AUSTRALIAN NATIONAL AUDIT OFFICE

AUDIT WORK PROGRAM JULY 2012

Australian National
Audit Office

AUDIT
WORK PROGRAM

JULY 2012

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Introduction

The Auditor-General is an independent officer of the Parliament whose responsibilities include undertaking financial statement and performance audits of Australian Government entities.[1] In fulfilling this role, the Auditor-General is assisted by the Australian National Audit Office (ANAO). The ANAO has two formal outcomes, namely to:

> provide assurance on the fair presentation of financial statements of Australian Government entities by providing independent audit opinions and related reports for the information of Parliament and the Executive; and
>
> improve the efficiency and effectiveness of the administration of Australian Government programs and entities by undertaking a program of independent performance audits and assurance reviews for the information of Parliament and the Executive.

ANAO reports assist the Parliament in its role of holding the Executive to account; and inform the government of the day and government entities on the financial management and administration of key programs and services. Audit reports also act as a stimulus for better public administration and, in dealing with contemporary issues, provide the wider community with information on the operations of government.

The *Auditor-General Act 1997* (the Act) establishes the mandate of the Auditor-General to undertake financial statement audits, performance audits and other audits by arrangement. The Act is periodically reviewed by Parliament. Most recently, in December 2010, the Joint Committee of Public Accounts and Audit (JCPAA) tabled its *Inquiry into the Auditor-General Act 1997* (Report 419) and made several key recommendations directed at enhancing the mandate of the Auditor-General. Subsequently, in December 2011, the Parliament amended the Act to provide for audits of Commonwealth partners[2] and entity performance indicators. These are important additions to the mandate of the Auditor-General.

Audit Work Program

Each year the ANAO publishes an Audit Work Program. The Program is designed to inform the Parliament, the public and government entities of the ANAO's planned financial statement audit coverage; other assurance activities; and performance audit coverage for the Australian Government public sector.

The role of entities can often change in line with government priorities and the ANAO seeks to maintain a current knowledge of their administrative arrangements and operating environment, including how business risks are identified and managed in the delivery of government programs and services. This analysis is informed by a variety of sources including annual reports, budget papers and portfolio budget statements, internal and external reviews, audit committees, discussions with senior management and stakeholders, parliamentary debate and broader media coverage.

To assist with identifying risks, the ANAO's financial statement and performance audit teams discuss, on an ongoing basis, entity business risks and proposed audit coverage. The views of the Parliament, entity management and other stakeholders are also sought during the development of the Audit Work Program.

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[1] An Australian Government entity is an organisation subject to the *Financial Management and Accountability Act 1997* or the *Commonwealth Authorities and Companies Act 1997*.

[2] A Commonwealth partner is a person or body, including a contractor, that receives Commonwealth funding for a particular purpose—refer *Auditor-General Act 1997*, subsection 18B(2).

The ANAO adopts an ongoing and integrated approach to planning its audit coverage and related publications. In this context, the ANAO endeavours to maintain a balance between planning and delivering audits that address the key risks and challenges facing the Australian Government public sector while also producing contemporary reports that cover matters of significant public interest. The ANAO gives consideration to the changing Australian Government public sector environment and seeks to be responsive to stakeholder requests where priorities and resources permit.

The Audit Work Program is divided into two sections, namely:

1. **Financial statement audits and other assurance activities**—includes financial statement audits and those other assurance activities provided for under the *Auditor-General Act 1997*, which will be undertaken during 2012–13.
2. **Performance audits, in progress and proposed**—presents information on performance audits in progress as at July 2012, and a rolling program of proposed performance audits by portfolio. The performance audit program also includes cross-agency performance audits that will involve a number of agencies, and a series of better practice guides which draw on information from a number of sources, such as past performance audits, to present insights on better practice in areas central to sound public administration.

Financial Statement Audits

Chief Executives of departments and agencies are required to manage their affairs in a manner that promotes the efficient, effective, economical and ethical use of resources. The boards of statutory authorities and government-controlled companies are also expected to manage in this manner. To achieve these goals requires the development and implementation of effective corporate governance arrangements and internal controls. These arrangements and controls should be designed to meet the individual circumstances of each entity, assist in the orderly and efficient conduct of business and support compliance with applicable legislative requirements, which includes the preparation of annual financial statements that state fairly the financial position and results for the year.

The preparation of audited financial statements in compliance with the Finance Minister's Orders and, where relevant, the *Corporations Act 2001*, is a key element of the financial management and accountability regime applicable to Australian Government entities. It is generally accepted in both the private and public sectors that a good indicator of the effectiveness of an entity's financial management is the timely finalisation of its annual financial statements, accompanied by an unmodified audit opinion.

ANAO financial statement audits are an independent examination of the financial accounting and reporting of public sector entities. For large entities, the financial statement audit process is conducted in two main phases, interim and final. The interim phase focuses on an assessment of the entity's key internal controls including governance arrangements, information systems and control procedures. During the final audit phase, which applies to all entities, the ANAO completes its assessment of the effectiveness of key controls for the full year, substantively tests material balances and disclosures in the financial statements, and finalises its audit opinion on the entity's financial statements.

Each year, the Auditor-General presents two reports to the Parliament that summarise the outcomes of the financial statement audits of public sector entities. The first report, the *Interim Phase of the Audits of Financial Statements of Major General Government Sector Agencies*, is tabled in June, while the second report, *Audits of the Financial Statements of Australian Government Entities*, is tabled in December.

2010–11 final audit phase results

There was a reduction in the number and significance of issues arising from the final phase of the 2010–11 financial statement audits of individual entities. The number of significant and moderate audit findings decreased from 50 in 2009–10 to 36 in 2010–11, a reduction of some 28 per cent. This is consistent with the trend in ANAO audits of recent years, which has seen a large reduction in the number of significant and moderate audit issues.

Common issues identified in the 2010–11 final audit phase as requiring attention by entities were in respect of: support for a range of provisions relating to payments to the states and territories in accordance with the *Federal Financial Relations Act 2009*; IT environment controls, such as user access and the segregation of duties; asset management processes including accounting for assets under construction, asset stocktakes and the integrity of asset registers; and business system processing controls. These issues are generally consistent with audit findings made in previous years.

The ANAO also includes an assessment of compliance in relation to annual appropriations, special appropriations, special accounts and the investment of public moneys in its financial statement audits. There continues to be a high level of compliance in most of these areas. However, the 2010–11 financial statements of a large number of entities noted a risk of breaches of section 83 of the Constitution.[3]

2011–12 interim audit phase results

In reporting on the results of the interim phase of the financial statement audit program, the ANAO is providing assurance to the Parliament that the systems, controls and processes that are in place in major Australian Government entities are operating in a way that allows them to prepare financial statements that state fairly the financial position and results for the year. Generally, the main elements reviewed are the:

- governance arrangements;
- audit committee arrangements;
- assurance arrangements;
- systems of authorisation, recording and procedures; and
- financial performance management regime.

The ongoing performance and effectiveness of these measures can make a significant contribution to the level of assurance that entity management and, in turn, the ANAO obtains for financial statement purposes.

The results of the 2011–12 interim audits were reported in ANAO Audit Report No.51 2011–12, *Interim Phase of the Audits of the Financial Statements of Major General Government Sector Agencies for the year ending 30 June 2012*. The report identified that the finance and accounting control processes in the majority of entities support the production of reliable financial statement information. This result reflects the general maturity of control environments and the progressive decrease in audit findings over recent years. The report also provided an update on entities' progress with addressing the risks of breaching section 83 of the Constitution.[4]

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[3] Section 83 of the Constitution states 'No money shall be drawn from the Treasury of the Commonwealth except under appropriation made by law'.

