplomatic and official passports for sponsoring agencies. These agencies will be asked to confirm their holdings and adherence to guidelines.

6. The Auditor-General. Audit Report No 7 1990-1 Department of Foreign Affairs and Trade - Passport issue and control, AGPS, Canberra, p. 5.
7. Evidence, p. S20-1.
8. Evidence, p. S23.

Committee Comment

6.12 The major outstanding issue arising from the Auditor-General's report is the Ministers' power to grant exemptions from charges for the issue of diplomatic and official passports. The Committee notes that the Minister of Foreign Affairs and Trade has been asked to make a determination about exemptions for these charges and endorses his prerogative to make such exemptions.

Chapter 7

DEPARTMENT OF SOCIAL SECURITY: PAYMENT OF PENSIONS OVERSEAS

Introduction

7.1 The Department of Social Security (DSS) is responsible for the administration and payment of pensions to qualified Australian pensioners residing outside Australia. DSS's International Operations Branch (IOB), located in Hobart, has administrative responsibility for the payment and review of all such pensions.

7.2 Payments and eligibility for a pension are determined in accordance with the Social Security Act. Portability of pension entitlement, that is the ability to continue to receive an Australian pension while temporarily or permanently resident overseas, was first introduced in 1972. Subsequent legislative amendments extended the portability arrangements and established the framework for a network of reciprocal agreements between Australia and other countries based on the concept of proportional portability.

7.3 In addition to the arrangements under the Social Security Act, Australia has special reciprocal Social Security agreements with the United Kingdom, New Zealand, Canada and Italy. These agreements seek co-operation between the two signatory countries in the provision of social security benefits to those of their citizens resident in the other country's territory.

Audit Findings

7.4 The Auditor-General's Report No 8 1990-91 examined the findings of an audit of the arrangements for the payment of pensions overseas through the IOB. The audit examined three broad subjects, namely:

the administration of the legislative provisions governing the continuing payment of pensions overseas, and the application of departmental policy and procedures to these pensions;

- the process by which pension payments are made overseas; and
- general administrative matters concerning the IOB.

7.5 The major criticisms focused on DSS's policies on continuing entitlement to pensions paid overseas, the reconciliation of payments authorised and payments actually paid, and the inclusion of overseas pensioners within DSS databases.

7.6 In the case of 16 of the 17 recommendations made by ANAO, DSS responded positively to institute new or to correct existing procedures. The exception is the recommendation to establish a policy as to the minimum value at which cheques are issued to addresses overseas (Recommendation 12).

7.7 DSS does not consider this to be a significant issue at this stage as the potential number of cases is quite small. DSS will, however, continue to monitor the situation and has indicated that, when circumstances change sufficiently to warrant recommending to Government that the Social Security Act be amended, a larger minimum value for payments overseas could be specified.

Departmental Response

7.8 DSS has generally responded positively to ANAO's findings although it disputes ANAO's assertions regarding the level and frequency of review activity in the past.

7.9 Through the development of risk based criteria, statistical analysis, selective review strategies and the incorporation of administrative assistance with medical reviews in all reciprocal agreements, DSS considers the issues identified by ANAO are being addressed.

7.10 DSS believes action has been taken or initiatives are underway in relation to the full 17 recommendations.

Committee Comment

7.11 The Committee notes with concern the difficulty of completely monitoring eligibility and compliance of overseas pensioners with the same stringency that is applied to domestic recipients. It recognises the inherent geographical and jurisdictional problems involved in reviewing the entitlements of pensioners residing overseas, and considers it appropriate that alternative methods of review are utilised for them. The Committee therefore supports the use of locally engaged staff to conduct field reviews. It considers that, where possible this method of review should be extended to other countries where there is a high risk of fraud, at least until reciprocal, shared responsibility agreements can be negotiated. The Committee likewise supports the use of DILGEA panel doctors for medical reviews.

7.12 The Committee notes that shared responsibility agreements are now operating with Italy, Canada, Spain and Malta, while agreements have been signed with Germany, U.S.A., Cyprus, Greece and Austria. Long standing arrangements with the United Kingdom and New Zealand are also noted.

