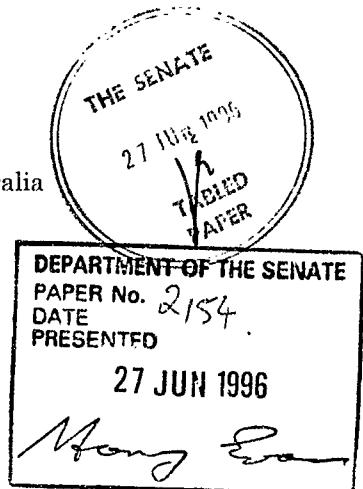


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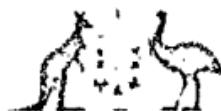
## REPORT 344

### A Continuing Focus on Accountability

Review of Auditor-General's Reports  
1993-94 and 1994-95

June 1996

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Governor General of Canada  
in Right of the  
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Joint Committee of Public Accounts

# Report 34

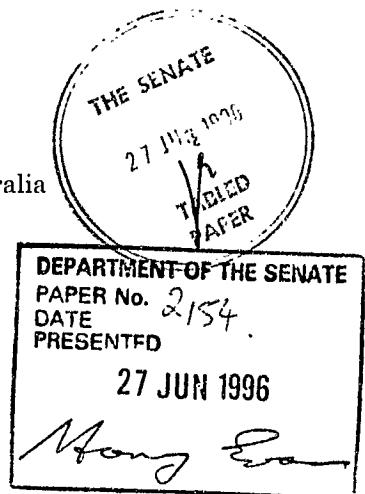
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## DUTIES OF THE COMMITTEE

The Joint Committee of Public Accounts is a statutory committee of the Australian Parliament, established by the *Public Accounts Committee Act 1951*.

Section 8(1) of the Act describes the Committee's duties as being 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*;
- examine the financial affairs of authorities of the Commonwealth to which this Act applies and of inter-governmental bodies to which this Act applies;
- 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;
- 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;
- 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
- inquiry 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.

The Committee is also empowered to undertake such other duties as are assigned to it by Joint Standing Orders approved by both Houses of the Parliament.

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**LIST OF ABBREVIATIONS**

ACHS	Australian Council on Health Care Standards
ADF	Australian Defence Force
AIDAB	Australian International Development Assistance Bureau
ANAO	Australian National Audit Office
ASL	average staffing level
ATO	Australian Taxation Office
CAM	care aggregated module
DEET	Department of Employment, Education and Training
DEETYA	Department of Employment, Education Training and Youth Affairs
DHA	Defence Housing Authority
DHFS	Department of Health and Family Services
DIMA	Department of Immigration and Multicultural Affairs
DPIE	Department of Primary Industries and Energy
DSDC	Defence Source Definition Committee
DSD	Defence Signals Directorate
DSS	Department of Social Security
DVA	Department of Veterans' Affairs
ESL	English Second Language
HAPRT	Housing and Accommodation Policy Review Team
MAB/MIAC	Management Advisory Board/Management Improvement Advisory Committee

MWF	Members without Family
NEPS	National Equity Program for Schools
NP(R)F	National Priority (Reserve) Fund
NSTMC	National and State Treatment Monitoring Committee
OGIA	Office of Government Information and Advertising
PNG	Papua New Guinea
R&D	Rural Research and Development (R & D) Program
RIC	Research Innovation and Competitiveness
SAM	standard aggregated module

## CHAIRMAN'S FOREWORD

This report reviews the 75 reports of the Auditor-General which were tabled in Parliament in the financial years 1993-94 and 1994-95.

The report has been prepared in accordance with section 8(1)(ab) of the *Public Accounts Committee Act 1951*, which requires the Joint Committee of Public Accounts to examine all reports of the Auditor-General.

The report is largely the work of the Joint Committee of Public Accounts established during the 37th Parliament, which was chaired by Mr Les Scott (the former Member for Oxley). Although the current Committee has considered and given its approval to the report, the report was prepared by the former Committee on the basis of evidence it sought and received.

The report does not canvass in detail all of the issues raised in all of the audit reports tabled in 1993-94 and 1995-96. Instead it focuses primarily on those issues which have been the source of disagreement between the Australian National Audit Office (ANAO) and the audited agencies. The Committee has also examined those cases where it seems that the audited agencies have not yet taken appropriate remedial action, despite a stated intention to do so.

In the vast majority of cases agencies have responded positively and promptly to the Auditor-General's recommendations. There are, however, some cases where action has not been taken to correct management failures or where performance can be further improved. It is these cases which are referred to in this report.

Over the last two years the Committee has demonstrated its commitment to ensuring that reports of the Auditor-General receive close parliamentary attention. The Committee has tabled two compendium reports (examining the audit reports tabled in 1991-92 and in 1992-93) and four other reports which reviewed audit reports of particular interest. The compendium reports were produced following what might be termed 'correspondence based' reviews, where audited agencies were asked to provide written submissions in response to each audit finding, and any issues of concern to the Committee were explored by further correspondence.

Recently, the Committee has decided to change the focus of its compendium reviews, from seeking and examining written submissions, to examining audit reports and their findings at regular public hearings.

From now on the Committee intends to conduct public hearings every three months to examine the findings of significant audit reports tabled in the previous quarter. Witnesses from the ANAO and officials from each audited agency will be invited to comment on the nature and appropriateness of the audit findings and of the responses from audited agencies.

As soon as possible after the completion of each hearing the Committee will provide the Parliament with a brief report on the issues and themes which have emerged from the hearings and a synopsis of any undertakings given by either the ANAO or the audited agency

This process should ensure more timely and effective parliamentary scrutiny of audit reports.

These new procedures represent a renewed commitment by the Joint Committee of Public Accounts to examining reports of the Auditor-General. I see this commitment as an integral part of the process by which Parliament holds the Executive to account for its stewardship of public monies.

In conclusion, I would like to thank those people who contributed their time and expertise to the review of 1993-94 and 1994-95 audit reports by preparing submissions to the Committee.

Alex Somlyay MP

Chairman

## RECOMMENDATIONS

### Recommendation 1

The Department of Employment, Education, Training and Youth Affairs should ensure that any new program developed in place of the National Priority (Reserve) Fund to provide discretionary funding to higher education institutions should:

- (a) include performance indicators for the program;
- (b) be regularly reviewed, on at least a triennial basis; and
- (c) any future reviews of the program should include assessments of the impact on the higher education sector of the recommendations of projects previously funded by the program. (paragraph 2.16)

### Recommendation 2

The Australian Taxation Office should continue its work in identifying the true cost of service delivery in the ATO, in collaboration with other Commonwealth agencies as appropriate. As part of this task, the project to identify the costs of the ATO's litigation activity should be completed, with appropriate procedures and systems in place, as soon as possible. (paragraph 2.24)

### Recommendation 3

The Department of Health and Family Services should prepare a clear and comprehensive report to the Joint Committee of Public Accounts, as part of the Finance Minute in response to this report, on the strategy it is employing to achieve its goal of clearing the backlog in nursing home funding validations by the end of 1996-97. This statement should cover:

- (a) overall progress to date (in terms of number of outstanding validations completed, number of validations remaining if the original goal is to be achieved, number of fee adjustments made, amount of money recovered from the various types of validations [for example, field validations and desk validations] and prospects for further recoveries);
- (b) details of the 'risk indicators' which are being used to develop 'risk profiles' for nursing homes (including a description of each risk indicator and how they are combined to produce the risk profile and a description of any other factors which are considered in selecting particular homes for closer scrutiny);
- (c) whether progress to date has necessitated any changes to any of the risk factors which are used to develop risk profiles for nursing homes, or to the relative priority attached to the various factors, or to any other aspect of the risk management strategy;
- (d) whether the Department plans to alter the risk assessment factors, or the relative priority attached to the factors, as it gets closer to the target date and, if so, on what basis are such adjustments expected to be made; and
- (e) whether the Department is achieving its previously stated validation capacity of 1 750 visits per year, and whether this capacity is sufficient to meet the validations which remain to be undertaken.  
**(paragraph 3.50)**

#### **Recommendation 4**

The Department of Defence should ensure that representatives from other Commonwealth agencies are appointed to the Defence Source Definition Committee when that Committee is considering major purchases involving substantial risk for the Commonwealth.  
**(paragraph 3.97)**

#### **Recommendation 5**

When negotiating major procurement contracts the Department of Defence should ensure that provisions are included which enable the Auditor-General to gain sufficient access to contractor records to allow the costs associated with quotes, claims and contract amendments to be verified.  
**(paragraph 3.106)**

# 1

## BACKGROUND

### A Requirement to Review

1.1 Under Section 8(1)(ab) of the *Public Accounts Committee Act 1951*, the Committee is required to examine all reports of the Auditor-General, including efficiency audit reports. The Committee regards this task as an important part of its work and intends to table the results of its examinations on a regular basis. On occasions this will result in compilation reports, like this report, which consider a number of reports at once. On other occasions the Committee will review and report on individual audit reports.<sup>1</sup>

1.2 In addition to this statutory review process, the House of Representatives has, over the last decade, developed the practice of referring some audit reports to its standing committees and to certain joint committees. In addition, a number of the Senate general purpose standing committees occasionally review issues arising from audit reports.

1.3 The Committee acknowledges that the referral of audit reports to other committees is appropriate in some circumstances - for example, where an audit report is relevant to a subject already being considered by another committee, or where an audit report deals with an issue in which another committee has developed a particular expertise.

---

1 For example, in October 1995 the Committee tabled a report on *Audit Report No. 22, 1993-94, Efficiency Audit, Cash Management in Commonwealth Government Departments*, and *Audit Report No. 10, 1994-5, Efficiency Audit, Cash Management in Commonwealth Government Departments* (see *Report 340, Cash Matters: Cash Management in the Commonwealth, AGPS, Canberra, October 1995*).

1.4 However, the requirement to review described in the Public Accounts Committee Act is not satisfied by the referral of an audit report to another committee. It is the Committee's responsibility to examine all reports by the Auditor-General which are tabled in the Parliament. Although the Committee is conscious of the need to avoid unnecessary duplication, it will examine audit reports which have been referred to other committees. It is anticipated that, at times, this examination will show that another committee has reviewed or is reviewing the major issues identified in the audit report. At other times, the Committee may decide that further review is needed.

1.5 The Committee's aim is to ensure that reports of the Auditor-General are given appropriate and timely consideration by the Parliament. With this in mind the Committee will continually evaluate, and if necessary amend, its review methodologies.

#### Audit Reports Reviewed in this Report

1.6 The Committee's last major review of audit reports was in *Report 337, A Focus on Accountability: Review of Auditor-General's Reports, 1992-93* which was tabled in June 1995 and contained a review of the 38 audit reports tabled during the 1992-93 financial year.

1.7 This report contains comments on the series of audit reports tabled during 1993-94 and 1994-95. In total 75 audit reports are considered in this report. The list of audit reports reviewed in this report is at Appendix I.

1.8 Those audit reports tabled since June 1995 are currently being reviewed by the Committee and will be the subject of a separate report at a later date.

#### The Review Process

##### *The Committee's Review*

1.9 The purpose of the Committee's review is twofold: first, to assess whether audited agencies have responded appropriately to the audit findings; secondly, to determine whether the intentions expressed by agencies in their responses have been acted upon.

1.10 The Committee began its review by seeking written comments, from the agencies involved in the audit reports. Specifically, the agencies were asked to:

- describe any actions taken, or proposed, in response to the findings of the audit report; and
- outline a timetable for the implementation of these actions.

1.11 After written submissions on these points were received, they were considered by the Committee and forwarded to the Australian National Audit Office (ANAO) for comment. It was by this process that the Committee was able to identify which responses were adequate and appropriate, and which were not. The vast majority of responses were adequate and appropriate, but in some cases it was apparent that there was a difference of opinion between the ANAO and the audited agency, or that the audited agency had been slow in implementing its initial response.

1.12 At this point the Committee sought additional information in writing from a number of agencies. The Committee's consideration of the submissions received is reported in Chapters 2 and 3. A list of all the submissions and exhibits received can be found at Appendices II and III.

##### *Audit Reports Reviewed Separately by the Committee*

1.13 A number of audit reports tabled during 1993-94 and 1994-95 were reviewed separately, or were examined during other inquiries conducted by the Committee. These were:

- *Audit Report No. 6, 1993-94, An Audit Commentary on Aspects of Commonwealth-State Agreements;*<sup>2</sup>
- *Audit Report No. 21, 1993-94, Efficiency Audit, Department of Finance, Australian Government Credit Card - its debits and credits;*<sup>3</sup>
- *Audit Report No. 22, 1993-94, Efficiency Audit, Cash Management in Commonwealth Government Departments;*<sup>4</sup>
- *Audit Report No. 32, 1993-94, Efficiency Audit, Accrual Reporting: Are Agencies Ready?;*<sup>5</sup>
- *Audit Report No. 41, 1993-94, Project Audit, The Australian Government Credit Card - Some Aspects of Its Use;*
- *Audit Report No. 43, 1993-94, Parliament's Right to Know, Legislation to replace the Audit Act 1901;*<sup>6</sup>
- *Audit Report No. 10, 1994-95, Efficiency Audit, Cash Management in Commonwealth Government Departments;*
- *Audit Report No. 16, 1994-95, Follow-up Audit, Accrual Reporting - Are Agencies Ready?; and*
- *Audit Report No. 21, 1994-95, Project Audit, Specific Purpose Payments to and through the States and Territories.*

2 *Audit Report No. 6, 1993-94* and *Audit Report No. 21, 1994-95* were considered as part of the Committee's inquiry into Commonwealth/State agreements. This inquiry was reported on separately in *Report 342, The Administration of Specific Purpose Payments: A Focus on Outcomes*. AGPS, Canberra, November 1995.

3 *Audit Report No. 21, 1993-94* and *Audit Report No. 41, 1993-94* were the subject of the Committee's *Report 332, The Australian Government Credit Card*, AGPS, Canberra, September 1994.

4 *Audit Report No. 22, 1993-94* and *Audit Report No. 10, 1994-95* were the subject of the Committee's *Report 340 Cash Matters: Cash Management in the Commonwealth*, AGPS, Canberra, October 1995.

5 *Audit Report No. 32, 1993-94* and *Audit Report No. 16, 1994-95* were considered as part of the Committee's inquiry into accrual accounting. This inquiry was reported on separately in *Report 338, Accrual Accounting - A Cultural Change*, AGPS, Canberra, August 1995.