[4] ANAO Audit Report No.51 2011–12, *Interim Phase of the Audits of the Financial Statements of Major General Government Sector Agencies for the year ending 30 June 2012*, pp. 46–48.

Other Assurance Activities

In addition to conducting financial statement audits, the Auditor-General undertakes other assurance activities. These generally consist of audits or reviews undertaken by arrangement with the client entity, either at the request of the client or in response to requests from stakeholders, including ministers and parliamentary committees. Often these activities are associated with ANAO audits of Australian Government entities' financial statements and include reviews of half-year accounts and audits of property and investment trusts, funds and joint ventures.

Another key assurance activity is the priority assurance review of major Defence equipment acquisitions and the production of the Major Projects Report. Increased transparency and accountability on progress with major Defence equipment acquisitions has been an ongoing focus of the Parliament. Since 2007–08, an annual program has been established in conjunction with the Defence Materiel Organisation to enable the ANAO to review and report to the Parliament on the status of major Defence acquisition projects, as set out in the Major Projects Report. The review includes information relating to the cost, schedule and capability performance of individual projects as at 30 June each year.

As a consequence of the recent amendments to the *Auditor-General Act 1997*, during 2012–13, the ANAO will also undertake a pilot project for providing assurance over entities' key performance indicators (KPIs). The project is designed to: develop an audit methodology; work with the Department of Finance and Deregulation to ensure that audit processes align with developments in the Commonwealth performance reporting framework; and, through working in a consultative manner with entities providing social policy, service delivery and regulatory roles, examine the appropriateness and reporting of KPIs for a selection of programs.

Performance Audits

A performance audit is a review or examination of the operations of an entity. The objectives of a performance audit are twofold. The first is to provide Parliament with assurance relating to the administration of Australian Government entities and programs, including where these involve a Commonwealth partner. The second objective is to assist public sector managers by identifying and promoting better administrative and management practices. Agency-specific and cross-agency[5] performance audits can include an examination of one or more of the following:

- economy (minimising cost);
- efficiency (maximising the ratio of outputs to inputs);
- effectiveness (the extent to which intended outcomes are achieved); and
- legislative and policy compliance.

A more detailed explanation of the ANAO's approach to performance auditing is contained in the ANAO *Guidelines for the Conduct of Performance Audits*, which is available from the ANAO's website (www.anao.gov.au).

The ANAO undertakes approximately 50 performance audits on an annual basis. The program of audits seeks to achieve coverage across a wide range of entities and portfolios, either as agency-specific audits or as part of broader cross-agency audits. In addition, the

[5] Cross-agency audits are performance audits of particular themes or common aspects of administration across a number of entities.

program endeavours to give appropriate emphasis to the core business activities of entities that underpin effective program and service delivery.

In 2012–13, the ANAO expects to complete:

- 52 performance audits (including cross-agency audits); and
- four updated better practice guides.

The composition of the Audit Work Program may change as more detailed planning is undertaken or as other issues, such as stakeholder requests that in the Auditor-General's opinion warrant further inquiry, emerge.

Key areas of performance audit focus

As core elements of government activity, procurement and grants management have featured strongly in the ANAO's work over recent years. ANAO audits have highlighted examples of effective procurement and grant management approaches. However, they have also identified opportunities for entities to undertake these activities more efficiently and effectively and to achieve more consistent compliance with relevant guidelines and government policies. Accordingly, the Audit Work Program continues to focus on procurement and grants management, either as individual topics, or as part of audits examining broader program management.

Audits have also highlighted the benefits of continuing to strengthen program performance measurement. This includes establishing frameworks to guide performance measurement activity, and the importance of developing appropriate baselines and benchmarks early in program implementation. Developing and reporting on appropriate performance indicators informs internal and external stakeholders on progress and outcomes, and can strengthen program management and accountability. In addition to the assurance pilot project for key performance indicators, most performance audits will generally include coverage of the performance measurement arrangements that have been established for the area being reviewed.

Increasingly, program and service delivery is occurring across jurisdictional boundaries where the Australian Government funds the states and territories to implement agreed programs and services. This is one of the more significant challenges in contemporary public administration and the increased use of National Partnership Agreements, particularly in the health, education and Indigenous sectors, has required entities to adapt their approaches to delivering programs and services. The importance of clarifying respective roles and responsibilities in relation to delivery and, importantly, in overall accountability, has been highlighted in recent ANAO audits of various National Partnership Agreements. As programs and services will continue to be delivered through National Partnerships, the Audit Work Program includes proposed audits which will focus on the Australian Government's delivery of programs and services in collaboration with states and territories.

New approaches to undertaking performance audits

The ANAO is currently trialling new ways of undertaking performance audits. For example, the ANAO is collaborating with audit offices in other Australian states and territories in a concurrent audit of the National Partnership on Homelessness. Each audit office has agreed on common audit objectives and complementary timelines so that an aggregate view, across jurisdictions, on program performance can be obtained.

Following amendments to the *Auditor-General Act 1997* to allow audits of Commonwealth partners in particular circumstances, the ANAO has commenced an audit of the funding of

the Mersey Community Hospital in Tasmania at the request of the JCPAA.[6] The audit involves both the Australian Government Department of Health and Ageing and the Tasmanian Department of Health and Human Services.

The use of the Commonwealth partner provisions will occur judiciously. A small number of potential audits of Australian Government programs have been identified which, due to the delivery arrangements in place, may involve consideration of the performance of a state or territory body (where requested by the JCPAA), or of a contractor.

Planning the performance audit program

The performance audit program is primarily organised around the portfolio structures of the Australian Government, with the addition of cross-agency audits in areas of general public administration. Proposed better practice guides that aim to assist entities managing particular areas of government activity are also included.

In developing the performance audit program, the ANAO undertakes a process that involves:

- consulting Parliament, entities and stakeholders;
- conducting an environmental scan of key risks and challenges to public administration; and
- understanding the operations of entities and identifying areas that could potentially improve performance.

The Audit Work Program outlines a rolling program of potential performance audits and better practice guides that may commence in 2012–13 or future years. Over 150 potential performance audit topics across the range of Australian Government portfolios are usually identified and approximately one-third of these are undertaken in any given year.

The ANAO's program of better practice guides is based on subject areas that have an impact on the performance of the public sector and, to a large extent, draw on the results of previous audits. Better practice guides aim to improve public administration by providing a vehicle for better practices identified in some organisations to be recognised and promulgated to all Australian Government entities. In recent years, the range of better practice guides published by the ANAO has included contract management, public sector environmental management and the operation of public sector audit committees.

Criteria for Selecting Individual Performance Audit Topics

From the rolling program of potential performance audit topics and other ad-hoc requests from stakeholders, the selection and conduct (including timing, scope and method) of a performance audit is at the discretion of the Auditor-General. Within the portfolio-based approach, the ANAO's planning process takes into account a number of factors, including the:

- potential benefits to public administration;
- public interest;
- financial materiality;
- risks to reputation and service delivery; and
- extent of previous audit and review coverage.

[6] An audit of a Commonwealth partner may also involve considering the performance of contractors to deliver major programs, services or platforms. The use of this provision is at the Auditor-General's discretion.

A preliminary estimate of an audit's potential benefits can often be made at the strategic planning stage. Potential benefits can take many forms and include improvements in: service/program delivery, administrative and financial efficiencies, accountability and transparency, and performance measurement.