7.13 The Committee accepts that the action taken by DSS in response to ANAO's Report will serve to strengthen the administration, monitoring and review arrangements relating to continued eligibility of overseas based pensioners.

Chapter 8

DEPARTMENT OF THE ARTS, SPORT, THE ENVIRONMENT AND TERRITORIES: ANTARCTIC SUPPLY VESSEL - CHARTERING ARRANGEMENTS

Introduction

8.1 One of the functions of the Antarctic Division of the Department of Arts, Sport, the Environment and Territories¹ is the administration, organisation and logistic support of Australia's activities in the Antarctic and sub-Antarctic. The Auditor-General's Report of September 1988 included a report of an audit of shipping operations at the Division.² That audit concerned the management and administration of shipping charters then occurring. It specifically excluded the tender negotiations for the charter of the *Aurora Australis*, which form the basis of the Auditor-General's Report No 9 of 1990-91, which is reviewed in this Chapter. The propriety of the tender negotiations for the *Aurora Australis* were considered by the Committee in 1988. The Committee's findings were included in Report 297 on Management of the Antarctic Division.³ The Committee did not make any formal findings nor issue any recommendations concerning this particular tender.

The Tender

8.2 In August 1983 the Commonwealth Government announced its intention to acquire a new purpose-built, research-passenger vessel for the Antarctic program to replace the aging *Nella Dan*, the charter arrangements for which were due to expire at the end of the 1988-89 Antarctic sailing season.

1. At the time that the audit of the Antarctic Division's supply vessel chartering arrangements was carried out, the Department was the Department of the Arts, Sport, the Environment, Tourism and Territories.
2. The Auditor-General. Report on Audits to 30 June 1988, AGPS, Canberra, September 1988, pp 19-23.
3. Joint Committee of Public Accounts. Management of the Antarctic Division, Report 297, AGPS, Canberra, 1989.

8.3 The Antarctic Division sought to acquire a suitable vessel on a time-charter basis by seeking proposals against a requirement specification through the medium of a shipping broker.

8.4 Offers from a short list of companies were considered. The Government announced on 16 December 1987 that it had accepted, subject to a satisfactory charter agreement being negotiated, the proposal submitted by P&O Polar for a ten season time charter.

8.5 On 18 December 1987 the Antarctic Division issued a letter of intent to P&O Polar and detailed negotiations between the parties then took place. A contract was signed on 13 October 1988.

Audit Findings

8.6 The Auditor-General's Report No 9 of 1990-91 focussed on the adequacy of the contractual negotiations which took place after the Government announced the successful tenderer. ANAO concluded that a number of matters had affected these negotiations, specifically:

- the public announcement of the successful tenderer and the issue of the letter of intent resulting in a loss of negotiating power for the Commonwealth;
- the lack of a firm time charter;
- financial assumptions included in the P&O offer;
- specification changes during the course of the negotiations; and
- imprecise specifications for the scientific instrument system at the time of tender.

8.7 ANAO acknowledged that throughout the negotiations the Department and the Australian Government Solicitor (AGS) sought to preserve the Commonwealth's position. ANAO also stated that it was difficult to assess the degree to which the negotiations were made more complex than would otherwise have been the case in a charter negotiation of this type.

8.8 ANAO recommended that in future cases of a similar nature the Commonwealth's position would be strengthened if proposals were based on a firm, approved, time charter document. Furthermore, ANAO recommended that the Government's decision and announcement of the successful tenderer should be postponed until the vessel's specifications were confirmed and the implications and assumptions underlying all submitted tenders were evaluated.

8.9 ANAO noted that one of the reasons behind the decision to issue a letter of intent was one of the conditions contained in the P&O Polar proposal. This condition required that a contract for construction had to be entered into between the Commonwealth and P&O Polar prior to 31 December 1987 in order to enable certain ship builders to qualify for a bounty under the *Ship Building Bounty Act 1982*. That bounty was only available at a certain rate until the end of December 1987. ANAO concluded that the availability of the bounty was taken into account by the Department in evaluating the tender price submitted by P&O Polar.