6 *Audit Report No. 43, 1993-94* was considered as part of the Committee's review of the proposed financial management legislation. This review was reported on separately in *Report 331, An Advisory Report on the Financial Management and Accountability Bill 1994, the Commonwealth Authorities and Companies Bill 1994 and the Auditor-General Bill 1994, and on a Proposal to Establish an Audit Committee of Parliament*, AGPS, Canberra, September 1994.

#### *Review by Other Parliamentary Committees*

1.14 As mentioned earlier, audit reports are occasionally reviewed by other parliamentary committees.

1.15 Ten of the audit reports tabled in the period 1993-95 were examined by standing committees of the Senate or the House of Representatives. These reports were:

- *Audit Report No. 9, 1993-94, Efficiency Audit, Community Cultural, Recreational and Sporting Facilities Program;*<sup>7</sup>
- *Audit Report No. 15, Efficiency Audit, The National Highway, 'Lifeline of the Nation', Transport and Communications Portfolio;*<sup>8</sup>
- *Audit Report No. 16, 1993-94, Project Audit, Pay for Performance, Performance Appraisal and Pay in the APS;*<sup>9</sup>
- *Audit Report No. 20, 1993-94, Efficiency Audit, Northern Land Council;*<sup>10</sup>
- *Audit Report No. 23, 1993-94, Efficiency Audit, DSS - Protection of Confidential Client Information from Unauthorised Disclosure;*<sup>11</sup>

7 This audit report was referred to the House of Representatives Standing Committee on the Environment Recreation and the Arts. This committee reported its findings in, *The Community Cultural, Recreational and Sporting Facilities Program - a review of a report of an efficiency audit by the Auditor-General*, AGPS, Canberra, 1994.

8 This audit report was referred to the House of Representatives Standing Committee on Transport, Communication and Infrastructure. This committee reported its findings in, *Efficiency Audit Review: The National Highway, 'Lifeline of the Nation'*, AGPS, Canberra, 1994.

9 This audit report was considered by the Senate Standing Committee on Finance and Public Administration. This committee reported its findings in, *Performance Pay*, AGPS, Department of the Senate, 1993.

10 This audit report was referred to the House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs. This committee reported its findings in, *Review of Auditor-General's audit report No. 20, 1993-94 - Efficiency Audit Northern Land Council*, AGPS, Canberra, 1994.

11 This audit report was referred to the House of Representatives Standing Committee on Legal and Constitutional Affairs. This committee reported its findings in, *In Confidence*, AGPS, Canberra, 1995.

- Audit Report No. 39, 1993-94, Efficiency Audit, Australian Taxation Office, Management of the Child Support Agency;<sup>12</sup>
- Audit Report No. 9, 1994-95, Project Audit, Is Australia ready to respond to a major oil spill? Australian Maritime Safety Authority;<sup>13</sup>
- Audit Report No. 11, 1994-95, Project Audit, ANL - Valuation Issues;<sup>14</sup> and
- Audit Report No. 24, 1994-95, Follow-up Audit, Northern Land Council.<sup>15</sup>

1.16 These audit reports have not been the subject of further review by the Committee.

#### The Structure of the Report

1.17 The remainder of this Report is in two chapters. Chapter 2 discusses significant issues arising from the Committee's review of audit reports tabled during the 1993-94 financial year; while Chapter 3 contains the Committee's assessment of issues arising from audit reports tabled in 1994-95.

12 This audit report was referred to the Joint Select Committee on Certain Family Law Issues. This committee reported its findings in, *Child Support Scheme - An examination of the operation and effectiveness of the scheme*, AGPS, Canberra, 1994.

13 This audit report was referred to the House of Representatives Standing Committee on Transport, Communications and Infrastructure. This committee reported its findings in *Oil spills: A response strategy: Review of the Auditor-General's audit report - Is Australia ready to respond to a major oil spill?*, AGPS, Canberra, 1995.

14 This audit report was considered by the Senate Standing Committee on Finance and Public Administration. This committee reported its findings in, *The Proposed Sale of ANL Ltd*, Department of the Senate, Canberra, 1995.

15 This audit report was referred to the House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs. This committee reported its findings in, *Review of the Auditor-General's audit report No. 24 of 1994-95 - Follow-up audit of the Northern Land Council*, AGPS, Canberra, 1995.

## 2

### SIGNIFICANT ISSUES ARISING FROM 1993-94 AUDIT REPORTS

#### Introduction

2.1 In 1993-94 the Auditor-General tabled 44 audit reports. After reviewing initial submissions from the audited agencies, the Committee decided that six audit reports raised issues which warranted further review.<sup>1</sup> The six audit reports were:

- Audit Report No. 14, 1993-94, Efficiency Audit, Growth, Change and Equity, Recurrent Funding of Higher Education;
- Audit Report No. 24, 1993-94, Efficiency Audit, Australian Taxation Office - Management of Appeals and Review;
- Audit Report No. 28, 1993-94, Efficiency Audit, Department of Veterans' Affairs, Use of Private Hospitals;
- Audit Report No. 30, 1993-94, Follow-up Audit, AIDAB - Aid to Papua New Guinea;
- Audit Report No. 38, 1993-94, Efficiency Audit, Department of Primary Industries and Energy, Rural Research and Development Program; and
- Audit Report No. 44, 1993-94, Project Audit, Department of Immigration and Ethnic Affairs, Electronic capture of passenger card data.

1 A list of the 1993-94 audit reports can be found at Appendix I.

***Audit Report No. 14, 1993-94***

*Introduction*

2.2 This report addressed the efficiency, effectiveness and accountability of the administration by the then Department of Employment, Education and Training (DEET) of recurrent funding to higher education institutions - to which, at the time of the audit, the Commonwealth committed some \$4 billion annually.

2.3 Of the 26 recommendations in the audit report the Committee considered that one concerning the administration of the National Priority (Reserve) Fund (NP(R)F) required follow-up.

2.4 The NP(R)F commenced in 1989 with the aim of providing a flexible annual funding source for particular higher education projects of national importance. Funding for these projects would otherwise be unavailable under the block funding arrangements which commit funds three years ahead. In 1993 \$33.7 million was available for allocation through the NP(R)F for projects which focussed on enhancing management and quality assurance at the institutional level.<sup>2</sup>

*The Findings of the Audit Report*

2.5 The Auditor-General's recommendation concerned the need for DEET to assess the effectiveness of NP(R)F funded projects and circulate the results to the Higher Education sector.<sup>3</sup>

2.6 The audit had found that there was no evidence of any published review by DEET of the impact of the recommendations of past NP(R)F projects and that performance indicators had not been identified for the outcomes and impacts of such projects. The audit report did however note that DEET was considering the development of performance indicators for NP(R)F funded projects.<sup>4</sup>

2.7 DEET's response at the time of the audit was that grant recipients had to provide a report which included information of the usefulness of the project outcomes and how the results would be made available to other institutions. This, DEET argued, was consistent with government policy in so far as the NP(R)F program guidelines stipulated that responsibility to disseminate project results lies with the institution.<sup>5</sup>

2.8 The Department added in its subsequent submission to the Committee that its current selection criteria and assessment procedures were considered rigorous and efficient, and the program was subject to review after every three years.<sup>6</sup>

2.9 Commenting on DEET's submission, ANAO drew the Committee's attention to a possible misunderstanding by DEET of the intention of the recommendation which was directed at assessing the outcomes of the NP(R)F program.<sup>7</sup>

2.10 The Committee subsequently sought from DEET:

- a reassessment of its response to the recommendation;
- advice as to when the next triennial review of the NP(R)F program was due as well as the results of past reviews (the program had commenced in 1989); and
- an update of DEET's consideration of performance indicators for the program.

2 Auditor-General, *Audit Report No. 14, 1993-94, Efficiency Audit, Growth, Change and Equity, Recurrent Funding of Higher Education*, AGPS, Canberra 1993, p. 45.

3 Auditor-General, *Audit Report No. 14, 1993-94*, p. 48.

4 Auditor-General, *Audit Report No. 14, 1993-94*, p. 48.

5 Auditor-General, *Audit Report No. 14, 1993-94*, pp. xxviii-xxix.

6 Department of Employment, Education and Training, *Submission*, p. S547 (1993-94 Submissions).

7 ANAO, *Submission*, p. J115.

*Response to Review Action*

2.11 In its response to the Committee's request for further information DEET advised in December 1995 that the NP(R)F program, together with other discretionary funding programs for higher education, would 'cease to exist as of the end of this year in accordance with decisions taken in the context of the 1995 Budget'.<sup>8</sup>

2.12 DEET advised that, following a request from the then Minister on options for the objectives and structures for future discretionary funding, the Higher Education Council had concluded that:

*The NP(R)F has provided a degree of flexibility for funding initiatives of national priority which have been of great benefit to the system. The Fund has enabled specific institutional needs to be addressed and new approaches to the delivery of higher education to be piloted, within a more pressing time frame than the normal triennial planning cycle.<sup>9</sup>*

2.13 The Committee acknowledges that, in the light of the cessation of the NP(R)F program, a reassessment of the Auditor-General's recommendation and an update on the development of program performance indicators is unnecessary.

2.14 One residual matter of concern to the Committee is whether or not the NP(R)F program had in fact been subject to a triennial review. The need for such a review was referred to in DEET's original submission, but DEET's subsequent submission provided no evidence that the review had actually taken place. It would be a serious matter if such a review had not been undertaken. The program had disbursed significant sums of public money since its inception in 1989, and government policy at the time was that all major programs should be subject to regular reviews and evaluations.

8 DEET, *Submission*, p. S2030 (1993-94 Submissions).

9 DEET, *Submission*, p. S2030 (1993-94 Submissions).

2.15 The Committee notes DEET's advice that the then Minister had not decided on the structure and operation of any new discretionary fund and that it was anticipated that any fund would include the 'improved dissemination strategies that are now a feature of the NP(R)F'.<sup>10</sup> The Committee hopes that any new fund would also include performance indicators and a pre-determined evaluation timetable.

**2.16 Recommendation 1**

*The Department of Employment, Education, Training and Youth Affairs should ensure that any new program developed in place of the National Priority (Reserve) Fund to provide discretionary funding to higher education institutions should:*

- (a) *include performance indicators for the program;*
- (b) *be regularly reviewed, on at least a triennial basis; and*
- (c) *any future reviews of the program should include assessments of the impact on the higher education sector of the recommendations of projects previously funded by the program.*

**Audit Report No. 24, 1993-94**

*Introduction*

2.17 Audit Report No. 24, 1993-94 addressed the performance of the Appeals and Review Group of the Australian Tax Office (ATO). At the time of the audit this group was responsible for resolving disputes between taxpayers and ATO. The aim of the audit was to examine the

10 DEET, *Submission*, p. S2030 (1993-94 Submissions).

fairness and integrity of procedures; assess the efficiency and effectiveness of administration; and determine ATO's economy in the use of resources in the operation of the appeals and review function.<sup>11</sup>

2.18 In July 1994 the Appeals and Review Group was disbanded and the appeals and review function was split amongst four new 'business lines'.<sup>12</sup>

#### *The Findings of the Audit Report*

2.19 The audit report contained 16 recommendations, four of which warranted follow-up. These recommendations related to the need for:

- efficiency indicators to become an integral aspect of planning and management reporting (recommendation 5);
- the development of procedures to cost the application of resources to tasks (recommendation 13);
- sound quality assurance methodology to enable a reasonably confident opinion to be formed (recommendation 17); and
- quality assurance reviews of training to continue with the aim of providing objective internal and external validation of training (recommendation 26).<sup>13</sup>

2.20 Details of ATO's initial response to the recommendations, ANAO's subsequent comment and the Committee's follow-up action are summarised in Table 2.1 below. The section after the table provides information on ATO's subsequent response and the Committee's findings.

11 Auditor-General, *Audit Report No. 24, 1993-94, Efficiency Audit - Australian Taxation Office - Management of Appeals and Review*, AGPS, Canberra, 1993, p. 2

12 Australian Taxation Office, *Submission*, p. S2031 (1993-94 Submissions).

13 Auditor-General, *Audit Report No. 24, 1993-94*, pp. xx, xxii, xxiv and xxvi.

**Table 2.1**  
**Australian Taxation Office - Management of Appeals and Review Audit**

Recommendation 5: To assist management in balancing optimal achievement of goals with limited resources, efficiency indicators should become an integral aspect of planning and management reporting processes.	ATO RESPONSE	ANAO RESPONSE	COMMITTEE ACTION
The ATO agreed in principle to the recommendation. <sup>14</sup>	The ATO advised the Committee that 'in practice ATO had not implemented efficiency indicators which compare outputs to inputs of resources <sup>15</sup> .'	The ANAO advised the Committee that 'in practice ATO had not implemented efficiency indicators which compare outputs to inputs of resources <sup>15</sup> '.	The Committee sought further information from ATO seeking information on the progress against this recommendation, and whether ATO planned to introduce efficiency indicators measuring outputs against inputs of resources.

14 ATO, *Submission*, p. S1623 (1993-94 Submissions).

15 ANAO, *Submission*, p. J199.

**Table 2.1 (cont.)**

Recommendation 13: The ATO develop procedures to cost the application of resources to tasks.		
ATO RESPONSE	ANAO RESPONSE	COMMITTEE ACTION
ATO agreed with the recommendation but advised that, because of ATO restructuring and the employment of multi-functional teams incorporating the A&R function, it was no longer considered relevant. ATO suggested that the development of a new management information system would mean that the task could be undertaken at a more detailed level. <sup>16</sup>	ANAO noted the development of the new system but its submission provided no further insight into the nature of analytical management information associated with it, or whether the new system met the intent of the recommendation. <sup>17</sup>	The Committee sought further information and suggested that in an accrual environment it will become increasingly important to correctly attribute the costs involved in programs.

16 ATO Submission, pp. S1623, 1627, 1628 (1993-94 Submissions).

17 ANAO, Submission, pp. J 198-9.

**Table 2.1 (cont.)**

Recommendation 17: That quality assurance (QA) procedures be reviewed to ensure the methodology is soundly based, consistently applied, and produces results which can enable a reasonably confident opinion to be formed about the population segment in question		
ATO RESPONSE	ANAO RESPONSE	COMMITTEE ACTION
While disagreeing with this recommendation, ATO indicated that it would review the effectiveness of QA approaches across technical programs by 31 March 1994. The review would consider the adequacy of monitoring systems and quality related issues. Subject to this review development work on QA systems would be suspended. <sup>18</sup>	ANAO suggested that there was still disagreement with the ATO on the need for statistically based QA sampling. <sup>19</sup>	The Committee sought advice from ATO about its reservations concerning statistically based QA methodology and seeking an update on ATO's progress against the recommendation.