Parliamentary proceedings and media coverage provide opportunities to identify matters of public interest that can be incorporated into the planning process. Members of the public can contact the ANAO in a range of ways to raise matters of interest and in addition, the ANAO has commenced a trial of a web-based citizen input function which allows members of the public the opportunity to contribute information and perspectives to specific audits as they are being undertaken.

Financial materiality is based on an assessment of the total value of one or more of: annual expenditure, annual revenue and assets and liabilities, in the proposed area of audit. As a general rule, total values less than $100 million would be considered as being low in financial materiality, values in the $100 million to $500 million range would be medium, and values above $500 million would be considered to have high financial materiality.

A further input into the selection of audit topics is an assessment of risks to reputation and service delivery. This requires consideration of the visibility of the proposed audit topic and is related to the social and economic aspects of the activity, and the importance of its operations to Parliament and the public.

Coverage refers not only to previous ANAO work but also to other independent reviews of the activity that have been, or are proposed to be, undertaken. Such reviews may include internal audits, evaluations conducted by external consultants or examinations undertaken by parliamentary committees. As a general rule, greater attention would be warranted where: a parliamentary committee has requested a follow-up review; a previous review indicated that a follow-up should occur; or a previous review has identified significant issues.

Stakeholder requests and additional topics

As previously mentioned, from time to time, the Auditor-General receives requests from stakeholders, including the Parliament (through the JCPAA) or individual members and senators, for information or reviews of particular areas. If in the Auditor-General's opinion a request warrants further examination, it can be handled through various mechanisms including a formal report, a review or correspondence.

Furthermore, given the constantly changing nature of public administration, new areas of program delivery are always emerging and can present new risks. Therefore, the Audit Work Program is required to be necessarily dynamic in response to the environment and additional areas of audit, not outlined in the program, may be undertaken.

Section One

Financial statement audits and other assurance activities

This section includes financial statement audits and those other assurance activities provided for under the *Auditor-General Act 1997*, which will be undertaken during 2012–13.

Introduction

During 2012–13, the ANAO will complete or commence a range of financial statement audits for over 250 Australian Government entities. In addition, the ANAO will undertake a range of other assurance activities, including:

- Audits or reviews undertaken by arrangement with a client entity, pursuant to section 20 of the *Auditor-General Act 1997* (the Act).[7] These audits or reviews are either at the request of the client, or in response to requests from stakeholders, including ministers and parliamentary committees. The conduct of audits and reviews by arrangement is subject to annual reassessment.
- Priority assurance reviews, pursuant to section 19A of the Act.[8]
- Audits of performance indicators, pursuant to section 18A of the Act.

Outlined below is a list of Australian Government entities, by portfolio, which will be subject to ANAO financial statement audits and/or other audits by arrangement ('Section 20 Engagements'). This work involves completing financial statement audits and section 20 engagements for 2011–12, and commencing work on 2012–13 financial statements audits (including for newly created entities).

Following the list is a description of the ANAO's priority assurance review of major Defence equipment acquisitions and the production of the Major Projects Report, and the assurance audit of Key Performance Indicators.

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[7] Section 20 of the *Auditor-General Act 1997* provides for the Auditor-General to enter into an arrangement with any person or body: to audit financial statements of the person or body; or to conduct a performance audit of the person or body; or to provide services to the person or body that are of a kind commonly performed by auditors, provided it is within the Australian Government's legislative power.

[8] Subsection 19A(1) of the *Auditor-General Act 1997* provides for the Auditor-General to conduct an assurance review of an Australian Government entity. Subsection 19A(5) outlines that the Joint Committee of Public Accounts and Audit can identify an assurance review as a priority.

Portfolio	Entity
Agriculture, Fisheries and Forestry	
Financial Statement Audits	Australian Fisheries Management Authority
	Australian Pesticides and Veterinary Medicines Authority
	Cotton Research and Development Corporation
	Department of Agriculture, Fisheries and Forestry
	Fisheries Research and Development Corporation
	Grains Research and Development Corporation
	Grape and Wine Research and Development Corporation
	Rural Industries Research and Development Corporation
	Sugar Research and Development Corporation
	Wheat Exports Australia
	Wine Australia Corporation
Attorney-General's	
Financial Statement Audits	Attorney-General's Department
	Administrative Appeals Tribunal
	Australian Commission for Law Enforcement Integrity
	Australian Crime Commission
	Australian Customs and Border Protection Service
	Australian Federal Police
	Australian Government Solicitor
	Australian Human Rights Commission
	Australian Institute of Criminology
	Australian Law Reform Commission
	Australian Security Intelligence Organisation
	Australian Transaction Reports and Analysis Centre
	CrimTrac Agency
	Family Court of Australia
	Federal Court of Australia
	Federal Magistrates Court of Australia
	High Court of Australia
	Insolvency and Trustee Service Australia
	National Native Title Tribunal
	Office of Parliamentary Counsel
	Office of the Director of Public Prosecutions
Section 20 Engagements	Australian Customs and Border Protection Service (Goods and Services Tax and Import Processing Charge)

Portfolio	Entity
	Australian Federal Police - ACT Community Policing (Statement of Financial Performance and Statement of Performance)
	Australian Institute of Police Management
Broadband, Communications and the Digital Economy	
Financial Statement Audits	Australia Post Licensee Council Ltd
	Australian Broadcasting Corporation
	Australian Communications and Media Authority
	Australian Postal Corporation
	Decipha Pty Ltd
	Department of Broadband, Communications and the Digital Economy
	National DAB Licence Company Ltd
	NBN Co Ltd
	Post Logistics Australasia Pty Ltd
	Project Tiger (subsidiary of Australian Postal Corporation)
	SBS Subscription TV Limited
	SecurePay Pty Ltd
	Special Broadcasting Service Corporation
	Telecommunications Universal Service Management Agency
Section 20 Engagements	Australian Postal Corporation (Half-year and Performance Standards)
Climate Change and Energy Efficiency	
Financial Statement Audits	Climate Change Authority
	Clean Energy Regulator
	Department of Climate Change and Energy Efficiency
	Low Carbon Australia Ltd
Defence	
Financial Statement Audits	AAF Company
	Army and Air Force Canteen Service
	Australian Military Forces Relief Trust Fund
	Australian Strategic Policy Institute Ltd
	Australian War Memorial
	Defence Housing Australia
	Defence Materiel Organisation
	Defence Service Homes Insurance Scheme
	Department of Defence
	Department of Veterans' Affairs

Portfolio	Entity
	Military Superannuation and Benefits Board of Trustees
	Royal Australian Air Force Veterans' Residences Trust Fund
	Royal Australian Air Force Welfare Recreational Company
	Royal Australian Air Force Welfare Trust Fund
	Royal Australian Navy Central Canteens Board
	Royal Australian Navy Relief Trust Fund
Section 20 Engagements	Lyons Joint Venture (Half-year)
Education, Employment and Workplace Relations	
Financial Statement Audits	Australian Curriculum Assessment and Reporting Authority
	Australian Institute for Teaching and School Leadership Ltd
	Coal Mining Industry (Long Service Leave Funding) Corporation
	Comcare
	Department of Education, Employment and Workplace Relations
	Fair Work Australia
	Office of the Fair Work Building Industry Inspectorate
	Office of the Fair Work Ombudsman
	Safe Work Australia
Section 20 Engagements	Australian Children's Education and Care Quality Authority
Families, Housing, Community Services and Indigenous Affairs	
Financial Statement Audits	Aboriginal Hostels Ltd
	Aboriginals Benefit Account
	Anderleigh Enterprises Pty Ltd
	Anderleigh Holdings Trust
	Anindilyakwa Land Council
	Asset Leasing Trust
	Australian Institute of Family Studies
	Central Land Council
	Consolidated Manufacturing Enterprises Pty Ltd
	Darwin Hotel Holdings Trust
	Department of Families, Housing, Community Services and Indigenous Affairs
	Equal Opportunity for Women in the Workplace Agency
	Gagudju Crocodile Hotel Trust
	Gagudju Lodge Cooinda Trust