Departmental Response

8.10 The Department agreed that additional costs were incurred as a result of the negotiation process for this vessel. The Department considers however that these costs are justified given that the Antarctic Division now has access to a better vessel than that originally envisaged.

8.11 The Department accepted that the full implications of the financial conditions contained in the P&O bid were not understood prior to the successful tenderer being announced. The impact of the financial conditions originally sought by P&O Polar in their tender bid was ultimately limited as part of the tender negotiations.

8.12 The Department stood by its decision to issue a letter of intent, as requested by P&O Polar, noting that the AGS considered the issue acceptable in the circumstances. In the Department's view had the letter not been issued, substantial cost increases would have been incurred in obtaining an Australian built vessel from other sources.

8.13 The Department agreed that, in any project of this nature, it is desirable to limit the matters which are the subject of negotiation through the development of a detailed purchasing strategy. It considers that such a strategy should aim at minimising the number of negotiated matters, while leaving open options to achieve the most cost effective solution for the Commonwealth.

Moreover, the Department agrees that, where tenders include complex financial conditions, arrangements need to be established to ensure that the implications of such conditions are fully considered at an early stage.

Committee Comment

8.14 The Committee acknowledges that at all times the negotiations between the Commonwealth and P&O Polar were conducted by officers of the Department and the AGS in good faith and with the objective of seeking to preserve the Commonwealth's position.

8.15 The Committee recognises the circumstances which hastened the need to have the replacement vessel constructed. The Committee is concerned, however, that the issue of a financial benefit from the Commonwealth (in this case in the form of a ship bounty) was considered a contributing factor to the need to accelerate the tender process through the issue of a letter of intent. While the Committee recognises that this may have been an important factor for the concerned tenderer, the overall cost to the Commonwealth should have been the basis for the financial evaluation of the tender bid. The Committee considers a comprehensive cost analysis, from the Commonwealth's perspective, should be prepared by the Department for all major asset purchases.

8.16 Moreover, the Committee does not consider that the circumstances in this case were sufficient to warrant a less than comprehensive assessment of all facets of all tender proposals. In particular, the Committee is concerned that the selection of a successful tenderer took place while the conditions underlying the tenderer's proposal were not fully understood.

8.17 The Committee considers that for all future major asset acquisitions including projects involving vessel charters, it is imperative that sufficient time be allotted in the planning stages to enable extensive tender evaluation. In particular, the full financial assumptions upon which tender bids are based should be understood and evaluated prior to a decision on a successful tenderer being taken and announced.

8.18 The Committee supports the Department's intention to develop comprehensive purchasing strategies for major asset purchases.

Chapter 9

DEPARTMENT OF COMMUNITY SERVICES AND HEALTH: NATIONAL AIDS PROGRAM

Introduction

9.1 The Department of Health, Housing and Community Services (formerly the Department of Community Services and Health) is responsible for the development, co-ordination and implementation of the Commonwealth Government's AIDS policy and associated programs and activities.

9.2 A policy information paper 'National HIV/AIDS Strategy' was published and tabled in all State and Territory Parliaments. The aims of the Strategy are to eliminate transmission of the virus and minimise the personal and social impact of HIV.

9.3 The Strategy set out the policy and funding levels for 1989-90 and the following three years. The estimated funding for the AIDS component of the Department's Health Promotion and Disease Prevention Sub-Program in 1989-90 was \$35.5 million.

Audit Findings

9.4 The Auditor-General's Report No 11 of 1990-91 examined the Department of Community Services and Health's National AIDS Program. The audit was carried out in the Department's Central Office in Canberra. The AIDS funding component of Medicare payments to the States and Territories was not examined during the audit.

9.5 The objectives of the audit were to:

- document the objectives of the grant programs;
- examine and evaluate the systems and procedures for the administration and monitoring of grant programs and funding activities;

- examine the systems and procedures used to evaluate the performance of grant programs; and
- evaluate remedial action taken following the findings of the Internal Audit Review undertaken in 1988.