18 ANAO, Audit Report No. 24, 1993-94, p. xxiv.

19 ANAO, Submission, p. J 200.

Table 2.1 (cont.)

Recommendation 26: That ATO initiatives in QA reviews of training continue with the aim of providing objective internal and external validation of training		
ATO RESPONSE	ANAO RESPONSE	COMMITTEE ACTION
The ATO agreed and noted that quality assurance is one of a number of valuable tools that can identify trends in training and provide a measure of internal and external validation of training activity. <sup>20</sup>	The ANAO commented that detail of ATO's specific progress against this recommendation was lacking. <sup>21</sup>	The Committee sought further information from ATO.

20 ANAO, *Audit Report No. 24, 1993-94*, p. 47.21 ANAO, *Submission*, p. J 200.

#### Responses to Review Action

2.21 In its final submission to the Committee, ATO advised that:

- while performance indicators had been set for the previous Appeals & Review Program, the current systems and change processes being implemented prevented ATO from re-visiting recommendation 5 of the audit report for at least 12 months;<sup>22</sup>
- while agreeing with the Auditor-General's recommendation 13, ATO's management systems were currently unable to accurately record the true cost of service delivery. However, ATO was discussing with the Attorney General's Department a proposal to jointly manage a sample of litigation matters to identify the true cost of such litigation;
- the review of quality assurance in the technical areas had resulted in ATO's acceptance of the need for QA sampling to be statistically based. Further work awaited the outcomes of ATO's re-organisation but ATO was currently reviewing its arrangements to ensure the quality of its decision making generally; and
- major training programs for tax technical areas were regularly reviewed - this had included an external review by the Central Queensland University. All training material in the ATO's training curriculum was subjected to monitoring and evaluation.<sup>23</sup>

2.22 The Committee is satisfied that, at this point in time, ATO appears to have adequately addressed the concerns raised by the Committee. However, while the Committee accepts that organisational restructuring may result in some specific audit recommendations becoming redundant and delay the implementation of action in respect to others, it is important that the underlying purpose of the original recommendations not be forgotten.

22 ATO also provided details of specific operational performance standards to reduce the work in hand for appeals and review.

23 ATO, *Submission*, pp. S2033-4 (1993-94 Submissions).

2.23 Regarding the Auditor-General's recommendation that the ATO develop procedures to cost the application of resources to tasks, the Committee is pleased to note that the ATO is contemplating the possibility of a joint project with the Attorney General's Department aimed at identifying the true cost of litigation.<sup>24</sup> This will no doubt prove to be a difficult task, but the exercise is important. It is vital, in the interests of better management and more efficient service delivery, that managers are able to correctly identify and apportion the full and true cost of the services they provide. The Committee discussed these issues at length in its recent inquiry into accrual accounting.<sup>25</sup>

**2.24 Recommendation 2**

*The Australian Taxation Office should continue its work in identifying the true cost of service delivery in the ATO, in collaboration with other Commonwealth agencies as appropriate. As part of this task the project to identify the costs of the ATO's litigation activity should be completed, with appropriate procedures and systems in place, as soon as possible.*

***Audit Report No. 28, 1993-94.***

*Introduction*

2.25 This audit report evaluates the efficiency, effectiveness and economy of the management, by the Department of Veterans' Affairs (DVA), of the provision of medical treatment to veterans at private hospitals. It focuses on issues such as the negotiation of private hospital contracts,

24 ATO, *Submission*, p. S2033 (1993-94 Submissions).

25 See Joint Committee of Public Accounts, *Report 338, Accrual Accounting - A Cultural Change*, AGPS, Canberra, August 1995. See also Joint Committee of Public Accounts, *Report 341, Financial Reporting for the Commonwealth: Towards Greater Transparency and Accountability*, AGPS, Canberra, November 1995.

contract administration and performance, quality assurance of veterans' care, and the effectiveness of the prior approval process.<sup>26</sup>

*The Findings of the Audit Report*

2.26 Audit Report No. 28, 1993-94 made 29 recommendations, one of which prompted follow-up by the Committee. This was recommendation 29 and concerned the monitoring of the quality of care of veterans in private hospitals. The Auditor-General recommended that:

*... the department augment its requirements for ACHS [Australian Council on Health Care Standards] accreditation with relevant quality assurance procedures along the lines of the recommendations of its health consultant where appropriate.<sup>27</sup>*

2.27 DVA disagreed with this recommendation, arguing that ACHS accreditation was a viable system for ensuring quality of care for veterans and war widows in private hospitals. The Department added that the process had been strengthened by the introduction of clinical indicators as part of the accreditation system and that actual experience was being monitored closely through an extensive National and State Treatment Monitoring Committee (NSTMC) network.<sup>28</sup>

2.28 Commenting on DVA's response, ANAO acknowledged the Department's commitment to quality care but drew the Committee's attention to the recommendations of a health consultant employed by the department. The consultant had advocated augmentation of ACHS accreditation by measures such as reviews to ensure the maintenance of health care standards, hospital visits and inspection programs by departmental officers.<sup>29</sup>

26 Auditor-General, *Audit Report No. 28, 1993-94, Efficiency Audit, Department of Veterans' Affairs, Use of Private Hospitals*, AGPS, Canberra, 1994, p. 6.

27 Auditor-General, *Audit Report No. 28, 1993-94*, p. 47.

28 Auditor-General, *Audit Report No. 28, 1993-94*, p. 47.

29 ANAO, *Submission*, p. J186.

2.29 The Committee also noted that, despite departmental guidelines specifying that preference should be given to ACHS accredited hospitals, in 1992-93 some 27% of veterans were treated in private hospitals which had not received accreditation.<sup>30</sup>

2.30 Accordingly, the Committee sought further information from DVA on:

- whether the percentage of veterans being treated in non-accredited hospitals is declining;
- why the Department rejected the need for quality assurance procedures (recommendation 29) when it accepted the need to document performance of non-accredited hospitals (recommendation 27) and agreed that quality of care criteria should be specified in contracts (recommendation 28); and
- the nature of the monitoring of quality of care by the NSTMC network and the extent to which this met the thrust of recommendation 29.

#### *Responses to Review Action*

2.31 Responding to the Committee's request for further information, DVA advised that:

- it was difficult to provide accurate statistics on the percentage of veterans in non-accredited private hospitals because of the integration of the Repatriation General Hospital's into the private sector, and because some large private hospitals had declined to enrol in the ACHS accreditation scheme. Nevertheless the Commission had set the expectation that by 1995 the minimum standard for contracted hospitals would be ACHS accreditation; and
- improvements in data collection and analysis, and feedback from monitoring committees provided adequate quality assurance without the need to supplement ACHS accreditation.<sup>31</sup>

30 Auditor-General, *Audit Report No. 28, 1993-94*, p. 43. The Auditor-General did, however, acknowledge that this proportion was likely to fall over time.

31 Department of Veterans' Affairs, *Submission*, pp. S2022-3 (1993-94 Submissions).

2.32 DVA also expanded on the role of its monitoring committees by providing information on the frequency of meetings of its monitoring committees at both national and state level. Details of the nature of information gathered by the committees was also provided and DVA advised it was also establishing a Hospital Complaints Monitoring Mechanism which would:

*... provide the Monitoring Committees with coordinated feedback, and afford the Department the opportunity to monitor the complaints received over time for patterns, and issues or areas which require resolution.<sup>32</sup>*

2.33 DVA concluded that it felt that its action had met the thrust of the Auditor-General's recommendation 29.

2.34 The Committee acknowledges that there may in the past have been difficulties in reviewing veteran usage of non-accredited hospitals in light of the major changes to the provision of these services over recent years. However, this problem and any concerns which may have arisen over the use of non-accredited private hospitals, should be overcome by the decision to set ACHS accreditation as a minimum standard for all contracted hospitals. This is a positive development.

2.35 In relation to maintaining the quality of care provided to veterans, the Committee is encouraged by DVA's response and urges the Department to continue with its redesign of information systems. This should help ensure that feedback provided through monitoring networks is collected methodically, and will allow emerging patterns of usage and levels of care offered by hospitals to veterans to be tracked accurately.

32 Department of Veterans' Affairs, *Submission*, p. S2024 (1993-94 Submissions).

***Audit Report No. 30, 1993-94***

*Introduction*

2.36 In *Audit Report No. 30, 1993-94*, the Auditor-General provided the results of a follow-up audit of progress by the Australian International Development Assistance Bureau (AIDAB) in implementing the recommendations in *Audit Report No. 13, 1990-91* which reviewed Australia's aid to PNG.<sup>33</sup>

2.37 Since 1992 there had been a progressive move from the provision of budget support to jointly programmed assistance. In 1992-93 the Auditor-General noted that Australia had provided \$39.5 million in such assistance.

*The Findings of the Audit Report*

2.38 *Audit Report No. 30, 1993-94* found that a number of matters in relation to the administration of jointly programmed assistance projects needed further attention. The report cited as evidence of this finding that the fact that the costs of all six completed PNG program projects that ANAO had examined were 30% greater than the initial estimates.<sup>34</sup>

2.39 In its submission, AIDAB responded that the cost increases identified in the audit report were due to factors beyond its control, such as changes to project definition, scope, and price movements. AIDAB added that:

*Substantial mechanisms exist to monitor, control and review project expenditure ... [including] extensive measures of project performance, and objectives on a sector basis are being further developed.*<sup>35</sup>

33 Auditor-General, *Audit Report No. 30, 1993-94, Follow-Up Audit, AIDAB - Aid to Papua New Guinea*, AGPS, Canberra, 1994.

34 Auditor-General, *Audit Report No. 30, 1993-94*, p. 5.

35 AIDAB, *Submission*, S1303 (1993-94 Submissions).

2.40 Commenting on AIDAB's submission, ANAO suggested that AIDAB's project objectives had been too general, which in part had contributed to the overrun, and argued that improvements were needed in the monitoring of expenditure, especially the adequate checking of third party reports of expenditure.<sup>36</sup>

2.41 Consequently, the Committee sought advice from AIDAB as to whether other major projects in PNG were experiencing cost overruns and requesting a reassessment of ANAO's criticisms in the light of AIDAB's experience in PNG since the audit report was tabled.

*Responses to Review Action*

2.42 Responding to the Committee's request for further information, AusAID (previously AIDAB) maintained that relying on cost variations as the primary indicator of poor financial management has inherent dangers which may lead to a misreading of the success or otherwise of a specific project. Such restrictions, AusAID suggested, could result in good projects which are extended being considered as failures, in contrast to poor projects which are not extended.<sup>37</sup>

2.43 AusAID contended that cost variations from original estimates occurred largely as a result of widening the scope of projects following detailed consultation, design work and project implementation. AusAID provided as an example the Royal PNG Constabulary Project which had the largest overrun of 133% because the project had been extended due to the priority given to it by the PNG Government.<sup>38</sup>

2.44 AusAID advised that it had taken several steps to minimise the possibility of cost overruns including:

- the use of contracts requiring the specification of desired outputs and payment milestones which eschew detailed specification of inputs;
- the use of contracts which shift the responsibility for absorption of cost increases from the agency to the companies which are contracted to it; and

36 ANAO, *Submission*, p. J190.

37 AusAID, *Submission*, pp. S2026-7 (1993-94 Submissions).

38 AusAID, *Submission*, p. S2027 (1993-94 Submissions).

- the streamlining of the project preparation cycle by giving officers greater risk-management responsibilities.<sup>39</sup>

2.45 In reassessing the Auditor-General's criticisms in light of experience since the audit was tabled, AusAID detailed a range of initiatives to improve the framing of sector wide objectives and their use both to guide program development and to provide benchmarks. These included:

- a formal annual cooperative review process with PNG;
- a Contractor Performance Assessment Register;
- the introduction of an Activity Management System to assist program management and to provide performance data;
- the trialing of a new monitoring system to facilitate the collection of performance data in the PNG office; and
- new staffing positions in the PNG office responsible for project coordination and monitoring.<sup>40</sup>

2.46 The Committee considers that AusAID's response adequately addresses the audit concerns.

#### *Audit Report No. 38, 1993-94*

##### *Introduction*

2.47 The Commonwealth contributes some \$97 million to rural research and development via the Rural Research and Development (R&D) Program administered by the Department of Primary Industries and Energy (DPIE). This supplements some \$32 million contributed through rural industry levies. The audit examined the Rural (R&D) Program

with reference to the costs it imposes on the Commonwealth Budget, the devolution of detailed management to R&D Corporations and the extent to which the performance of the program has been reviewed and measured.<sup>41</sup>

##### *The Findings of the Audit Report*

2.48 In *Audit Report No. 38, 1993-94* the Auditor-General made 14 recommendations aimed at improving DPIE's program supervision and engendering better practices in planning, technology transfer and management.

2.49 In contrast to the response from the rural R&D Corporations, DPIE's comments in the audit report and subsequent submission to the Committee were generally unsupportive. Of the eight recommendations directed to DPIE, only two were accepted.

2.50 However, DPIE indicated that its final response to five of these six unsupported recommendations was dependent on the outcome of its Budget Rural Research Review (BRRR). The five recommendations concerned the need for:

- a review of the level of taxpayer funded support of rural R&D following the adoption of the corporation model and consideration of the funding levels of the parties involved (recommendation 1);
- a review of public interest non-commercial R&D funded under the program including defining evaluation strategies and developing performance indicators (recommendation 2);
- the identification of specific goals and performance indicators for the public interest obligations of the program (recommendation 4);
- a review of the program intentions in the Research, Innovation and Competitiveness (RIC) Statement; a survey of R&D corporation operations, an analysis of economic returns and community benefits in comparison against costs incurred; and the use of the departmental research bureaux in these assessments (recommendation 8); and

39 AusAID, *Submission*, pp. S2026-7 (1993-94 Submissions).

40 AusAID, *Submission*, p. S2028 (1993-94 Submissions).

41 Auditor-General, *Audit Report No. 38, 1993-94, Efficiency Audit, Department of Primary Industries and Energy, Rural Research and Development Program*, AGPS, Canberra, 1994, p. xi.