Portfolio	Entity
	Hotel Enterprises Pty Ltd
	Hotel Holdings Trust
	Indigenous Business Australia
	Indigenous Fishing Trust
	Indigenous Investment Trust
	Indigenous Land Corporation
	Kakadu Tourism (GCH) Pty Ltd
	Kakadu Tourism (GLC) Pty Ltd
	Larrakia Darwin Hotel Partnership
	Leonora Investment Trust
	Mungo Lodge Pty Ltd
	National Centre of Indigenous Excellence Ltd
	National Indigenous Pastoral Enterprises Pty Ltd
	National Indigenous Property Trust
	Northern Land Council
	Outback Stores Pty Ltd
	Port Botany Transfer Station Trust
	Scarborough House Investment Trust
	Scarborough House Office Trust
	South Hedland Indigenous Property Trust
	Swanbrook Road Holding Trust
	Tennant Creek Foodbarn Partnership
	Tennant Creek Land Holding Trust
	Tiwi Land Council
	Tjapukai Aboriginal Cultural Park Partnership
	Torres Strait Regional Authority
	Voyagers Indigenous Tourism Australia Pty Ltd
	Wildman River Lodge Pty Ltd
	Wildman Wilderness Lodge Trust
	Wreck Bay Aboriginal Community Council
	Wreck Bay Enterprises Ltd
Section 20 Engagements	Aboriginal and Torres Strait Islander Land Fund
	Central Land Council Native Title Representative Body
	Northern Land Council Native Title Representative Body
Finance and Deregulation	
Financial Statement Audits	Albury-Wodonga Development Corporation
	ASC Ship Building Pty Ltd

Portfolio	Entity
	ASC AWD Ship Building Pty Ltd
	ASC Engineering Pty Ltd
	Australian Electoral Commission
	Australian Government's Consolidated Financial Statements
	Australian Health Management Group Ltd
	Australian River Co Limited
	Blue Tech Pty Ltd
	Commonwealth Superannuation Corporation
	Commonwealth Superannuation Scheme
	ComSuper
	Department of Finance and Deregulation
	Future Fund Management Agency
	Medibank Health Solutions Group Pty Ltd
	Medibank Private Ltd
	Public Sector Superannuation Accumulation Plan
	Public Sector Superannuation Scheme
Section 20 Engagements	Advance to the Minister for Finance and Deregulation
	ASC Pty Ltd (Half-year)
	Australian Health Management Limited (HIC 30 Percent Rebate and PHIAC Returns)
	ARIA Alternative Asset Trust
	ARIA Co Pty Ltd
	ARIA Australian Financial Services License
	ARIA Investments Trust
	ARIA Investments Trust (Risk Management Strategy and Risk Management Plans)
	ARIA Property Fund
	ARIA Property Management Trust
	CFM Australian Equities Fund
	CSS-PSS Pty Ltd
	CSS-PSS Pty Ltd (Risk Management Strategy and Risk Management Plans)
	CSS (Risk Management Strategy and Risk Management Plans)
	Future Fund Investment Company No. 1 Pty Ltd
	Future Fund Investment Company No. 2 Pty Ltd
	Future Fund Investment Company No. 3 Pty Ltd
	Future Fund Investment Company No. 4 Pty Ltd
	Medibank Private Limited (HIC 30 Percent Rebate and PHIAC Returns)

Portfolio	Entity
	Nation Building Fund (Special Purpose Audits)
	Public Sector Superannuation Accumulation Plan (Risk Management Strategy and Risk Management Plans)
	PSS CSS A Property Trust
	PSS CSS B Property Trust
	PSS CSS Investments Trust
	Public Sector Superannuation (Risk Management Strategy and Risk Management Plans)
Foreign Affairs and Trade	
Financial Statement Audits	AusAID
	Australian Centre for International Agricultural Research
	Australian Secret Intelligence Service
	Australian Trade Commission
	Department of Foreign Affairs and Trade
	Export Finance and Insurance Corporation
Section 20 Engagements	Australia Network
	Export Finance and Insurance Corporation (Half-year)
Health and Ageing	
Financial Statement Audits	Aged Care Standards and Accreditation Agency Ltd
	Australian Commission on Safety and Quality in Health Care
	Australian Institute of Health and Welfare
	Australian National Preventive Health Agency
	Australian Organ and Tissue Donation and Transplantation Authority
	Australian Radiation Protection and Nuclear Safety Agency
	Cancer Australia
	Department of Health and Ageing
	Food Standards Australia New Zealand
	General Practice Education and Training Ltd
	Health Workforce Australia
	Independent Hospital Pricing Authority
	National Blood Authority
	National Health and Medical Research Council
	National Health Funding Body
	National Health Performance Authority
	Private Health Insurance Administration Council
	Private Health Insurance Ombudsman
	Professional Services Review Scheme

Portfolio	Entity
Section 20 Engagements	Therapeutic Goods Administration
	Foundation for Alcohol Research and Education
	Private Health Insurance Council - Risk Equalisation Trust
Human Services	
Financial Statement Audits	Australian Hearing
	Department of Human Services
Immigration and Citizenship	
Financial Statement Audits	Department of Immigration and Citizenship
	Migration Review Tribunal and Refugee Review Tribunal
Infrastructure and Transport	
Financial Statement Audits	Airservices Australia
	Australian Maritime Safety Authority
	Australian Rail Track Corporation
	Australian Transport Safety Bureau
	Civil Aviation Safety Authority
	Department of Infrastructure and Transport
	National Transport Commission
Section 20 Engagements	Australian Rail Track Corporation (Special Purpose Audit)
Industry, Innovation, Science, Research and Tertiary Education	
Financial Statement Audits	ANU Enterprise Pty Ltd
	ANU Section 68 Pty Ltd
	Australian Institute of Aboriginal and Torres Strait Islander Studies
	Australian Institute of Marine Science
	Australian National University
	Australian Nuclear Science and Technology Organisation
	Australian Research Council
	Australian Scientific Instruments Pty Ltd
	Australian Skills Quality Authority
	BRU Holdings Pty Ltd
	Commonwealth Scientific and Industrial Research Organisation
	Department of Industry, Innovation, Science, Research and Tertiary Education
	IIF Investments Pty Ltd
	IP Australia

Portfolio	Entity
	PetNet Pty Ltd
	SA2 Holdings Pty Ltd
	Science and Industry Endowment Fund
	Tertiary Education Quality and Standards Agency
	WLAN Services Pty Ltd
Section 20 Engagements	Australian Nuclear Science and Technology Organisation (Special Purpose Audit)
Parliamentary Departments	
Financial Statement Audits	Department of Parliamentary Services
	Department of the House of Representatives
	Department of the Senate
	Parliamentary Budget Office
Prime Minister and Cabinet	
Financial Statement Audits	Australian Public Service Commission
	Department of the Prime Minister and Cabinet
	National Australia Day Council Ltd
	National Mental Health Commission
	Office of National Assessments
	Office of the Commonwealth Ombudsman
	Office of the Inspector-General of Intelligence and Security
	Office of the Official Secretary to the Governor-General
Section 20 Engagements	Governor-General (Allowance Audit)
Regional Australia, Local Government, Arts and Sport	
Financial Statement Audits	Australia Business Arts Foundation Ltd
	Australia Council
	Australian Film Television and Radio School
	Australian National Maritime Foundation
	Australian National Maritime Museum
	Australian Renewable Energy Agency
	Australian Sports Anti-Doping Authority
	Australian Sports Commission
	Australian Sports Foundation Ltd
	Bundanon Trust
	Department of Regional Australia, Local Government, Arts and Sport
	National Archives of Australia
	National Capital Authority