9.6 The grant programs examined were:

- Matched Funding Program;
- Commonwealth AIDS Prevention and Education Program (CAPE Program);
- Commonwealth AIDS Workforce Information Standards and Exchange Program (CAWISE Program);
- Commonwealth AIDS Research Grants Program (CARG Program); and
- National HIV Reference Laboratory.

9.7 The audit found that the systems and procedures employed by the Department to administer the Matched Funding Program were operating satisfactorily.

9.8 In respect of the other grant programs, the audit disclosed deficiencies in the Department's administration of a number of projects which included:

- a number of payments being made without all relevant terms and conditions of the grant having been met;
- grant payments being made prior to the due date;
- inadequate monitoring of funded projects; and
- shortcomings in the reporting and acquittal procedures.

9.9 Many of these deficiencies related to funds management aspects, with payments being made before they were due, leading to increased costs to the Commonwealth. ANAO considered that the Department should implement procedures to ensure that the progress of grants is adequately monitored so that

payments are only made in accordance with the Commonwealth's cash management policy and the grant terms and conditions. Procedures should be documented and disseminated to all staff involved in the administration of the grant programs.

9.10 ANAO noted that a number of enhancements to the administration of grants have occurred through the development of computer-based financial management systems.

Departmental Response

9.11 The Departmental response noted that the ANAO had concluded that the systems and procedures used to administer the Matched Funding Program were operating satisfactorily, and the administrative deficiencies related primarily to funds management procedures. The Department also noted that the issues raised by ANAO had already been identified by the Department and remedial action had been taken to address these problems.

9.12 The Department has developed and implemented a financial monitoring system designed to follow grants from application through approval, funding, monitoring and acquittal stages. In relation to the deficiencies identified by ANAO, the Department stated that:

- reports are issued which set out a timetable of payments and a list of overdue reports, and reminder letters are sent to recipients when progress and financial reports are due;
- form payments now specify when cheques are to be made out and cheques cannot be processed more than two days prior to the due date;
- grant instalments are withheld until satisfactory progress reports are received from recipients;
- grant recipients are being advised of the Department's financial reporting requirements; and
- a grants management and operational procedures manual has been prepared and will be circulated to all relevant staff.

9.13 In addition a senior officer from the Internal Audit Branch of the Department was tasked with overseeing the development of improved acquittal procedures for grants which had not yet been acquitted. This action took place in response to the lack of understanding of grant requirements among some community groups and most outstanding acquittals have now been finalised. Negotiations are continuing with those remaining.

Committee Comment

9.14 The Committee notes that the Department had taken on and was continuing to implement processes that would rectify the deficiencies identified by the ANAO.

Chapter 10

CONCLUDING COMMENTS

10.1 In this chapter, the Committee canvasses some general issues relating to its scrutiny of Auditor-General's reports. It considers the extent of compliance by auditees with audit report recommendations, ways of improving auditee compliance with ANAO recommendations and discusses certain aspects of Auditor-General's reports and departmental submissions.

Level of Compliance with Recommendations

10.2 The Committee's scrutiny of eight audit reports and the responses to the reports' recommendations show a high degree of willingness on the part of auditees to implement the Auditor-General's recommendations. In his annual report for 1990-91, the Auditor-General pointed out that 87% of the 666 recommendations made in performance and efficiency audit reports were accepted by auditees. He commented that:

... the auditees were receptive to the audit findings and recommendations. Acceptance of recommendations was high, with action being taken by the auditees both during and after the audits to implement improvements and correct deficiencies.¹

The Committee commends the auditees on their generally very positive attitude to the work of the ANAO.

Ensuring Maximum Compliance

10.3 In the course of examining the reports that form the subject of this Report, the Committee experienced difficulty with some items in assessing the adequacy of the responses of departments to the Auditor-General's recommendations.