- a review of the R&D program applying the resources of its in-house research bureaus in the evaluation and other investigations contemplated by the RIC Statement (recommendation 9).<sup>42</sup>

2.51 The ANAO also drew the Committee's attention to recommendation 5 in the audit report which sought to encourage the introduction of investment analysis techniques to improve the information on investment performance. The recommendation had been rejected by DPIE but was similar to a preliminary recommendation of the BRRR task force.<sup>43</sup>

2.52 The Committee sought an update from DPIE on its review of the Program and a reconsideration of the six unsupported ANAO recommendations in the light of the findings of the BRRR task force's preliminary and final report.

#### *Responses to Review Action*

2.53 Responding to the Committee's request, DPIE advised the Committee that the BRRR task force had reported to the then Minister in August 1995 and the previous Government's subsequent response had been included in its *Innovate Australia* statement of 6 December 1995.

2.54 Overall the updated responses provided by DPIE to the Auditor-General's recommendations in *Audit Report No. 38, 1993-94* were supportive, though the Committee acknowledges DPIE's reservations to two aspects of the Auditor-General's recommendations:

- *that strategies supported by economic analysis should accompany all Corporation plans* - DPIE considered this to be unnecessary because economic analysis was included in the five year strategic plans; and
- *that DPIE should undertake an evaluation of the R&D program* - DPIE considered that it was the responsibility of the R&D Corporations to undertake evaluations to assist in their ongoing management.<sup>44</sup>

42 Auditor-General, *Audit Report No. 38, 1993-94*, pp. xxii-xxiv and xxvii-xxviii.

43 ANAO, *Submission*, p. J215.

44 DPIE, *Submission*, pp. S2020-S2021 (1993-94 Submissions).

2.55 On the second point, DPIE cited the example of research undertaken by the Meat Research Corporation, and pointed out that evaluations of R&D can take time but the information so gathered would be useful in the next scheduled review of the corporations in 2000.<sup>45</sup>

2.56 The Committee accepts DPIE's comments in regarding the inclusion of economic analysis in all Corporation plans. In relation to the proposed DPIE evaluation of the R&D program, the Committee notes the Department's advice that the next evaluation of the R&D program is scheduled for the year 2000. While this is at the outer limits of the 3-5 year evaluation cycle for government programs, the Committee accepts that it is an adequate response to the Auditor-General's concerns.

#### *Audit Report No. 44, 1993-94.*

#### *Introduction*

2.57 This audit reviewed the Department of Immigration and Ethnic Affairs (DIEA) management of the data transcription function for the passenger cards which are completed by people entering and leaving Australia. The information is used for entry control as well as for statistical research by various Commonwealth agencies.<sup>46</sup>

2.58 In addition to the management of the function, the Auditor-General reviewed the procurement of data entry services from a contractor and the provision of security for its mainframe computer installation.<sup>47</sup>

45 DPIE, *Submission*, p. S2021 (1993-94 Submissions).

46 Auditor-General, *Audit Report No. 44, 1993-94, Project Audit, Department of Immigration and Ethnic Affairs, Electronic capture of passenger card data*, AGPS, Canberra, 1994, p. 1.

47 The audit report was the final report of the Auditor-General's review, following the tabling of an interim report, *Audit Report No. 4, 1993-94, Payments Under Out-sourced Service Contracts*, AGPS, Canberra, 1993.

*The Findings of the Audit Report*

2.59 The audit report drew attention to irregularities in the relationship between the Department and its data entry contractor, and concerns about the security of DIEA's mainframe computer which included a serious computer failure. These matters have been the subject of debate in the Parliament.<sup>48</sup>

2.60 Nevertheless the Committee, after its initial review of the submission from DIEA and subsequent comment from ANAO,<sup>49</sup> considered that only one issue warranted further follow up. This concerned the Auditor-General's recommendation that 'DIEA consult with the [Defence Signals Directorate (DSD)] to review the protection provided to the security and privacy of its databases.'<sup>50</sup>

2.61 The Department in its initial submission advised the Committee that it accepted the recommendation and had requested DSD to review its computer security. Following this review DIEA had agreed with DSD on an implementation plan due for completion by March 1996 at which time a follow-up review would be performed.<sup>51</sup>

2.62 The Committee subsequently sought from the Department of Defence a copy of DSD's report, together with an assurance that DIEA's databases are secure against unauthorised access.

48 House of Representatives Hansard, 19 September 1994, pp. 1048-50.

49 ANAO, *Submission*, pp. J245.

50 Auditor-General, *Audit Report No. 44, 1993-94, Project Audit, Department of Immigration and Ethnic Affairs, Electronic capture of passenger card data*, AGPS, Canberra, 1994, Recommendation 22, p. 33.

51 Department of Immigration and Ethnic Affairs, *Submission*, p. S 1528 (1993-94 Submissions).

*Response to Review Action*

2.63 The Committee was provided with a copy of the DSD report as part of a confidential submission from Defence. Forty recommendations were made, twenty-five of which had been implemented at June 1996. DIEA [DIMA] has advised that it is in the process of implementing the remaining 15 recommendations and that these are scheduled for completion by November 1996.<sup>52</sup>

2.64 The Committee is satisfied with the action being undertaken.

52 DIEA, *Submission*, p. S 2035 (1993-94 Submissions).

## 3

## SIGNIFICANT ISSUES ARISING FROM 1994-95 AUDIT REPORTS

### Introduction

3.1 In 1994-95 the Auditor-General tabled 31 audit reports, seven of which raised issues warranting follow-up.<sup>1</sup> The seven audit reports were:

- *Audit Report No. 5, 1994-95, Follow-up Audits, Department of Employment, Education and Training - New Enterprise Incentive Scheme (NEIS); - Protective Security; - AUSTUDY;*
- *Audit Report No. 13, 1994-95, Efficiency Audit, Australian Defence Force Housing Assistance, Department of Defence;*
- *Audit Report No. 19, 1994-95, Efficiency Audit, Validation of Nursing Home Funding, Department of Human Services and Health;*
- *Audit Report No. 23, 1994-95, Follow-up Audit, Department of Employment, Education and Training, English as a Second Language;*
- *Audit Report No. 25, 1994-95, Efficiency Audit, Australian Defence Force Living-in Accommodation, Department of Defence;*
- *Audit Report No. 30, 1994-95, Efficiency Audit, Commonwealth Government Information and Advertising; and*
- *Audit Report No. 31, 1994-95, Efficiency Audit, Defence Contracting.*

1 A list of the 1994-95 audit reports can be found at Appendix I.

### *Audit Report No. 5, 1994-95*

#### *Introduction*

3.2 In *Audit Report No. 5, 1994-95* the Auditor-General reported the findings of three follow-up audits in DEET. Of particular interest to the Committee was the follow-up to *Audit Report No. 20, 1992-93* which concerned the AUSTUDY program. This audit report had been reviewed by the Committee in its *Report 337, A Focus on Accountability*.

3.3 In *Report 337* the Committee endorsed the Auditor-General's view that DEET and the Department of Social Security (DSS) should finalise arrangements aimed at improving information exchange.<sup>2</sup>

#### *The Findings of the Audit Report*

3.4 *Audit Report No. 5, 1994-95* found that appropriate action had been taken in relation to all of the recommendations in *Audit Report No. 20, 1992-93*, although delays in implementation had been experienced.<sup>3</sup> One of these delays concerned the arrangements between DEET and DSS to recover AUSTUDY overpayments through the withholding of DSS benefits.

3.5 The original audit had found that for DEET to effectively update its debt records associated with the AUSTUDY scheme, it needed to receive withholdings information from DSS in a timely manner.

2 Joint Committee of Public Accounts, *Report 337, A Focus on Accountability: Review of Auditor-General's Reports, 1992-93*, AGPS, Canberra, June 1995, p. 43.

3 Auditor-General, *Audit Report No. 5, 1994-95, Follow-up Audits, Department of Employment, Education and Training - New Enterprise Incentive Scheme (NEIS); - Protective Security; - AUSTUDY*, AGPS, Canberra, 1994, p. 35.

3.6 DEET responded by setting up a working party to provide improved electronic data transfer software and to establish a chargecode accessible by DSS for crediting withholdings; and agreed arrangements with DSS for the provision of monthly reports.

3.7 The follow-up audit found that the chargecode had been established and that the two departments had agreed that a computer interface for the exchange of withholdings information was desirable. However, development of the interface had been delayed because of funding uncertainties. In the light of these delays, the Auditor-General recommended that DEET, in conjunction with DSS, make a concerted effort to finalise arrangements to progress the development of a fully automated system.<sup>4</sup>

3.8 In its initial submission to the Committee in February 1995, DEET advised that discussions with DSS were continuing and that DSS had agreed to meet the cost of the development of the interface. Subject to funding from the Department of Finance it was expected that the interface would be operational by 1 January 1996.<sup>5</sup>

3.9 DEET also confirmed that, in the interim, DSS had agreed to provide information about DSS withholdings to DEET in electronic form on a monthly basis.<sup>6</sup>

3.10 The Committee subsequently sought further advice from DEET concerning the establishment of the DSS withholdings information interface.

4 Auditor-General, *Audit Report No. 5, 1994-95*, pp. 41-2.

5 DEET, *Submission*, p. S 26 (1994-95 Submissions).

6 DEET, *Submission*, p. S 393 (1994-95 Submissions).

#### *Response to Review Action*

3.11 DEET responded to the Committee's request by stating that the interface between the two departments had been completed and would be operational on 1 January 1996.<sup>7</sup> The Department of Employment, Education, Training and Youth Affairs (DEETYA) subsequently advised that the interface became operational on 1 January 1996 and that a total of \$3.7m has been recovered since the interface commenced.<sup>8</sup>

3.12 The Committee is satisfied that DEET has adequately addressed the Auditor-General's concerns.

#### *Audit Report No. 13, 1994-95 and Audit Report No. 25, 1994-95*

#### *Introduction*

3.13 *Audit Report No. 13, 1994-95* and *Audit Report No. 25, 1994-95* reviewed different aspects of the residential accommodation assistance provided to Australian Defence Force (ADF) personnel.

3.14 The earlier audit report dealt with accommodation assistance for ADF members with family (MWF) and included:

*... the nature, basis and extent of ADF housing assistance ... the history of housing assistance and the various reviews undertaken, the relationship between Defence and the DHA [Defence Housing Authority], planning processes, standards of accommodation, associated allowances and the administration of Defence controlled dwellings.<sup>9</sup>*

7 DEET, *Submission*, p. S 393 (1994-95 Submissions).

8 DEETYA, *Submission*, p. S 422 (1994-95 Submissions).

9 Auditor-General, *Audit Report No. 13, 1994-95, Efficiency Audit, Australian Defence Force Housing Assistance, Department of Defence*, AGPS, Canberra, 1994, p. 8.

3.15 Audit Report No. 25, 1994-95 concerned the provision of accommodation assistance for ADF members without family (MWF) and in addition compared the equity of assistance provided to the two groups of ADF personnel.<sup>10</sup>

#### *The Findings of the Audit Reports*

3.16 The Auditor-General made a total of 59 recommendations in the two audit reports, to which Defence in large part agreed. In reviewing the initial responses from Defence, the Committee noted that continued progress on 18 recommendations was dependent on the outcome of a review being conducted by the Housing and Accommodation Policy Review Team (HAPRT).<sup>11</sup> This review arose from an expansion of the terms of reference of the Housing Assistance (Cash Subsidy) Working Party and resulted in a consolidation of all outstanding Defence reviews on accommodation.<sup>12</sup>

3.17 The Committee therefore sought an update from Defence on the progress of the HAPRT review, together with a timetable for action on the recommendations which were awaiting the outcome of the review.

#### *Responses to Review Action*

3.18 In its response Defence advised that HAPRT was due to complete its review in the latter half of 1996 and that it was planned to phase-in the results from January 1997.

3.19 The department also drew the Committee's attention to an announcement, in December 1995, by the then Minister for Defence Science and Personnel of a package of changes to the conditions of service for ADF members. (These changes focused on the equity of assistance provided to MWF and MWF personnel, which was one of the issues addressed

in Audit Report No. 25, 1994-95). The Minister's initiative, Defence advised, was to be implemented as soon as the relevant policy provisions could be amended and 'not later than 1 Jul[y] 1996.'<sup>13</sup>

3.20 The Committee is satisfied that the concerns raised by the Auditor-General have been or are in the process of being addressed. In particular, the Committee believes that the consolidation of accommodation reviews into one review is a major advance. It will enable an holistic approach to be taken and will help resolve accommodation issues in an equitable fashion.

#### **Audit Report No. 19, 1994-95**

##### *Introduction*

3.21 Audit Report No. 19, 1994-95 concerns aspects of the administration by the then Department of Human Services and Health (DHS) of the Aged Care Program: specifically, the validation of nursing home funding.<sup>14</sup>

3.22 In 1993-94 the then Government provided \$1.7 billion recurrent funding for aged care. Contributions by nursing home residents added some \$650 million to this amount.<sup>15</sup>

3.23 Validation of funding is considered an essential part of the accountability framework for nursing homes, providing an assurance that Commonwealth monies which are provided to nursing homes are disbursed appropriately. Funds identified as having been mis-spent are recovered, usually

10 Auditor-General, *Audit Report No. 25, 1994-95, Efficiency Audit, Australian Defence Force Living-in Accommodation, Department of Defence*, AGPS, Canberra, 1995, p. 1.

11 Defence, *Submission*, pp. S 124-5 and pp. S226-7 (1994-95 Submissions).

12 Defence, *Submission*, p. S226 (1994-95 Submissions).

13 Defence, *Submission*, p. S389 (1994-95 Submissions).

14 In April 1996 the department was renamed the Department of Health and Family Services (DHFS).

15 Auditor-General, *Audit Report No. 19, 1994-95, Efficiency Audit, Validation of Nursing Home Funding, Department of Human Services and Health*, AGPS, Canberra, 1995, p. 4.

through reduction of future Commonwealth funding of the nursing home over a period of time (but not from funds provided for nursing and personal care).<sup>16</sup>

#### *Parliamentary Interest in the Validation of Funding*

3.24 The Committee first commented on the validation of nursing home funding in March 1994, when reviewing *Audit Report No. 31, 1990-91*. At the time the Committee recommended that:

*The Department of Human Services and Health [DHFS] should deploy sufficient resources to ensure the backlog in the validation of nursing home returns is overcome by the beginning of the 1995-96 financial year.*<sup>17</sup>

3.25 The Department's response to this recommendation, that validations would 'be completely up to date by 30 June 1996',<sup>18</sup> was accepted by the Committee, even though it represented an extension of the Committee's timeframe.