Portfolio	Entity
	National Film and Sound Archive of Australia
	National Gallery of Australia
	National Gallery of Australia Foundation
	National Library of Australia
	National Museum of Australia
	Norfolk Island Administration
	Norfolk Island Hospital Enterprise
	Norfolk Island Tourist Bureau
	Norfolk Island Museum Trust
	Norfolk Island Provident Account
	Old Parliament House
	Screen Australia
Section 20 Engagements	Australia Council (Grant Acquittal Visual Arts and Crafts)
	Norfolk Island Administration (Grants)
Resources, Energy and Tourism	
Financial Statement Audits	Australian Renewable Energy Agency
	Australian Solar Institute Ltd
	Department of Resources, Energy and Tourism
	Geoscience Australia
	National Offshore Petroleum Safety and Environmental Management Authority
	Tourism Australia
Sustainability, Environment, Water, Population and Communities	
Financial Statement Audits	Bureau of Meteorology
	Department of Sustainability, Environment, Water, Population and Communities
	Director of National Parks
	Great Barrier Reef Marine Park Authority
	Murray Darling Basin Authority
	National Environment Protection Council Service Corporation
	National Water Commission
	Natural Heritage Trust of Australia
	Sydney Harbour Conservancy Fund
	Sydney Harbour Conservancy Ltd
	Sydney Harbour Federation Trust

Portfolio	Entity
Section 20 Engagements	Commission for the Conservation of Antarctic Marine Living Resources
	Commission for the Conservation of Southern Bluefin Tuna
	Living Murray Initiative Joint Venture
	River Murray Operations Joint Venture
Treasury	
Financial Statement Audits	Australian Bureau of Statistics
	Australian Competition and Consumer Commission
	Australian Office of Financial Management
	Australian Prudential Regulation Authority
	Australian Reinsurance Pool Corporation
	Australian Securities and Investments Commission
	Australian Taxation Office
	Commonwealth Grants Commission
	Corporations and Markets Advisory Committee
	Department of the Treasury
	Inspector-General of Taxation
	National Competition Council
	Office of the Auditing and Assurance Standards Board
	Office of the Australian Accounting Standards Board
	Productivity Commission
	Reserve Bank of Australia
	Reserve Bank of Australia Note Printing Australia Ltd
	Reserve Bank of Australia Officers' Superannuation Fund
	Royal Australian Mint
Section 20 Engagements	Australian Taxation Office (Consolidated Financial Statement Economic Transactions Method Revenue Estimates Special Purpose Audit and Goods and Services Tax Special Purpose Audit)

Major Projects Report

A key assurance activity is the priority assurance review of major Defence equipment acquisitions and the production of the Major Projects Report.

Increased transparency and accountability on progress with major Defence equipment acquisitions has been a focus of parliamentary interest for some time. Beginning in 2007–08, an annual program has been established in conjunction with the Defence Materiel Organisation (DMO) to enable the ANAO to review major Defence acquisition projects, as set out in the DMO's Major Projects Report. The review includes information relating to the cost, schedule, technical progress and capability performance of individual projects as at 30 June each year. On completion of the review, the ANAO reports to Parliament on the status of each major project that is subject to review.

The first DMO Major Projects Report, tabled in Parliament in November 2008, reported on nine of the DMO's major projects. Since that time three further reports have been tabled on an annual basis and the number of projects reviewed has progressively increased, reaching 28 in 2010–11.

The ANAO continues to undertake analysis of individual project performance and, over time, the emerging trends across all projects and the governance model in place within DMO. The Major Project Report is based on an agreed review scope, and is not as extensive in terms of evidence gathering as is the case for performance audits. The quality of DMO's management reporting systems and controls, and its ability to provide the ANAO with relevant and timely access to information relating to each major project, also influences the review process.

2011–12 Major Projects Report

The 2011–12 Major Projects Report will be the fifth annual report to Parliament on DMO's major projects acquisitions. In 2011–12, 29 projects have been selected, and subsequently endorsed by the Joint Committee of Public Accounts and Audit for review.

The report is expected to be tabled in the Spring 2012 Parliamentary sittings.

2012–13 Major Projects Report

The 2012–13 Major Projects Report will be the sixth annual report to Parliament on DMO's major project acquisitions. The 2012–13 report will build on previous reports, further enabling longitudinal analysis of major Defence equipment acquisitions.

The report is expected to be tabled in the Spring 2013 Parliamentary sittings.

Audit of Key Performance Indicators

The December 2011 amendments to the *Auditor-General Act 1997* (the Act) included providing the Auditor-General with the explicit authority to undertake audits of the appropriateness of key performance indicators (KPIs) and the completeness and accuracy with which they are reported on in agencies' annual reports. Audits conducted pursuant to section 18A of the Act will be conducted as an assurance engagement in accordance with ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information.

The Department of Finance and Deregulation (Finance) is responsible for the administration of the Outcomes and Programs Framework, under which agencies are required to include KPIs in their Portfolio Budget Statements (PBSs). Finance is also responsible for developing guidance to assist agencies to develop and report appropriate KPIs. The Department of the Prime Minister and Cabinet administers the annual reporting process for agencies that requires annual performance reporting on the delivery of programs and achievement against the KPIs, included in PBSs, to be reported in agencies' annual reports.

The ANAO has established a project team that is responsible for the pilot of an ANAO audit program and the development of a methodology that can be applied to future KPI audits. The team is working in conjunction with Finance to ensure that the audit processes align with developments in the Commonwealth performance reporting framework. It is envisaged that this relationship will assist in enhancing the quality of performance information provided to the Parliament and the public.

In the first year, the project team is working in a consultative manner with a small number of agencies to develop and pilot KPI audit processes. A selection of programs from these agencies has been chosen for review. The selection provides a mixture of social policy, service delivery and regulatory role KPIs.

Following an assessment of the results of the pilot audit, the Auditor-General will consider options for a broad-based audit program in future years, taking into account resource considerations.

Section Two

Performance audits, in progress and proposed

This section outlines performance audits in progress as at July 2012 and a rolling program of proposed performance audits by portfolio. The performance audit program also includes cross-agency performance audits that will involve a number of agencies, and a series of better practice guides.

Agriculture, Fisheries and Forestry

Audit strategy overview

The Agriculture, Fisheries and Forestry portfolio aims to enhance the sustainability, profitability and competitiveness of Australia's agriculture, food, fisheries and forestry industries. To achieve this outcome, the portfolio's budget in 2012–13 is around $1.6 billion. The portfolio comprises the Department of Agriculture, Fisheries and Forestry (DAFF) and 10 portfolio agencies that are responsible for: the regulation of Commonwealth-managed fisheries, veterinary medicines, pesticides and wheat exports; marketing of the wine industry; and research and development across key agricultural industries.