1. The Auditor-General. Annual Report of the Australian National Audit Office 1990-91, p. 16.

10.4 The systematic follow-up of performance audits is the most effective way of testing the adequacy of departmental responses to ANAO recommendations. The Committee, in its Report 296, made it clear that it expects the Auditor-General to accept responsibility for follow-up of his own recommendations. The Committee recommended that the ANAO:

... devote sufficient resources to follow-up of performance audits, and adopt a systematic approach to follow-up of performance audit findings;

and that:

... follow-up procedures for performance audits be linked to follow-up procedures for regularity audits in the Audit Office.²

10.5 ANAO accepted the recommendation in principle and pointed to the need for additional efficiency resources before it could be implemented.³ The Government response to Report 296 was to provide additional funds to the ANAO for efficiency auditing, which has enabled ANAO to increase the number of efficiency audits that it carries out.

10.6 The Committee notes with approval that ANAO has also embarked on a program of follow up audits. At the end of 1991, four follow up audits were being undertaken, one of which involved examining six programs within the Department of Employment, Education and Training. A further six audits are planned for 1992.

2. Joint Committee of Public Accounts. Report 296, The Auditor-General: Ally of the People and Parliament Reform of the Australian Audit Office AGPS, Canberra, 1989, p. 198.
3. The Auditor-General. Accountability, Independence and Objectivity. A Response to Report 296 of the Parliamentary Joint Committee of Public Accounts, AGPS, Canberra 1989, pp. 52-53.

Committee Comments on the Audit Reports and Departmental Submissions

10.7 The Committee notes two areas where improvements might be made. One relates to ANAO's provision of information in its reports about estimated savings from implementing its recommendations. The other relates to the standard of departmental submissions.

10.8 In relation to passport issue and control, the Auditor-General claimed that savings or earnings of \$2m had been foregone as a result of departmental practices.⁴ The Department of Foreign Affairs and Trade challenged these sums and offered a much lower figure. It stated that it did not have access to the ANAO calculations on which the claim had been made.

10.9 The Committee believes that a more balanced assessment of such claims could be made if the calculations on which they were based were available to auditees. It accordingly suggests that ANAO make these data available to auditees.

10.10 Furthermore, if the ANAO is to estimate accurately the savings or earnings that could be expected from the implementation of its recommendations, it is important that these estimates be as solidly based as possible. If they are not, doubt will exist about their validity. In addition, the Auditor-General's assessment of the overall effectiveness of performance and efficiency audits might also be questioned. For example, in his annual report for 1990-91, he claimed that:

Four of the fifteen efficiency audit reports tabled identified potential savings of \$22 million per annum to be recouped progressively as ANAO recommendations are implemented by the auditees

Savings of \$8 million from one project performance audit.⁵

10.11 In reviewing departmental responses to the Auditor-General's recommendations, the Committee found the most useful format among the submissions was a general summary of the important issues, followed by a brief

4. The Auditor-General. Audit Report No 7 1990-1 Department of Foreign Affairs and Trade - Passport issue and control, AGPS, Canberra, p. 21.
5. The Auditor-General. Annual Report of the Australian National Audit Office 1990-91, p. 11.

description of the actions taken in response to each recommendation. Several departments employed this approach in their submissions and presented their responses clearly.

10.12 In general, the Committee found that the standard of departmental submissions satisfactory. The Committee was, however, disappointed that the Department of Finance's submission failed to provide a concise statement of that Department's current position. The Department provided details of how its thinking on internal audit had developed since the tabling of ANAO's report and, while they are interesting, they belong more properly to an appendix to a clear summary of the Department's present attitude.

The Auditor-General

10.13 In reviewing the reports that are the subject of this report, the Committee noted the importance of the work carried out by the Auditor-General. His role in enhancing the efficiency and effectiveness with which government agencies operate is vital, with his office representing a link in the accountability of these bodies to the Parliament.