3.26 The validation backlog was also considered by the Senate Community Affairs References Committee in its report of November 1994 titled, *Validation of CAM [care aggregated module] and SAM [standard aggregated module] Funding of Nursing Homes*. The Government response to that committee's report contained the advice that validations would be 'brought up to date, within existing legislative parameters, by the end of 1996/97'.<sup>19</sup>

16 Auditor-General, *Audit Report No. 19, 1994-95*, p. 31.

17 Joint Committee of Public Accounts, *Report 330, Review of Auditor-General's Reports, May 1991 - September 1992*, AGPS, Canberra, March 1994, p. 58.

18 JCPA, *Report 335, Finance Minutes Tabled in 1994*, AGPS, Canberra, March 1995, p. 70.

19 Minister for Human Services and Health, *Government Response to Senate Community Affairs References Committee Report on Validation of CAM and SAM Funding of Nursing Homes*, 28 February 1995, p. 1.

3.27 DHSH [DHFS] subsequently advised the Committee that the discrepancy in dates in the two responses was caused by the inclusion of an additional year's validations in the response to the Senate committee report.<sup>20</sup>

#### *The Findings of the Audit Report*

3.28 The objective of the audit was to evaluate the efficiency, economy and effectiveness of the procedures for the validation of nursing home funding within the Aged Care Program.

3.29 The audit report contained 24 recommendations, 23 of which DHSH [DHFS] agreed to, either in whole or in principle. The disputed recommendation (recommendation No. 3) concerned the Department's long term validation strategy which, the Auditor-General argued, should aim for the completion of validation visits by DHSH [DHFS] officers within one year of the end of an accounting period.<sup>21</sup>

3.30 DHSH [DHFS] responded in the audit report that this was neither practical nor cost-effective, and that the recommendation did not pay due regard to the quality assurance strategy which had been agreed between the Department and the aged care industry.<sup>22</sup>

3.31 It is important that the dispute over this recommendation be seen in a clear context. There are no fundamental differences of opinion between ANAO and DHSH [DHFS] about the objectives of the validation program and the Department's response to the audit findings has been, to a very large degree, positive. The ANAO has acknowledged that there have been substantial improvements in the management and administration of the validation program and the Department, in its submissions to the Committee, has claimed a continuing commitment to the implementation of almost all of the audit recommendations.

20 DHSH, *Submission*, pp. S401-2 (1994-95 Submissions).

21 Auditor-General, *Audit Report No. 19, 1994-95*, recommendation 3, p. 17.

22 Auditor-General, *Audit Report No. 19, 1994-95*, p. 17.

3.32 Nevertheless, during the Committee's review it became clear that concerns remain about the Department's capacity to clear the current validation backlog: about the clarity and transparency of the risk assessment strategies being used by the Department; and about future performance targets and standards for the validation program.

3.33 The first point is important because the Department has, on a number of occasions, committed itself to completing all outstanding validations up to and including 1993-94 by 30 June 1997. It is in the interests of all parties (taxpayers, nursing home operators and residents and the Department) that this goal be achieved and the validity of past funding arrangements be verified or, if necessary, adjusted.

3.34 The second two points are important because it is by developing appropriate risk management strategies and performance standards that nursing home funding, both past and future, can be monitored with accuracy and in a timely manner.

3.35 The Committee sought further advice from DHSH [DHFS] and ANAO on each of these issues.

#### *Response to Review Action*

3.36 As noted earlier, there has been a degree of confusion about the size of the validation backlog and how long it will take to clear.

3.37 The ANAO estimated that, as at 1 July 1994, there were 6 500 outstanding validations. The Department has disputed this figure, arguing that the data upon which ANAO relied was subsequently shown to be unreliable and asserting instead that there were 5 000 outstanding validations at that point in time. Although the Committee accepts the Department's figure, knowing the precise number of outstanding validations is less important than being confident that an appropriate and cost-effective strategy has been developed to clear the backlog (which by any reckoning is significant).

3.38 In May 1995 the then Secretary of the Department, Dr Stephen Duckett, advised the Committee that to achieve its target of bringing the validation program up-to-date by the end of 1996-97:

*The Department proposes a risk management strategy based on validation of at most 75% of outstanding home years on an on-going basis. Accordingly, it is estimated that approximately 3 500 of the outstanding years are likely to be validated. The Department will have a capacity to perform at least 1 750 home year validations each year based on current ASL [average staffing level] and improved timeliness due to the risk methodology, streamlined procedures and completion of the more time consuming 1986/87 validations.<sup>23</sup>*

3.39 This advice was confirmed in a subsequent submission from the Department, dated 9 January 1996.<sup>24</sup>

3.40 However, ANAO has indicated that there is a substantial risk that the Department will not complete its validation program by the end of 1996-97 and will not recover significant sums of money owing to the Commonwealth.

*The major issue emerging from the DHSH [DHFS] submission and associated information is the risk of non-recovery of up to \$20 million in moneys owing to the Commonwealth.*

*The ANAO report estimated that there was \$45 million in yet-to-be identified validation recoveries as at 1 July 1994 ...*

*Recoveries reported as identified in the 1994-95 DHSH [DHFS] annual report were \$10.7 million [which includes a particular type of recovery not included in the original \$45 million estimate]. ... The Department has only three years to complete the program, and recovered something less than \$10.7 million in the first. It will require a spectacular improvement to reach \$45 million over the three years.<sup>25</sup>*

3.41 These comments raise the prospect that the Department will not achieve its goal of clearing the backlog by the end of 1996-97 and that substantial amounts of overpaid Commonwealth money may be beyond recovery or written off.

23 DHSH, *Submission*, p.S108 (1994-95 Submissions).

24 DHSH, *Submission*, pp. S401-2 (1994-95 Submissions).

25 ANAO, *Submission*, p. J288.

3.42 Given the long standing public and parliamentary interest in the issue, and the various commitments and reassurances made by the Department in recent years, such an outcome would represent a significant failure by the Department.

3.43 The Committee believes it is appropriate, at this point in time, for the Department to provide the Parliament with a complete, clear and unambiguous statement of the strategy it is employing to achieve its goal of clearing the backlog by the end of 1996-97. This statement should cover:

- a report on overall progress to date (in terms of number of outstanding validations completed, number of validations remaining if the original goal is to be achieved, number of fee adjustments made, amount of money recovered and prospects for further recoveries);
- details of the 'risk indicators' which are being used to develop 'risk profiles' for nursing homes (including a description of each risk indicator and how they are combined to produce the risk profile and a description of any other factors which are considered in selecting particular homes for closer scrutiny);
- whether progress to date has necessitated any changes to any of the risk factors which are used to develop risk profiles for nursing homes, or to the relative priority attached to the various factors, or to any other aspect of the risk management strategy; and
- whether the Department is achieving its previously stated validation capacity of 1 750 visits per year, and whether this capacity is sufficient to meet the validations which remain to be undertaken.

3.44 The Committee is not questioning the legitimacy of a risk management approach to completing the validations. On the contrary, the Committee readily acknowledges that the cost of eliminating risk entirely will almost certainly be prohibitive, and that prudent risks will need to be taken in order to clear the backlog in a cost-effective manner.

3.45 However, it is essential that the community have confidence that risks are assessed and managed in a responsible and appropriate way.

3.46 This requires, among other things, that managers document their risk assessment and management processes clearly and comprehensively so as to demonstrate that a serious risk analysis has been undertaken.

3.47 In August 1995 the then Chairman of the Joint Committee of Public Accounts outlined the Committee's perspective on risk management when speaking at the launch of the MAB/MIAC [Management Advisory Board/Management Improvement Advisory Committee] exposure draft *Guidelines for Managing Risk in the Australian Public Service*.

*We are happy to acknowledge decision makers who act in the best interests of taxpayers and who seek to achieve more efficient and effective outcomes in a responsible way. The Committee will also support managers who are able to show that they have developed a transparent, inclusive and considered approach to risk management.*

*On the other hand, we will be quick to call to account agency managers who take ill-considered risks with public money or client services. This is something that managers should be aware of when assessing risks.<sup>26</sup>*

3.48 Without a well documented and publicly defensible approach to risk management, public sector managers will find it difficult to avoid creating the impression that 'risk management' is being used not as a legitimate management tool, but as a convenient excuse for management failure.

3.49 The preparation of a report like that described above will provide an opportunity for DHFS to reassure the community as to the validity, integrity and likely success of its endeavours to clear the validation backlog.

26 Les Scott MP, *A Parliamentary Perspective on Managing Risk in the Australian Public Sector*, a speech at the launch of the MAB/MIAC exposure draft *Guidelines for Managing Risk in the Australian Public Service*, 7 August 1995.

**3.50 Recommendation 3**

*The Department of Health and Family Services should prepare a clear and comprehensive report to the Joint Committee of Public Accounts, as part of the Finance Minute in response to this report, on the strategy it is employing to achieve its goal of clearing the backlog in nursing home funding validations by the end of 1996-97. This statement should cover:*

- (a) *overall progress to date (in terms of number of outstanding validations completed, number of validations remaining if the original goal is to be achieved, number of fee adjustments made, amount of money recovered from the various types of validations [for example, field validations and desk validations] and prospects for further recoveries);*
- (b) *details of the 'risk indicators' which are being used to develop 'risk profiles' for nursing homes (including a description of each risk indicator and how they are combined to produce the risk profile and a description of any other factors which are considered in selecting particular homes for closer scrutiny);*
- (c) *whether progress to date has necessitated any changes to any of the risk factors which are used to develop risk profiles for nursing homes, or to the relative priority attached to the various factors, or to any other aspect of the risk management strategy;*
- (d) *whether the Department plans to alter the risk assessment factors, or the relative priority attached to the factors, as it gets closer to the target date and, if so, on what basis are such adjustments expected to be made; and*
- (e) *whether the Department is achieving its previously stated validation capacity of 1 750 visits per year, and whether this capacity is sufficient to meet the validations which remain to be undertaken.*

**3.51** As mentioned earlier, ANAO also proposed that DHSH [DHFS] set more rigorous performance targets and standards for the validation program, with the aim of improving the timeliness of future validations. *Audit Report No. 19, 1994-95* contained two recommendations on this theme: the first, Recommendation 3, advocated completing validation visits within one year; while the second, Recommendation 4, suggested that all validation action be completed within two years.

**3.52** These recommendations were made on the grounds that lengthy validation processes expose the Commonwealth to a range of risks, including that:

- fraud may remain undetected for a number of years;
- as there are no provisions for financial penalties or interest charges, the real value of money eventually recovered may be considerably less than the original value of any overpayment;
- the delay between transaction and validation may give rise to an increase in the number of disputes;
- there may be a lack of consistency in the conduct of validations; and
- where a debtor is in financial difficulties, the Commonwealth's exposure to the risk of bad debts may be increased.<sup>27</sup>

**3.53** DHSH [DHFS] rejected Recommendation 3 and argued in its submission to the Committee, that the timeframe was impractical given:

*... the time homes require to close-off accounts and submit claims for initial processing ... in practice [the recommendation] would require completion of validations for selected homes in a six month period or less.<sup>28</sup>*

**3.54** However, DHSH [DHFS] agreed with the objective of Recommendation 4, that, in the long term, validations should be complete within two years, adding the caveat that it was unable to fully control the timing of any appeal process.<sup>29</sup>

**27** Auditor-General, *Audit Report No. 19, 1994-95*, pp. 44-5 and 54.

**28** DHSH, *Submission*, p. S 399 (1994-95 Submissions).

**29** Auditor-General, *Audit Report No. 19, 1994-95*, p. 18.

3.55 The Department also noted that it had introduced a number of initiatives to improve its validation program including:

- the application of risk management to validate selected homes within a year of receiving funding; and
- the development of a new management information system to enhance the monitoring of homes and debt recovery measures.<sup>30</sup>

3.56 The Committee is encouraged by these responses, in particular by the initiative to target selected nursing homes for completion of validation within one year.

3.57 Although these responses are entirely consistent with the legislative framework within which the validation program operates, ANAO has raised for discussion the proposition that DHSH [DHFS] should, in the longer term, change its approach from compliance with the terms of the legislation, to providing client focussed validation services to nursing homes.

3.58 This approach has been explained by ANAO in the following terms:

*The rules on nursing homes' expenditure are complex and mistakes are common. It is very much in the interests of nursing homes and their residents for mistakes to be drawn to the attention of the home as soon as possible. Moreover, where mistakes are found, they may extend over several years. The Department, quite properly, then recovers the mis-spent funds as rapidly as possible consistent with not placing at peril the standard of care of the current residents. Nonetheless, the recovery in one year of mis-spending which has occurred over three or, under current arrangements, more than three, years can place considerable strain on those organisations, including non-profit organisations, which operate nursing homes.<sup>31</sup>*

30 DHSH, *Submission*, p. S 402 (1994-95 Submissions).

31 ANAO, *Submission*, p. J 284.

3.59 While the case for further improving the timeliness of validations is strong, the Committee considers it is unrealistic to further increase the burden on DHFS, which is endeavouring to clear the validation backlog, by also shortening the timeframe for validating all current and future nursing home returns.

3.60 The question of whether to set more stringent performance standards than is required by the legislation, or to further tighten the legislative requirements, is one to be considered after the current backlog is cleared.

#### *Audit Report No. 23, 1994-95*

##### *Introduction*

3.61 In *Audit Report No. 23, 1994-95* the Auditor-General followed up an earlier audit of the English as a Second Language (ESL) program administered by DEET.<sup>32</sup>

3.62 From 1994 the ESL program became a component of the National Equity Program for Schools (NEPS) and consisted of a New Arrivals element (assisting the provision of intensive ESL instruction for newly arrived students), and a General Support element (providing ongoing support for students in mainstream classes). Funding for these elements in 1994 totalled \$33.8 million and \$63.5 million respectively.<sup>33</sup>

32 Auditor-General, *Audit Report No. 14, 1992-93, Efficiency Audit, Department of Employment, Education and Training, English as a Second Language*, AGPS, Canberra, 1992.

33 Auditor-General, *Audit Report No. 23, 1994-95, Follow-up Audit, Department of Employment, Education and Training, English as a Second Language*, AGPS, Canberra, 1995, pp. 1-2.