DAFF advises government and its stakeholders on how to improve the productivity, competitiveness and sustainability of portfolio industries—including agriculture, fisheries and forestry—and helps people and goods to move in and out of Australia while managing the risks to the environment and animal, plant and human health. Major priorities in the portfolio include: improving productivity growth and sustainability in agriculture, fisheries, forestry and food production; continuing the reform of the agricultural and veterinary chemicals regulatory framework; helping farmers to mitigate and adapt to the effects of a changing climate; reforming the biosecurity system and managing pest and disease risks; delivering grant assistance under the Tasmanian Forests Intergovernmental Agreement; and managing live animal export welfare issues.

Audits in recent years have focused on: the management of structural adjustment programs in the dairy, forestry and fishing industries; grants administration; drought assistance; the regulation of Commonwealth-managed fisheries and agricultural and veterinary chemicals; and live animal imports. The ANAO's future audit program will continue to address the risks associated with areas of grants administration, biosecurity, regulation of the fishing industry, live animal exports, and preparedness for food, pest and disease emergencies.

Audits in progress at July 2012

Tasmanian Forest Contractors Voluntary Exit Grants Program

On 7 August 2011, the Australian Government and the Tasmanian State Government signed the Tasmanian Forests Intergovernmental Agreement (IGA). The IGA provides $277 million for support and re-skilling programs, to facilitate the protection of high conservation value forests and to fund regional development in Tasmania. Under the IGA, DAFF is responsible for administering the $45 million Tasmanian Forest Intergovernmental Agreement Contractors Voluntary Exit Grants Program. The program provides, on a competitive basis, grants of up to $3 million to eligible businesses. All payments under the program were to be made before 30 June 2012.

The objective of the audit is to examine the effectiveness of DAFF's administration of the Tasmanian Forest Contractors Voluntary Exit Grants Program.

The audit report is expected to be tabled in the Spring 2012 Parliamentary sittings.

Administration of the Domestic Fishing Compliance Program

The Australian Government manages the fisheries in waters from three nautical miles to 200 nautical miles offshore. The Australian Government's jurisdiction is generally limited to commercial fishing, with the state and territory governments assuming responsibility for recreational fishing. The Australian Fisheries Management Authority (AFMA) is responsible for managing commercial fishing within Commonwealth fisheries. The detection and

investigation of illegal fishing activities by both domestic and foreign fishers, and subsequent enforcement of penalties for illegal activities, are key AFMA responsibilities. To this end, legislation provides a range of compliance and enforcement measures to be used by AFMA in response to breaches of fisheries management rules.

ANAO Audit Report No.47 2008–09, *Management of Domestic Fishing Compliance* was tabled in June 2009. Overall, the audit found that while AFMA was managing some aspects of its regulatory functions effectively, there were opportunities for improvement, particularly with regard to quota management, the inspection and enforcement program, and reporting. Additionally, the audit identified a number of risks in relation to the adoption of a new centralised model for the Domestic Fishing Compliance Program, which had been developed, but not implemented at the time of the audit.

The objective of the audit is to assess the effectiveness of AFMA's administration of the Domestic Fishing Compliance Program.

The audit report is expected to be tabled in the Autumn 2013 Parliamentary sittings.

Potential audits

Live Animal Exports

The live animal export trade was worth more than $1 billion in 2010 and employs approximately 10 000 people in rural and regional Australia. To legally export live animals from Australia, exporters must be licensed by DAFF. As part of this process, the department must be satisfied that the importing country's requirements are met before issuing a health certificate and export permit. Exporters are then accountable to the Australian Government for the outcomes of each consignment.

Over time, instances of poor animal welfare conditions and high mortality rates in the live export trade have been reported. Australia's livestock export industry was reviewed (the Keniry Review) in 2003 and eight recommendations were made to improve animal welfare conditions.

On 7 June 2011, the Minister for Agriculture, Fisheries and Forestry suspended live animal exports to Indonesia for slaughter following evidence of animal welfare abuses in some abattoirs. In July 2011, a new supply chain assurance framework was developed to allow exports to re-commence to Indonesia. On 21 October 2011, the Minister announced that the Australian Government would extend the Exporter Supply Chain Assurance System framework developed for Indonesia to all feeder and slaughter livestock export markets by the end of 2012. This decision reflects the recommendations of the Farmer Review (undertaken in 2011) and industry-government working groups.

The regulatory framework is to be implemented in stages, and is expected to cover 75 per cent of trade by the end of February 2012, 99 per cent of trade by the end of August 2012 and all trade by the end of 2012.

An audit would examine DAFF's implementation and monitoring of compliance with the Australian Government's requirements for the export of live animals.

Live Animal Exports Assistance Packages

In June 2011, the Minister for Agriculture, Fisheries and Forestry suspended the export of live cattle to Indonesia in response to animal welfare issues. In late June 2011, the Minister announced an Income Recovery Subsidy assistance package of around $3 million for workers whose income had been directly affected by the temporary suspension. Soon after,

the Prime Minister announced a further $30 million live animal exports assistance package for businesses that had been affected by the temporary suspension.

The assistance packages were time limited, with applications for the Income Recovery Subsidy and business assistance package closing in September 2011. The business assistance package could be closed earlier if all the funds were committed before the final lodgement date. The Department of Human Services (DHS) administered the payments on behalf of DAFF.

An audit would examine the effectiveness of DHS' delivery of the 2011 live animal exports assistance packages.

Filling the Research Gap

In July 2011, the Australian Government released the *Securing a Clean Energy Future Plan*, which was developed to reduce greenhouse gas emissions to an acceptable level while driving investment in renewable energy. The plan includes a $1.7 billion Land Sector Package that aims to create new opportunities for land managers to enhance productivity, gain economic benefits and help the environment by reducing greenhouse emissions.

As part of the Land Sector Package, DAFF is responsible for delivering the Filling the Research Gap Program. Through the distribution of grants, the program will invest $20 million over the next six years for research into emerging abatement technologies, strategies and innovative management practices that support farmers and other landholders to participate in the Carbon Farming initiative and improve sustainable agriculture practices. The first application round for the Filling the Research Gap Program closed on 3 February 2012.

An audit would examine the effectiveness of DAFF's administration of the Filling the Research Gap Program.

Caring for our Country

The goal of the Caring for our Country Program is to achieve an environment that is healthier, better protected, well managed, resilient, and provides essential ecosystem services in a changing climate. In 2011, Caring for our Country was subject to a major review in anticipation of funding lapsing in 2012–13. As part of the 2012–13 Budget, the Australian Government announced the continuation of Caring for our Country with funding of $2.2 billion over the period 2013–14 to 2017–18 in two streams—sustainable environment and sustainable agriculture. The design and future implementation of the Caring for our Country Program will incorporate the findings of the review and take into account submissions received through a public consultation process to be completed in August 2012.

An audit would examine the administration of the Caring for our Country Program and the progress towards achieving its objectives.

Quarantine and Biosecurity Systems

Australia's quarantine and biosecurity systems aim to minimise the risks associated with the entry and subsequent spread of exotic pests and diseases that have the potential to cause significant economic, environmental or community costs, including impacts on Australia's $36 billion agriculture export industries. A range of technologies and approaches are used to help prevent the introduction and spread of disease, including research and shared international resources and intelligence.

A series of audits on Australia's quarantine and biosecurity operations at international airports and seaports would examine the effectiveness of strategies applied across the continuum that aim to prevent and manage incursions on a risk basis.