10.14 In view of the significance of the Auditor-General's work, the Committee regrets that the Government rejected or ignored a number of recommendations made in the Committee's Report 296 and the Sheridan and Sharpe Reports on the ANAO. These recommendations were designed to strengthen the position of the ANAO and confirm the direct relationship between it and the Parliament. Of particular concern to the Committee was the Government's decision that:

there will be no mechanism, such as an Audit Committee of the Parliament, by which the Parliament might express a view on the operations and budget of the ANAO before the Commonwealth budget is introduced;

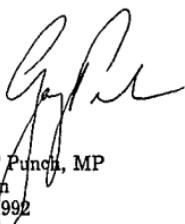
the ANAO will not be given statutory authority status, thus failing to enhance the independence of the Office from the Executive;

the ANAO will have no flexibility in matters relating to staffing and conditions;

the ANAO will not have a secure mandate, with the Minister for Finance able to exempt government agencies from ANAO scrutiny; and

there will be no requirement for the ANAO to conduct efficiency audits of government business enterprises.

10.15 When it decided to reject the provisions listed above, the Government ignored the fact that this placed it out of step with other governments both in Australia and overseas. These governments have moved swiftly to ensure that they have independent, properly resourced, highly professional and apolitical offices. The Committee urges the Government to make a greater commitment to supporting the same qualities in the ANAO.



Hon G F Punch, MP
Chairman
1 April 1992

APPENDIX 1



DEPARTMENT OF FOREIGN AFFAIRS AND TRADE

CANBERRA ACT 2601



22 January 1992

Mr Trevor Rowe
Secretary
Joint Committee of Public Accounts
Parliament House
CANBERRA ACT 2600

Dear Mr Rowe

REVIEW OF AUDITOR-GENERAL'S REPORT - No7-1990/91

I refer to my letter dated 29 July 1991 and your reply of 1 August 1991 regarding the Department's Submission on Audit Report Number 7 1990/91 concerning Passport Issue and Control.

I would like to draw your attention to the current status of those recommendations that required action at the time of the Department's Submission. All recommendations have been implemented (or partially implemented in some cases) except recommendation 27 which is before the Minister for attention and decision.

Recommendation No. 8

Steps be taken to expedite the despatch and processing of TDR's from Overseas Posts (3.22)

Present Position

Recommendation accepted. Action complete.

Recommendation No. 9

Procedures be implemented to ensure prompt and systematic follow-up where TDR's proved to be in error (3.24)

Present Position

Recommendation accepted. Action complete.

Recommendation No. 10

A register of microfiche despatch to be maintained and posts acknowledge receipt of microfiche promptly.

Present Position

Recommendation accepted. Posts indicate the date of the fiche in use on their weekly travel document returns. Action complete.

Recommendation No. 15

- (i) PICS regularly report alert deletions to senior officers of the Passports Office for review and follow-up to ensure that alerts deleted are properly authorised;
- (ii) the record of changes to the alert file be amended to record the operator identification, date and time and a reference identifier for all changes and deletions to the alert file;
- (iii) close attention be paid to the functions assigned to Passports Office staff;
- (iv) attention be paid to reporting regularly cases where irregular functions are used;
- (v) alert deletion administrative details be retained on the alert file;
- (vi) consideration be given to a control of alert file access by an additional password;
- (vii) deleted alerts be retained on an active record for three years;
- (viii) a history of force actions be retained against the document details (4.12).

Present Position

Recommendation accepted. Action is progressing. PICS programming to allow the recommendation to be fully implemented is due for completion by the end of March 1992.

Recommendation No 22

DFAT dispense with the Central Passports Custodian's manual register and make program adjustments to PICS so that the system produces regular printouts in register form for retention as hard copy (5.13).

Present Position

Recommendation accepted. Action partially complete. Completion will take several more months.

Recommendation No. 27

As the Minister has the discretionary power to grant exemptions (from the payment of passport fees), this discretionary power should be included in the

Minister's delegation for decision each time a Minister takes office, particularly as the "user pays" principle is being applied more extensively (6.2)

Present Position

Recommendation accepted. The matter is before the Minister for decision.

Yours sincerely



(D C Rutter)
Acting/First Assistant Secretary
Systems, Programs and Consular Division