*The Findings of the Audit Report*

3.63 The audit found that DEET had responded positively to all of the recommendations in *Audit Report No. 14, 1992-93*, but that action in some areas was still incomplete.<sup>34</sup>

3.64 The Committee's review of *Audit Report No. 23, 1994-95* identified three issues which were considered to warrant follow up:

- the identification of the ESL General Support target population which awaited an agreement on the definition of a "non-English speaking background";
- development of an ESL procedure manual to assist the quality control assurance of the accuracy of claims for payment from schools authorities; and
- the development of an Operational Plan to cover accountability requirements to the year 2000.<sup>35</sup>

*Response to Review Action*

3.65 DEET responded to the Committee's request for further information with the advice that:

- a report providing a definition was presented to the Ministerial Council on Education, Employment, Training and Youth Affairs on 1 September 1995. When a methodology for implementing an agreed definition was decided, the Department would be addressing the task of defining the size of the ESL General Support target population;
- after incorporating recommendations from DEET's internal audit branch, the ESL procedures manual was submitted for clearance in December 1995; and
- the proposed operational plan for NEPS accountability was being reconsidered in light of the Minister's recent correspondence with the States and Territories.

3.66 DEET's responses indicate that adequate progress is being made in relation to each of these issues.

34 Auditor-General, *Audit Report No. 23, 1994-95*, p. ix.

35 Auditor-General, *Audit Report No. 23, 1994-95*, pp. 9, 13 and 15.

*Audit Report No. 30, 1994-95*

*Introduction*

3.67 *Audit Report No. 30, 1994-95* contains the results of an efficiency audit of certain aspects of the operations of the Office of Government Information and Advertising (OGIA), and of the conduct of government information and advertising activities in five Commonwealth agencies.<sup>36</sup> Since 1990 Commonwealth departments and agencies have spent some \$200 million on approximately 350 advertising campaigns. The five agencies which were the focus of the audit accounted for almost 75% of this expenditure.<sup>37</sup>

*The Findings of the Audit Report*

3.68 The audit report contained 25 recommendations with which the audited agencies largely agreed. Following its review of the submissions from the agencies and subsequent comment from ANAO, the Committee considered there were two issues which warranted follow-up:

- clarification of definitions and details of procedures adopted for selecting creative agencies to undertake advertising campaigns; and
- the proposed role of OGIA's recently formed Research and Evaluation Section.

36 These agencies were the Departments of Defence, Employment, Education and Training, Human Services and Health, and Social Security, and the Australian Taxation Office.

37 Auditor-General, *Audit Report No. 30, 1994-95, Efficiency Audit, Commonwealth Government Information and Advertising, AGPS, Canberra, 1995*, p. xiii.

3.69 The first issue arose from the Auditor-General's recommendation that in selecting creative agencies there should be a consideration of total head-hour cost and the head-hour rates the agency intended to charge. ANAO considered that, unless costs were properly identified and considered: transparency is sacrificed; the achievement of value-for-money is compromised; and there is no incentive for departments to keep these costs down.<sup>38</sup>

3.70 In its initial submission to the Committee, OGIA expanded on its rejection of the Auditor-General's recommendation. It argued that at the initial briefing stage there was not enough information to enable a creative agency to forecast accurately the time it would spend on a campaign (head hours). The advertising strategy was 'almost always modified after the agency is selected' so initial estimates would vary. OGIA regarded 'capability, empathetic and strategic considerations as being far more important.'<sup>39</sup>

3.71 Moreover the centralised system delivered advertising agency services at a much lower cost than those charged to other major advertisers, OGIA added, margins were therefore low and a concentration on cost minimisation could provide a disincentive to advertising agencies tendering for Commonwealth work.<sup>40</sup>

3.72 The Committee acknowledges that it would be inappropriate for OGIA to select agencies solely on considerations of cost, and accepts that intangible factors such as creative ability and understanding of the project and target audience are crucial.

3.73 Nevertheless, the Committee was unclear as to OGIA's definition of 'capability, empathetic and strategic considerations' and so sought practical examples, as well as a description of the methodology applied in identifying, assessing and balancing these considerations against financial factors, such as the rates charged by the agency.

38 Auditor-General, *Audit Report No. 30, 1994-95*, Recommendation 5, pp. 15-6.

39 Department of Administrative Services, *Submission*, p. S361 (1994-95 Submissions).

40 Department of Administrative Services, *Submission*, p. S362 (1994-95 Submissions).

3.74 The second issue arising from the audit concerned the role of OGIA's recently established Research and Evaluation Section.

3.75 In its initial submission to the Committee, OGIA made several references to this Section and indicated that it was set up to assist clients, amongst other things:

- to gain the information needed to set and measure objectives;
- to find suitable market researchers;
- to establish methodologies and if needed, to assist in analysing results; and
- to refine research and evaluate campaigns.<sup>41</sup>

3.76 While the establishment of this Section is a positive move, the Committee sought an explanation from OGIA on whether it intended to extend the role of the Section to include the conduct of evaluations as well as the provision of advice. Such a function might encompass the collection and collation of information detailing how client departments have apportioned their campaign budgets between the various components of the campaign (such as tracking and post-campaign evaluation). The Committee was of the view that such activities might assist OGIA in identifying best practice which could be usefully disseminated to other client departments.

#### *Response to Review Action*

3.77 Responding to the Committee's request for further information, OGIA provided a supplementary submission which described in detail its procedures for shortlisting of creative agencies, and the activities of its Research and Evaluation Section.

41 Department of Administrative Services, *Submission*, p. S370 (1994-95 Submissions).

3.78 The submission included descriptions and examples of its understanding of the terms capability, empathetic, and strategic as applied to attributes of creative agencies and campaigns selected by OGIA.<sup>42</sup> The check list of criteria, with weightings, used by OGIA for selecting agencies was also provided as a confidential submission.

3.79 The Committee notes that OGIA's Research and Evaluation Section maintains:

- a research projects data base 'which records critical aspects and phases of research projects, by agency,' and that this 'data base also records budget expended on campaign-related research';
- 'disseminates relevant campaign-related research and evaluation information when dealing with its clients on a case study basis,' and via training seminars; and
- 'will include a model of campaign-related research, information on research and data collection methods, sampling, and so on', in its forthcoming publication, *Research and Evaluation in Public Communication Campaigns*.<sup>43</sup>

3.80 The Committee is satisfied with the responses given by OGIA.

#### *Audit Report No. 31, 1994-95*

##### *Introduction*

3.81 The Department of Defence is the largest purchaser of goods and services in Australia, expending some \$6.6 billion per annum on the acquisition of goods and services. In *Audit Report No. 31, 1994-95* the Auditor-General presented the results of a review of Defence's contracting procedures,

42 Department of Administrative Services, *Submission*, pp. S418-19 (1994-95 Submissions).

43 Department of Administrative Services, *Submission*, pp. S419-20 (1994-95 Submissions).

focussing particularly on the extent to which they promote open and effective competition, provide best value for the Commonwealth, and ensure an equitable sharing of risk with the supplier.<sup>44</sup>

##### *The Findings of the Audit Report*

3.82 The Auditor-General made 13 recommendations in the audit report - 11 of which were accepted by Defence. The two recommendations which were rejected concerned:

- the appointment of an independent reviewer on major purchases where there are significant risks regarding costs and performance to ensure decision-makers are aware of all relevant information; and
- allowing ANAO access to contractor's costing and pricing data in major negotiated contracts.<sup>45</sup>

3.83 Responding to the first issue, Defence explained in its initial submission to the Committee that:

*At various stages throughout the process, major purchases are subject to scrutiny by the Defence Source Definition Committee [DSDC], a senior level body, independent of the sponsor Program.*<sup>46</sup>

3.84 Moreover, Defence added that any additional checking would add to costs and processing times to the contracting process, which would draw criticism from industry. Nevertheless, Defence conceded that it would consider employing an independent reviewer 'where abnormal or special circumstances are apparent'.<sup>47</sup>

44 Auditor-General, *Audit Report No. 31, 1994-95, Efficiency Audit, Defence Contracting*, AGPS, Canberra, 1995, p. ix.

45 Auditor-General, *Audit Report No. 31, 1994-95*, Recommendations 1 and 10, pp. 9 and 31.

46 Defence, *Submission*, p. S228 (1994-95 Submissions).

47 Defence, *Submission*, p. S 288 (1994-95 Submissions).

3.85 In contrast, the Auditor-General considered that an independent reviewer would be a conduit between the relevant information and decision-makers, and in fact had 'the potential to accelerate decision-making processes, reduce costs and be attractive to industry'.<sup>48</sup>

3.86 By rejecting the Auditor-General's recommendation for an independent reviewer, Defence is placing considerable weight on the capacity of the DSDC to rigorously scrutinise major purchases in an independent fashion.

3.87 The Committee therefore sought more information on the role, membership and responsibilities of the DSDC in relation to major purchases and asked Defence to comment on the operational independence of the DSDC. In addition, Defence was asked to elaborate on the sort of 'abnormal or special circumstances' which it felt would warrant the appointment of an independent reviewer.

3.88 The second issue in dispute, concerning ANAO access to contractor records, has been the subject of debate between the Auditor-General and Defence for some time now, ANAO first recommending this approach in *Audit Report No. 22, 1992-93* in relation to the new submarine project.<sup>49</sup>

3.89 On this occasion Defence's argument against ANAO access to contractor records referred, in part to the role played by its cost investigators, who 'routinely utilise access to costing records of contractors as a matter of right ... through the specific provisions of major contracts'.<sup>50</sup>

3.90 To better judge this issue the Committee sought further information from Defence on the role and responsibilities of its cost investigators, and in particular a description of:

- the tasks undertaken by cost investigators and whether these equate to an audit-type responsibility; and
- the qualifications, skills and experience that cost investigators are required to possess.

48 Auditor-General, *Audit Report No. 31, 1994-95*, p. xi.

49 Auditor-General, *Audit Report No. 22, 1992-93, Efficiency Audit, Department of Defence New Submarine Project*, AGPS, Canberra, 1992, p. xxvii.

50 Defence, *Submission*, p. S288 (1994-95 Submissions).

#### *Response to Review Action*

3.91 In its supplementary submission Defence provided the terms of reference for the DSDC and details of its membership. The Committee notes that of the twelve members of the DSDC only one, a Senior Government Solicitor from the Attorney-General's Department, is drawn from outside Defence. However, Defence advised that the membership may be expanded if necessary and gave examples when representatives from the Departments of Finance, Administrative Services and Prime Minister and Cabinet were included for particular purchases.<sup>51</sup>

3.92 Defence also described the operational mechanisms by which it believed independence was achieved, and advised that the procedures had been in operation for over 20 years. Furthermore, Defence argued that the success of the DSDC process had been recognised by Defence's exemption in 1994 from the Government's Industry/Impact Statement/Two Envelop tendering procedures (which all other agencies are required to follow for purchases over \$10 million).<sup>52</sup>

3.93 Responding to the Committee's request for clarification of the 'abnormal and special circumstances' which Defence considered warranted the appointment of an independent reviewer, the Department advised that the comment:

... was intended to be no more than a recognition that, in exceptional cases, the Government or Defence might contemplate the addition of such a reviewer. ... a hypothetical example might be where a selection process was to be re-run, given Government concern about the initial process having been [sic] unacceptably compromised.<sup>53</sup>

3.94 While the Committee understands the reasoning behind ANAO's call for the appointment of independent reviewers and supports the need for decision makers to be provided with objective and independent advice, there appears to be little evidence of significant or systematic failings in the DSDC process.

51 Defence, *Submission*, pp. S411-12 (1994-95 Submissions).

52 Defence, *Submission*, p. S413 (1994-95 Submissions).

53 Defence, *Submission*, p. S413 (1994-95 Submissions).

3.95 On the available evidence, the Committee does not support the need for an additional layer of independent review. Nevertheless, there is merit in the notion that Defence should make greater use of independent representatives on the DSDC when major projects involving significant risks are being considered.

3.96 Defence has from time to time appointed representatives from other Commonwealth agencies to the DSDC. The Committee believes that this approach should be mandatory when larger projects with significant cost and performance risks are being considered.

**3.97 Recommendation 4**

*The Department of Defence should ensure that representatives from other Commonwealth agencies are appointed to the Defence Source Definition Committee when that Committee is considering major purchases involving substantial risk for the Commonwealth.*

3.98 Defence's supplementary submission also provided details of the qualifications, skills and experience required of its cost investigators. Cost investigators are 'required to possess academic qualifications which confer eligibility for admission to the Australian Society of Certified Practicing Accountants or the Institute of Chartered Accountants', and have 'extensive work experience in the manufacturing industry'.<sup>54</sup>

3.99 The Committee acknowledges the important role played by cost investigators in managing procurement contracts and accepts that the qualifications and experience described by Defence represent an appropriate skill set for such employees.

3.100 However, the issue remains as to whether ANAO access to contractor records would improve accountability for Defence's management of major contracts and reduce the potential for risk to be transferred to the Commonwealth during the life of a project.

54 Defence, *Submission*, p. S 414 (1994-95 Submissions).

3.101 In Report 337, which commented on this matter in relation to the new submarine project, the Committee recommended that Defence should, in the light of its experiences with the ANZAC ships and minehunter projects, report to the Committee on the 'potential benefits of allowing ANAO access to contractor's business records'.<sup>55</sup>

3.102 Defence responded to this recommendation by advising that:

- ANAO staff could participate in the business activities of the Project Office thereby gaining first hand access to the data provided by the contractor;
- there are commercial-in-confidence sensitivities and implications which need to be acknowledged by ANAO;
- ANAO involvement might impinge on the working relationship developed between the contractor and the Commonwealth; and
- granting ANAO access would impose a further workload and additional costs leading to project delays.<sup>56</sup>

3.103 The Committee is not convinced that these arguments outweigh the potential benefits of allowing ANAO access to contractor records, particularly given the amount of public money (and risk to the Commonwealth) which can be involved in major Defence procurement projects. In relation to Defence's particular concerns, the Committee notes that:

- merely allowing ANAO access to Defence project office records to examine information provided by the contractor provides no assurance that this information accurately reflects the costs and risks born by the contractor;
- ANAO officials routinely handle commercial-in-confidence material when conducting performance audits and financial statement audits, it is not beyond the professional competence of ANAO officials to handle Defence related commercial information with care and integrity;

55 JCPA, Report 337, p. 208.

56 Department of Finance, *Finance Minute on JCPA Report 337 - A Focus on Accountability: Review of Auditor-General's Reports, 1992-93*, pp. 7-8.

- it is highly unlikely that ANAO access would damage the relationship between Defence and its contractors, and in any event it is important that Defence develop and maintain 'arms length' relationships with their contractors which recognise the commercial nature of their dealings;<sup>57</sup> and
- if there were any increased costs and time delays in major contracts as a result of ANAO access they are likely to be marginal when compared to the overall costs of such projects, and a small price to pay for protecting the Commonwealth's interests.