Managing Exotic Pests and Diseases

Pest and disease outbreaks have the potential to cause significant damage to Australia's agricultural sector. DAFF is responsible for managing pest and disease outbreaks by coordinating resources and operational and technical support. The department also coordinates national eradication programs, which are joint arrangements between the Australian Government and state and territory governments.

The ANAO reviewed DAFF's management of the Australian Government's role in preparing for, and managing, pest and disease emergencies in 1999–2000. An audit would examine DAFF's current preparedness for pest and disease emergencies and the effectiveness of the department's arrangements for managing pest and disease incursions.

Food Supply Continuity Planning

Food supply continuity planning is part of the Australian Government's *Critical Infrastructure Resilience Strategy*. Planning to maintain continuity of the food supply during significant national emergencies began with the threat of Avian Influenza in 2003. This planning aimed to reduce the possible impact of an influenza pandemic on the functioning of the food supply chain. In July 2006, the Council of Australian Governments endorsed the *National Action Plan for Human Influenza Pandemic*.

DAFF has coordinated the development of a national plan to maintain food supply continuity in the event of an influenza pandemic through *AUSFOODPLAN—Pandemic*, and a complementary industry plan. *AUSFOODPLAN—Pandemic* also includes the supply of groceries, as the food supply and distribution chain is the primary channel to market for a range of household health and hygiene products that are essential during an emergency.

Planning has since been broadened to build the food chain's resilience in other emergency situations including bushfires, floods, cyclones or other unexpected disruptions that could arise in a fast-changing and increasingly uncertain environment. Work has commenced on an overarching *AUSFOODPLAN—All Hazards*, which will incorporate *AUSFOODPLAN—Pandemic* as a subordinate plan.

An audit would examine DAFF's preparedness for managing situations that threaten the continuity of Australia's food supply.

International Mail

Under the *Australian Postal Corporation Act 1989,* Australia Post is required to supply postal services within Australia and between Australia and places outside Australia. As with all goods entering Australia, irrespective of the mode of importation, DAFF and the Australian Customs and Border Protection Service are responsible, under legislation, for exercising the relevant customs and quarantine controls.

In 2010–11, Australia Post processed 172.5 million items that were posted overseas for delivery in Australia. From these, DAFF intercepted 430 000 items of quarantine risk and Customs and Border Protection examined some 181 195 mail items. Arrangements between Australia Post, DAFF and Customs and Border Protection are set out in a Memorandum of Understanding (MOU). The MOU provides that Australia Post will present all inbound international mail to DAFF and Customs and Border Protection as and when they require it. Australia Post opens and closes any mail items selected for inspection or examination.

An audit would examine the effectiveness of DAFF's and Customs and Border Protection's screening and examination processes for international mail. The audit would complement ANAO Audit Report No.15 2010–11, *Risk Management in the Processing of Air and Sea Cargo Imports*.

Attorney-General's

Audit strategy overview

The Attorney-General's portfolio comprises the Attorney-General's Department (AGD), the Australian Federal Police (AFP), the Australian Customs and Border Protection Service (Customs and Border Protection), and a number of other agencies, including those covering national security, administration of justice and law enforcement. The specialist advice provided by the portfolio agencies and the activities they undertake contribute to the Australian Government's priorities for a stronger and fairer Australia that is capable of meeting new challenges. In 2012–13, funding for the 21 agencies within the portfolio totalled some $4.6 billion.

The ANAO has focused its recent audit efforts on risks in the national security and border security environment. Current audit coverage continues to focus on key risk areas, including the provision of policing services to the Australian Capital Territory and the management and disposal of seized and detained goods.

Planned audit work places particular emphasis on how well the justice, law enforcement, intelligence and border security agencies in the portfolio are maintaining core capabilities and delivering key functions. AGD's administration of the Natural Disaster Relief and Recovery Arrangements will also be an area of ongoing audit focus.

Audits in progress at July 2012

Provision of Policing Services to the Australian Capital Territory

The provision of policing services within the Australian Capital Territory (ACT) has been a key responsibility of the AFP since its establishment in 1978. At present, services are provided by ACT Policing, a largely independent business unit within the AFP, headed by the ACT Chief Police Officer. Services are provided on a cost recovery basis pursuant to a Purchase Arrangement between the Commonwealth Minister for Justice and Customs and the ACT Minister for Police and Emergency Services. The current Arrangement, which is specified to operate for five years from June 2011 to June 2016, is underpinned by a more detailed annual Purchasing Agreement signed by the ACT Minister, the AFP Commissioner and the Chief Police Officer for the ACT.

ACT Policing is formally structured as a separate organisational entity but there is considerable interchange with, and dependence on, broader AFP administration and operations. ACT policing services account for around 10.2 per cent of overall AFP expenditure ($153 million out of $1.5 billion in 2012–13) and 15.3 per cent of AFP staffing (982 out of 6410).

The objective of the audit is to assess the effectiveness of the AFP's management of the delivery of policing services to the ACT.

The audit report is expected to be tabled in the Autumn 2013 Parliamentary sittings.

Management and Disposal of Seized and Detained Goods

One of Customs and Border Protection's roles is to prevent, deter and detect the entry of harmful and illegal goods into Australia. Goods may be held after importation for a variety of reasons. Some goods are seized because they are prohibited imports (such as illicit drugs, counterfeit goods, weapons and dangerous toys). Other goods are detained pending production of a permit or other permission or, in the case of legitimately imported firearms,

held pending safety testing. Depending on the nature of the goods, they may ultimately be destroyed, otherwise disposed of, returned to their owner, or exported.

Seized and detained goods are held in one of a number of purpose-built, high-security stores around Australia, although large seizures of illicit drugs are transferred to the AFP. Customs and Border Protection uses a Detained Goods Management System to record, manage and account for goods in its custody. A high level of accountability is necessary as many seized goods are inherently dangerous and because of the need for continuity of evidence should the goods be required as evidence for prosecution.

The objective of the audit is to assess the effectiveness of Customs and Border Protection's arrangements for managing the safe and secure storage and disposal of selected seized and detained goods.

The audit report is expected to be tabled in the Autumn 2013 Parliamentary sittings.

Potential audits

Australian Transaction Reports and Analysis Centre

The Australian Transaction Reports and Analysis Centre (AUSTRAC) is the Australian Government's anti-money laundering and counter-terrorism financing regulator and specialist financial intelligence unit. AUSTRAC was established in 1989 as the Cash Transaction Reports Agency under the *Cash Transaction Reports Act 1988*, which in 1991 was renamed the *Financial Transaction Reports Act 1988*. The total appropriation for AUSTRAC in 2012–13 is $69.9 million.

In its regulatory role, AUSTRAC oversees compliance with the reporting obligations of the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF Act) and the *Financial Transactions Reports Act 1988* for approximately 17 000 businesses across diverse industry sectors that include financial services providers, the gambling industry and other specified 'regulated entities'. As Australia's financial intelligence unit, AUSTRAC collects and analyses financial information provided by regulated entities to assist Australian law enforcement, national security, social justice and revenue agencies, and certain international counterparts, in the investigation and prosecution of serious criminal activity, including terrorism financing, organised crime and tax evasion.

An audit would examine AUSTRAC's management of its regulatory or its financial intelligence functions as well as other agencies' use of AUSTRAC's financial intelligence data.

Australian Federal Police's Management of People Smuggling Initiatives

Action to combat people smuggling has been a key priority for the AFP over the past decade, attracting significant new policy funding and remaining at the forefront of political and public interest.