3.104 The Committee stands by the views expressed in Report 337 that:

- (a) it is not unreasonable to require contractors of major projects to provide accurate and complete information in support of quotes and claims; and
- (b) it is not unreasonable that the Auditor-General be able to verify those claims through access to the contractor's records.<sup>58</sup>

3.105 The Committee is not necessarily suggesting that there needs to be an expansion of ANAO activities in relation to Defence, but agrees with ANAO that if it had 'access to contractor records the Department would have greater incentive to look after the Commonwealth's interests.'<sup>59</sup>

57 See JCPA, *Report 337*, pp. 203-4 which reported evidence that Defence had been consistently out-manoeuvred in its dealings with one of its contractors because Defence had regarded the contractor as an extension of itself and had not taken a sufficiently commercial attitude into the relationship.

58 JCPA, *Report 337*, pp. 205-8.

59 ANAO, *Submission*, p. S3915 (1989-90 to 1992-93 Submissions, vol. 13).

### 3.106 Recommendation 5

*When negotiating major procurement contracts the Department of Defence should ensure that provisions are included which enable the Auditor-General to gain sufficient access to contractor records to allow the costs associated with quotes, claims and contract amendments to be verified.*



Alex Somlyay MP

Chairman

19 June 1996

## I

## APPENDIX I - AUDIT REPORTS REVIEWED

### 1993-94 Audit Reports

- *Audit Report No. 1, 1993-94, Report on Ministerial Portfolios, Budget Sittings 1993 - Vols 1-9*
- *Audit Report No. 2, 1993-94, Australian Bureau of Statistics, Computer Security*
- *Audit Report No. 3, 1993-94, Australian Quarantine and Inspection Service, Review of Travel Irregularities*
- *Audit Report No. 4, 1993-94, Payments Under Out-sourced Service Contracts*
- *Audit Report No. 5, 1993-94, Explosive Ordnance - Department of Defence*
- *Audit Report No. 6, 1993-94, An Audit Commentary on Aspects of Commonwealth-State Agreements*
- *Audit Report No. 7, 1993-94, Department of Social Security - Data-matching*
- *Audit Report No. 8, 1993-94, Civil Aviation Authority, Centre for Air Traffic Services*
- *Audit Report No. 9, 1993-94, Community Cultural, Recreational and Sporting Facilities Program*
- *Audit Report No. 10, 1993-94, Property Management - Reserve Bank of Australia*
- *Audit Report No. 11, 1993-94, Department of Defence, ANZAC Ship Project Monitoring and Contracting*

- *Audit Report No. 12, 1993-94, Administration of the 150% Taxation Incentive for Industry Research and Development - Department of Industry, Technology and Regional Development; - Australian Taxation Office*
- *Audit Report No. 13, 1993-94, The Purchase and Use of a Supercomputer, Ansto*
- *Audit Report No. 14, 1993-93, Growth, Change and Equity, Recurrent Funding of Higher Education*
- *Audit Report No. 15, 1993-94, The National Highway, 'Lifeline of the Nation', Transport and Communications Portfolio*
- *Audit Report No. 16, 1993-94, Pay for Performance, Performance Appraisal and Pay in the APS*
- *Audit Report No. 17, 1993-94, Underperforming officers in the APS - a question of efficiency*
- *Audit Report No. 18, 1993-94, Aggregate Financial Statement prepared by the Minister for Finance, year ended 30 June 1993*
- *Audit Report No. 19, 1993-94, Department of Defence - Defence Computer Environment; - Supply Systems Redevelopment Project*
- *Audit Report No. 20, 1993-94, Northern Land Council*
- *Audit Report No. 21, 1993-94, Department of Finance, Australian Government Credit Card - its debits and credits*
- *Audit Report No. 22, 1993-94, Cash Management in Commonwealth Government Departments*
- *Audit Report No. 23, 1993-94, DSS - Protection of Confidential Client Information from Unauthorised Disclosure*
- *Audit Report No. 24, 1993-94, Australian Taxation Office - Management of Appeals and Review*

- Audit Report No. 25, 1993-94, Australian Customs Service Investigation Function - Directions of Change; Department of Finance, Inter-Departmental Committee on Midford Paramount Case Compensation
- Audit Report No. 26, 1993-94, Report on the audit of the Australian Wheat Board 1992-93
- Audit Report No. 27, 1993-94, Report on Ministerial Portfolios, Autumn Sittings 1994
- Audit Report No. 28, 1993-94, Department of Veterans' Affairs, Use of Private Hospitals
- Audit Report No. 29, 1993-94, Department of Industry, Technology and Regional Development, National Industry Extension Services (NIES)
- Audit Report No. 30, 1993-94, Follow-up Audit, AIDAB - Aid to Papua New Guinea
- Audit Report No. 31, 1993-94, CSIRO, Information Technology Security Review
- Audit Report No. 32, 1993-94, Accrual Reporting: Are Agencies Ready?
- Audit Report No. 33, 1993-94, Australian Trade Commission, The Export Market Development Grants Scheme - Its Efficiency and Effectiveness
- Audit Report No. 34, 1993-94, Department of Employment, Education and Training, Implementation of a New Program - Landcare and Environment Action Program (LEAP)
- Audit Report No. 35, 1993-94, The Compliance Function, Department of Immigration and Ethnic Affairs
- Audit Report No. 36, 1993-94, Australian National Maritime Museum, Commercial Operations
- Audit Report No. 37, 1993-94, Joint House Department, Management Effectiveness

- Audit Report No. 38, 1993-94, Department of Primary Industries and Energy, Rural Research and Development Program
- Audit Report No. 39, 1993-94, Australian Taxation Office, Management of the Child Support Agency
- Audit Report No. 40, 1993-94, Department of Employment, Education and Training, Information Technology Security
- Audit Report No. 41, 1993-94, The Australian Government Credit Card - Some Aspects of Its Use
- Audit Report No. 42, 1993-94, Mind the Children, The Management of the Children's Services, Department of Human Services and Health
- Audit Report No. 43, 1993-94, Parliament's Right to Know, Legislation to replace the Audit Act 1901
- Audit Report No. 44, 1993-94, Department of Immigration and Ethnic Affairs, Electronic capture of passenger card data

#### 1994-95 Audit Reports

- Audit Report No. 1, 1994-95, Project Audit, Commonwealth Scientific and Industrial Research Organisation - Follow-up of an Efficiency Audit of External Funds Generation
- Audit Report No. 2, 1994-95, Department of Defence, Follow-up Audit, Management of Army Training Areas, Preliminary Study, Acquisition of Additional F-111 Aircraft
- Audit Report No. 3, 1994-95, Project Audit, Wool Tax, Australian Taxation Office
- Audit Report No. 4, 1994-95, Project Audit, Special Investigation into Casselden Place Building, Melbourne, Department of Administrative Services

- Audit Report No. 5, 1994-95, Follow-up Audits, Department of Employment, Education and Training - New Enterprise Incentive Scheme (NEIS); - Protective Security; - AUSTUDY
- Audit Report No. 6, 1994-95, Efficiency Audit, Australian Taxation Office, Information Technology Security
- Audit Report No. 7, 1994-95, Efficiency Audit, Department of Industry, Science and Technology, National Interest Export Finance and Insurance
- Audit Report No. 8, 1994-95, Aggregate Financial Statement prepared by the Minister for Finance year ended 30 June 1994
- Audit Report No. 9, 1994-95, Project Audit, Is Australia ready to respond to a major oil spill? Australian Maritime Safety Authority
- Audit Report No. 10, 1994-95, Efficiency Audit, Cash Management in Commonwealth Government Departments
- Audit Report No. 11, 1994-95, Project Audit, ANL - Valuation Issues
- Audit Report No. 12, 1993-94, Audit Reports on 1993-94 Financial Statements of Commonwealth Entities
- Audit Report No. 13, 1994-95, Efficiency Audit, Australian Defence Force Housing Assistance, Department of Defence
- Audit Report No. 14, 1994-95, Project Audit, Department of Housing and Regional Development - Office of Local Government; - Local Capital Works Program, Preliminary Study, The Textiles, Clothing and Footwear Development Authority
- Audit Report No. 15, 1994-95, Project Audit, Department of Veterans' Affairs - Follow-up of an Efficiency Audit on Compensation Pensions to Veterans and War Widows
- Audit Report No. 16, 1994-95, Follow-up Audit, Accrual Reporting - Are Agencies Ready?

- Audit Report No. 17, 1994-95, National Media Liaison Service, A Loophole in Accountability?
- Audit Report No. 18, 1994-95, Audit Strategy 1993-94
- Audit Report No. 19, 1994-95, Efficiency Audit, Validation of Nursing Home Funding, Department of Human Services and Health
- Audit Report No. 20, 1994-95, Report on the audit of the Australian Wheat Board 1993-94
- Audit Report No. 21, 1994-95, Project Audit, Specific Purpose Payments to and through the States and Territories
- Audit Report No. 22, 1994-95, Results of 1993-94 Financial Statement Audits of Commonwealth Entities
- Audit Report No. 23, 1994-95, Follow-up Audit, Department of Employment, Education and Training, English as a Second Language
- Audit Report No. 24, 1994-95, Follow-up Audit, Northern Land Council
- Audit Report No. 25, 1994-95, Efficiency Audit, Australian Defence Force Living-in Accommodation, Department of Defence
- Audit Report No. 26, 1994-95, Project Audit, Inoperative Staff in the APS
- Audit Report No. 27, 1994-95, Project Audit, Studybank
- Audit Report No. 28, 1994-95, Efficiency Audit, Insurance and Superannuation Commission Superannuation Industry (Supervision) Act - Administrative Arrangements
- Audit Report No. 29, 1994-95, Project Audit - Energy Management in Defence, Preliminary Study; - ANZAC Ship Project Contract Amendments, Preliminary Study; - Overseas Visits by Defence Officers, Preliminary Study; - National Landcare Program

- *Audit Report No. 30, 1994-95, Efficiency Audit, Commonwealth Government Information and Advertising*
- *Audit Report No. 31, 1994-95, Efficiency Audit, Defence Contracting*

## II

### APPENDIX II - SUBMISSIONS

#### Submissions 1993-94 Audit Reports

- 1 Department of Defence
- 2 Department of Defence
- 3 Department of Social Security
- 4 Department of Defence
- 5 Australian Bureau of Statistics
- 6 Civil Aviation Authority
- 7 Department of Industry, Technology and Regional Development
- 8 Department of Primary Industries and Energy
- 9 Department of the Prime Minister and Cabinet
- 10 Australian Bureau of Statistics
- 11 Australian National University
- 12 Retirement Benefits Office
- 13 National Capital Planning
- 14 Reserve Bank of Australia
- 15 Australian Customs Service
- 16 Treasury
- 17 National Board of Employment, Education and Training, Australian Research Council
- 18 Housing Loans Insurance Corporation

19	Australian Electoral Commission	43	Insurance and Superannuation
20	Department of Tourism	44	Prices Surveillance Authority
21	Department of Defence	45	Department of Industry, Technology and Regional Development
22	Department of the Prime Minister and Cabinet	46	Department of Veteran's Affairs
23	Australian Taxation Office	47	Public Service Commission
24	National Library of Australia	48	Industry Commission
25	Family Court of Australia	49	Department of Transport
26	Australia Post	50	Australian Telecommunications Authority
27	Attorney-General's Department	51	Australian War Memorial
28	Australian International Development Assistance Bureau	52	Department of Human Services and Health
29	Department of Health, Housing, Local Government and Community Services	53	Aboriginal and Torres Strait Islander Commission
30	Australian Nature Conservation Agency	54	Department of Immigration and Ethnic Affairs
31	Department of Industrial Relations	55	Department of Primary Industries and Energy
32	Australian Securities Commission	56	Department of Administrative Services
33	National Crime Authority	57	CSIRO
34	Department of Defence	58	Department of Administrative Services
36	Department of Employment, Education and Training	59	Australian Nuclear Science and Technology Organisation
37	Department of Finance	60	Australian Broadcasting Authority
38	Department of Defence	61	Department of Social Security
39	Royal Australian Mint	62	University of Canberra
40	Department of Environment, Sport and Territories	63	Comcare Australia
41	Australian Maritime Safety Authority	64	Department of Foreign Affairs and Trade
42	Merit Protection and Review Agency		

65	Department of Finance	89	Department of Industrial Relations
66	Westpac Banking Corporation	90	Department of Defence
67	CMTEK Limited	91	Australian Customs Service
68	The Treasury	92	Film Australia
69	Merit Protection and Review Agency	93	Civil Aviation Authority
70	Department of the Arts and Administrative Services	94	Auscript
71	Department of Defence	95	Department of Primary Industries and Energy
72	Department of the Parliamentary Reporting Staff	96	Industry Commission
73	Department of Finance	97	Australian Industrial Registry
74	Australian Pork Corporation	98	Australian Federal Police
75	Comcare Australia	99	Department of the Prime Minister and Cabinet
76	National Gallery of Australia	100	Department of Defence
77	Coal Board	101	Department of Environment Sport and Territories
78	Joint House Department	102	Export Finance and Insurance Corporation
79	Department of Immigration and Ethnic Affairs	103	Department Immigration and Ethnic Affairs
80	Department of Social Security	104	Australian Nature Conservation Agency
81	CSIRO	105	Department of the Senate
82	Royal Australian Mint	106	Australian Federal Police
83	Great Barrier Reef Marine Park Authority	107	Insurance and Superannuation Commission
84	Australian Hearing Service	108	Department of Employment, Education and Training
85	Department of the Parliamentary Library	109	Department of Communications and the Arts
86	Attorney-General's Department	110	Department of Finance
87	Commonwealth Superannuation Administration	111	Australian National Railway Commission
88	Department of Housing and Regional Development		

112 Department of Administrative Services

113 Department of Administrative Services

114 Australian International Development Assistance Bureau (MDAB)

115 Australian Wool Research and Promotion Organisation

116 Department of Industry, Science and Technology

117 Australian Nuclear Science & Technology Organisation

118 Department of Primary Industries and Energy

119 Department of Human Services and Health

120 National Crime Authority

121 Department of Veterans' Affairs

122 Department of Foreign Affairs and Trade

123 Aboriginal and Torres Strait Islander Commission

124 Australian Taxation Office

125 Health Insurance Commission

126 Trade Practices Commission

127 Aboriginal and Torres Strait Islander Commission

128 Department of Employment, Education and Training

129 Rural Industries Research and Development Corporation

130 Sugar Research and Development Corporation

131 Grains Research and Development Corporation

132 Speaker of the House of Representatives/President of the Senate

133 Meat Research Corporation

134 Horticultural Research & Development Corporation

135 Austrade

136 Department of Finance

137 Australian Nuclear Science & Technology Organisation

138 Department of Immigration and Ethnic Affairs

139 Department of Primary Industries and Energy

140 Department of Human Services and Health

141 Department of Administrative Services

142 Department of Immigration and Ethnic Affairs

143 Austrade

144 Department of Employment, Education and Training

145 Department of Employment, Education and Training

146 Public Service Commission

147 Department of Transport

148 Auditor-General for Tasmania

149 Australian Taxation Office

150 Auditor-General's Department of South Australia

151 Australian National Audit Office

152 The Audit Office of New South Wales

153 Office of the Auditor-General of Western Australia

154 Cecilia Spence, Senior Lecturer and Professor Brian Andrew, Professor of Accounting, University of Canberra

155 Department of Finance

156 Macquarie University

157 Mr Ian McAuley, University of Canberra

158 The Audit Office of New South Wales

159 Mr B M Rollason, Auditor-General of Queensland

160 Institute of Chartered Accountants in Australia and the Australian Society of Certified Practising Accountants

161 Department of Finance, Victoria

162 Treasury of Western Australia

163 The Institute of Internal Auditors - Australia, Canberra Branch

164 Office of the Auditor-General Northern Territory

165 Northern Territory Treasury

166 Department of Treasury and Finance, Tasmania

167 Ernst & Young

168 Department of Defence

169 Department of Employment, Education and Training

170 Dr Robert Albon, The Australian National University

171 Australian Bureau of Statistics

172 Department of Human Services and Health

173 Australian Society of Certified Practising Accountants and The Institute of Chartered Accountants in Australia

174 Office of National Assessments

175 Australian Electoral Commission

176 The Treasury

177 Department of Employment, Education and Training

178 Australian Accounting Research Foundation

179 Department of Human Services and Health

180 CSIRO

181 Australian Accounting Research Foundation

182 The Treasury

183 Australian Bureau of Statistics

184 Attorney-General's Department

185 The Treasury

186 Department of Finance

187 Department of Administrative Services

188 Department of Finance

189 The Treasury of Western Australia

190 Australian National Maritime Museum

191 Export Incentives Consultants' Association

192 Department of Primary Industries and Energy

193 Department of Veterans' Affairs

194 AusAID

195 Department of Employment, Education and Training

196 Australian Taxation Office

197 Department of Immigration and Multicultural Affairs

**Submissions from the Australian National Audit Office**

A22 Submission dated 29 May 1995

- A23 Submission dated 30 May 1995
- A25 Submission dated 6 June 1995
- A27 Submission dated 19 July 1995
- A28 Submission dated 8 August 1995
- A29 Submission undated
- A30 Submission dated 30 November 1995

#### Confidential Submissions

The Committee received a number of confidential submissions as part of its review.

#### Submissions - 1994-95 Audit Reports

- 1 CSIRO
- 2 Department of Defence, Defence Science and Technology Organisation
- 3 Australian Institute of Marine Science
- 4 Department of Employment, Education and Training
- 5 Australian Nuclear Science & Technology Organisation
- 6 Department of Defence
- 7 CSIRO
- 8 The Treasury
- 9 Australian Quarantine and Inspection Service
- 10 Department of Finance
- 11 Australian Taxation Office
- 12 Department of Defence

- 13 Reserve Bank of Australia
- 14 Australian Taxation Office
- 15 Textiles, Clothing and Footwear Development Authority
- 16 Australian Taxation Office
- 17 Department of Human Services and Health
- 18 Department of Industry, Science and Technology
- 19 Australian Tourist Commission
- 20 Australian Customs Service
- 21 Department of Defence
- 22 Australian National Audit Office
- 23 Department of Veterans' Affairs
- 24 Department of Housing and Regional Development
- 25 Department of Environment, Sport and Territories
- 26 Department of Defence
- 27 The Treasury
- 28 Australian Taxation Office
- 29 Department of Finance
- 30 Department of Employment, Education and Training
- 31 The Agency Register
- 32 Film Australia Pty Limited
- 33 Attorney-General's Department
- 34 Department of Social Security
- 35 Australian Nature Conservation Agency

- 36 Australian Customs Service
- 37 Australian Taxation Office
- 38 Department of Primary Industries and Energy
- 39 Department of Defence
- 40 Department of Veterans' Affairs
- 41 Department of Defence
- 42 Department of Administrative Services
- 43 CSIRO
- 44 Department of Primary Industries and Energy
- 45 Department of Administrative Services
- 46 Department of Employment, Education and Training
- 47 Special Broadcasting Service
- 48 Bundanon Trust
- 49 Australian Taxation Office
- 50 The Institute of Chartered Accountants in Australia
- 51 Australian Taxation Office
- 52 Department of Defence
- 53 Insurance and Superannuation Commission
- 54 Department of Industrial Relations
- 55 Department of Administrative Services
- 56 Department of Finance
- 57 Department of Defence
- 58 Department of Employment, Education and Training

- 59 Department of Human Services and Health
- 60 Department of Defence
- 61 Department of Administrative Services
- 62 Department of Employment, Education, Training and Youth Affairs

**Submissions from the Australian National Audit Office**

- A24 Submission dated 1 June 1995
- A26 Submission dated 30 June 1995
- A30 Submission dated 30 November 1995
- A31 Submission dated 6 December 1995
- A32 Submission dated 9 January 1996
- A33 Submission dated 14 February 1996

**Confidential Submissions**

The Committee received a number of confidential submissions as part of its review.

# III

## APPENDIX III - EXHIBITS

### Exhibits - 1993-94 Audit Reports

- 1 Rural Industries Research and Development Corporation - 'Research Report 1990-1993'.
- 2 'Research and Development Evaluation - An Innovative Approach by the Rural Industries Research and Development Corporation'
- 3 Rural Industries Research and Development Corporation - 'Gains in Shaping the Future'.
- 4 Royal Institute of Public Administration Australia
- 5 The Treasury of New South Wales
- 6 Ernst & Young - 'Accrual Accounting in the Public Sector: A National Survey'
- 7 New Zealand High Commission
- 8 New South Wales Treasury
- 9 New Zealand High Commission
- 10 Australian Accounting Research Foundation
- 11 Australian Accounting Research Foundation - 'Financial Reporting by Governments'
- 12 Department of Finance - 'Accounting for What?: The Value of Accrual Accounting to the Public Sector'
- 13 Dr Robert Albon, ANU - 'A Journal of Policy Analysis and Reform'

- 14 Dr Robert Albon, ANU - 'Evaluating Changes in a Government's Net Economic Position'
- 15 Coopers & Lybrand - 'Internal Control: Should There be Public Reporting?'
- 16 Department of Treasury and Finance, Victoria - 'Recognition and Valuation of Non-Current Physical Assets'
- 17 Department of Employment, Education and Training - 'Bridging the Gap: Accrual Accounting, No. 1, December 1993 and No. 2 May 1994'; and 'Introduction to Accrual Accounting'
- 18 Victorian Public Accounts and Estimates Committee - 'Reinventing Government: Lessons Learned from the New Zealand Treasury'
- 19 Victorian Public Accounts and Estimates Committee - 'Pre-Budget Media Briefing on Advantages of Accrual Accounting'
- 20 Victorian Public Accounts and Estimates Committee - 'Opening and Balancing the Books, the New Zealand experience'
- 21 Victorian Public Accounts and Estimates Committee - 'Making Ministries More Accountable: the New Zealand experience'
- 22 Victorian Public Accounts and Estimates Committee - 'Implementing Accrual Accounting in the Public Sector - the New Zealand experience'
- 23 Victorian Public Accounts and Estimates Committee - letter to Mr Bradford, MP, Chairman, Finance and Expenditure Committee, New Zealand from Lyn Provost, Assistant Auditor-General, New Zealand'
- 24 Victorian Public Accounts and Estimates Committee - 'Finance and Expenditure Committee - Financial Review Questionnaire 1993-94'

25 Victorian Public Accounts and Estimates Committee - 'Speech to the Australian Standing Treasuries Liaison Committee, The New Zealand Experience with Accrual Reporting'

26 Victorian Public Accounts and Estimates Committee - '1992: Report on Performance Audit of the Auditor-General of Victoria Pursuant to Section 48B of the Audit Act 1958'

27 Department of Treasury and Finance, Victoria - 'Business Plan 1994/95, Department of Finance (Vic)'; 'Corporate Plan 1993/94 - 1995/96, Department of Finance (Vic)'; and 'Annual Report 1993/1994, Department of Finance (Vic)'

28 Office of the Controller and Auditor-General, New Zealand - 'Putting it Simply - an explanatory guide to Financial Management Reform'

29 Office of the Controller and Auditor-General, New Zealand - 'The Audit Office - Report on The Audit of the Crown and Government Departments, for the year ended 30 June 1992'

30 Office of the Controller and Auditor-General, New Zealand - 'The Audit Office - Report on The Audit of the Crown and Government Departments, for the year ended 30 June 1991'

31 Office of the Controller and Auditor-General, New Zealand - 'Report of The Controller and Auditor-General, Second Report for 1993'

32 Office of the Controller and Auditor-General, New Zealand - 'Presentation to the Joint ASCPA/RIPAA Seminar, Hobart, "The New Zealand Experience with Accrual Budgeting, Accounting and Reporting"'

33 Office of the Controller and Auditor-General, New Zealand - 'Economic and Fiscal Outlook 1994'

34 Office of the Controller and Auditor-General, New Zealand - 'Central Government Management, A New Approach'

35 Department of Finance - 'Financial Statements of Departments: Guidelines issued by the honourable Kim C Beazley, Minister for Finance, for reporting periods ending on and after 30 June 1995'

36 Australian Bureau of Statistics - 'Introduction of an Accruals Basis in Government Finance Statistics'

37 Department of Finance - 'The New Financial Reports of Agencies - a guide to the use of accrual accounting and reporting by Commonwealth Agencies'

38 The Treasury - 'The Treasury: Annual Report 1993-94'

39 The Treasury - 'Treasury, Financial Statement, Accounting and Finance Directorate 1993-94'

40 Public Sector Accounting Standards Board of the Australian Accounting Research Foundation - 'Financial Reporting by Governments'

41 Department of Finance - 'Accounting and Financial Reporting in the Public Sector'

42 Department of Finance - 'Report on Whole-of-Government Financial Reporting'

43 Department of Finance - 'Federal Government Reporting Study, A Joint Study by the Office of the Auditor-General of Canada and the United States General Accounting Office'

44 Department of Finance - 'notes provided by the Department'

45 Department of Finance - 'Presentation to the Australasian Area Auditors-General, Hobart - Whole of Government Reporting'

46 Department of Finance - 'Federal Accounting Standards Advisory Board - Managerial Cost Accounting Standards for the Federal Government - Statement of Recommended Accounting Standards - Exposure Draft, October 1994'

47 Department of Finance - 'Resource Management Systems - An Efficiency Unit Scrutiny - May 1995'

48 Industry Commission - 'Media Release - Review of Commonwealth and State Government Service Provision'

49 Department of Finance - 'Suite of Accrual Training Courses offered by the Department of Finance'

50 Federal Accounting Standards Advisory Board - *FASAB soon to complete basic work*, in *FASAB News* Issue No. 31, May 1995

51 Department of Finance - 'Employee Support Costs 1993/94'

#### Confidential Exhibit

The Committee received one confidential exhibit as part of its review.

#### Exhibits - 1994-95 Audit Reports

1 'Cash Management Training Module' received from the Department of Finance

2 'Finance Circular No. 1995/2 - Commonwealth Banking Arrangements - Commercial Banks', received from the Department of Finance

3 Letter to Attorney-General's Department from the Department of Finance, received from the Department of Finance

4 'Revenue Collection Evaluation - Report of an Inter-agency Study' received from the Department of Finance

5 'Finance Circular No. 1995/03 - Cash Management: Timing of Payments, Contractors and Traders, Lease Versus Buy', received from the Department of Finance

6 'Commonwealth Banking and Cash Management Review by Stephen Macleod', received from the Department of Finance, June 1993

7 'Commonwealth Cash Management Review - Volume 1 - Review of Current Procedures' Department of Finance, May 1992 received from the Department of Finance

8 'Purchasing Awareness Services - May 1995' (CD Rom) received from Purchasing Australia, Department of Administrative Services

9 'Electronic Commerce, Commonwealth Government Statement of Direction' received from Purchasing Australia, Department of Administrative Services

10 'Register of EDI projects 1994', received from Purchasing Australia, Department of Administrative Services

11 'Request for Offers - Electronic Commerce for Commonwealth Agencies - Business Case Assessment received from Purchasing Australia, Department of Administrative Services

12 'Electronic Data Interchange (EDI) and Financial Management Information Systems (FMIS), Survey of Commonwealth Agencies, March 1994' conducted by the Consultancy Services Unit (Department of Finance) on behalf of DAS Purchasing Australia received from Purchasing Australia, Department of Administrative Services

13 'Summary Information - Deposits to Regional Bank Accounts - 1992-1993, Responses to Questionnaires' received from the Department of Finance

14 'Report on a Joint Review by the Departments of Defence and Finance of Imprest Accounts operated by the Department of Defence' received from the Department of Finance

- 15 "Transforming Procurement - Guidance on the Organisation and Management of Procurement (first edition June 1995)" received from Purchasing Australia, Department of Administrative Services
- 16 'Purchasing Statistics Bulletin - A Report on Commonwealth Purchasing using end-of-year Data' received from Purchasing Australia, Department of Administrative Services
- 17 Finance Circular No. 1995/07 - 'Cash Management - Timing of Payments' received from the Department of Finance
- 18 'Cash Management and Banking Section - Workplan - 1994-95' received from the Department of Finance
- 19 'Cash Management and Banking Section - Workplan' received from the Department of Finance
- 20 Correspondence from the Australian National Audit Office to JCPA Secretary, dated 2 January 1996 (relating to *Audit Report No.19, 1994-95*)
- 21 Correspondence from Department of Human Services and Health to the Australian National Audit Office, dated 9 January 1996 (relating to *Audit Report No. 19, 1994-95*)
- 22 Attachment C to Department of Administrative Services Submission No. 61 (AR30 1994-5)

**Confidential Exhibit**

The Committee received one confidential exhibit as part of its review.