The AFP is a significant participant in the whole-of-government response to people smuggling, with responsibilities in relation to both policy advice and operations. AFP operations have three primary dimensions: prosecution, disruption and capacity-building. The prosecution strategy relies on foreign and Australian prosecution of people smugglers. The disruption strategy consists of providing actionable intelligence to inform foreign law enforcement action and prevent maritime ventures before they depart for Australia. The capacity-building strategy is focused on enhancing the capacity of the Indonesian National Police and other law enforcement agencies across the region including in Sri Lanka, Pakistan, and Malaysia.

An audit would examine the effectiveness of the AFP's administration of initiatives to assist regional law enforcement agencies to disrupt people smuggling activity. It would not include a review of the AFP's role in prosecuting suspected people smugglers within Australia, nor would it include a review of the AFP's policing at immigration detention centres, including Christmas Island.

Australian Federal Police's Management of Information Communications Technology

Information and Communications Technology (ICT) is critical to the capacity of the AFP to effectively deliver operational, intelligence and corporate outcomes. Within the AFP, ICT is currently undergoing significant transformation. The AFP is presently examining elements of its ICT governance, including the means for maintaining appropriate security while supporting operational priorities. At the same time, the AFP is acquiring and developing the next generation of the AFP's operations and intelligence IT system (Project Spectrum). The new system represents a substantial investment by the AFP (projected to be over $69 million over five years) and will be a key resource underpinning AFP operations into the future.

An audit would examine the effectiveness of the AFP's ICT portfolio and program management arrangements. It would provide a strategic assessment of the AFP's ICT governance, planning and management processes, including the management of the risks arising from ICT reform. The audit could also include Project Spectrum as a case-study of the AFP's management of a key ICT project.

Policing at Australia's Airports

Until 2009, responsibility for aviation security, and in particular the policing of Australia's principal airports, was shared between Commonwealth and state law enforcement agencies. Under this 'hybrid' model, the Commonwealth provided funding and Protective Service Officers, while state police forces provided the bulk of sworn police for airport operations. In 2009, the Australian Government decided that the Commonwealth would accept responsibility for both the funding and the staffing of national coordinated airport security and policing services—the 'all-in' model.

Since 2009, the AFP has been working with stakeholders to implement the Government's decision to make policing at Australia's airports a Commonwealth responsibility. At the time of the decision, it was anticipated that this model would both simplify the administration of policing and security at airports and lead to cost savings to the Australian Government, in the order of $7 million per annum. During 2011–12, $120 million was allocated to the AFP's aviation portfolio, with an anticipated staffing level of 820 personnel.

An audit would examine the AFP's administration of the transition to the 'all-in model' of airport policing, including whether the Government's expectations of administrative simplification and financial savings have been achieved.

Administration of the Australian Federal Police's Overseas Workforce

The AFP has a substantial workforce of officers who are deployed overseas on a combination of long-term and short-term missions. More than 700 staff are deployed as part of the International Deployment Group, which provides law enforcement and peace keeping activities to Overseas United Nations peace keeping missions and regional assistance missions. A further 100 staff are posted overseas as part of the AFP's international liaison network. These arrangements cover more than 10 per cent of the AFP's total staffing.

The number of AFP staff deployed overseas has grown markedly over the past decade. A substantial component of this increase involves the engagements in the Solomon Islands

and Timor Leste. However, there have also been numerous smaller missions, for example in Africa. The AFP's international liaison network has also expanded, reflecting the increased emphasis on counter-terrorism and combating people smuggling.

An audit would examine the AFP's arrangements for managing and deploying AFP officers overseas. Particular emphasis would be given to strategic consideration of the appropriate number of Australian-based staff, their skills, and the location of deployment. Arrangements to support these deployments, including the selection and training of staff and management of overseas conditions of service, would be key areas of focus. The audit would complement ANAO Audit Report No.53 2006–07, *Australian Federal Police Overseas Operations.*

International Mail

Under the *Australian Postal Corporation Act 1989,* Australia Post is required to supply postal services within Australia and between Australia and places outside Australia. As with all goods entering Australia, irrespective of the mode of importation, Customs and Border Protection and the Department of Agriculture, Fisheries and Forestry (DAFF) are responsible, under legislation, for exercising relevant customs and quarantine controls.

In 2010–11, Australia Post processed 172.5 million items that were posted overseas for delivery in Australia. From these, DAFF intercepted 430 000 items of quarantine risk and Customs and Border Protection examined some 181 195 mail items. Arrangements between Australia Post, DAFF and Customs and Border Protection are set out in a Memorandum of Understanding (MOU). The MOU provides that Australia Post will present all inbound international mail to DAFF and Customs and Border Protection as and when they require it. Australia Post opens and closes any mail items selected for inspection or examination.

An audit would examine the effectiveness of DAFF's and Customs and Border Protection's screening and examination processes for international mail. The audit would complement ANAO Audit Report No.15 2010–11, *Risk Management in the Processing of Air and Sea Cargo Imports*.

Cape Class Vessel Project

As part of the 2010–11 Budget, the Australian Government announced that it would provide funding to commence replacement of Customs and Border Protection's Bay Class patrol vessels, which are reaching the end of their operational life. The Bay Class vessels are currently used to patrol against and respond to, civilian threats to Australia's maritime domain.

At 58.1 metres long, eight new Cape Class vessels will be larger and faster than their 38.2-metre Bay Class predecessors. They are intended to have improved surveillance technology and communications and be capable of patrolling for 28 days at a time. The vessels are designed to travel 4000 nautical miles before refuelling, and to sail as far south as the 50 degree south mark in the Southern Ocean and as far north as the Cocos (Keeling) Islands.

Western Australian ship manufacturer Austal has a $350 million contract to build the Cape Class patrol boats. The first of the vessels is expected to be ready for operational trials by March 2013 and the last in late 2015. Austal will provide support for the boats until August 2019.

An audit would examine the effectiveness of Customs and Border Protection's management of the acquisition of the Cape Class patrol boats.

Customs and Border Protection's Detection of Illicit Drugs and Precursors

The importation of illicit drugs and precursor chemicals is considered by Customs and Border Protection to be a major risk. The agency made 15 494 detections amounting to a total weight of 4751kg of drugs and precursors during 2010–11. This outcome was an increase from 2009–10, when 9462 detections amounting to a total weight of 1252kg of drugs and precursors was made.

Customs and Border Protection has acknowledged that there needs to be a more effective use of existing resources and capabilities in relation to the importation of illicit drugs and precursors. It has also noted that there are significant risks in the area of importing illicit drugs and precursors through international mail. In response, the agency has developed a three-year Drug and Precursor Response Plan.

An audit would examine the effectiveness of Customs' strategies to detect illicit drugs and precursors, including its cooperation with other law enforcement agencies and AUSTRAC.

Cyber Security

In the 2008 National Security Statement, the then Prime Minister identified cyber security as one of Australia's top national security priorities. The aim of the Australian Government's resulting cyber security policy is the maintenance of a secure, resilient and trusted electronic operating environment that supports Australia's national security and maximises the benefits of the digital economy.

Following the December 2011 machinery of government changes, responsibility for the cyber security policy function was transferred from AGD to the Department of the Prime Minister and Cabinet (PM&C), which now has responsibility for leading and coordinating the whole-of-government approach to the development of a secure, coordinated and effective national security information management environment. PM&C also chairs the Cyber Security Policy and Coordination Committee. While PM&C is the lead agency, other agencies play a role in Australia's cyber security arrangements including AGD, the Defence Signals Directorate and Australian Security Intelligence Organisation.

An audit would examine the effectiveness of PM&C's coordination and policy leadership in the implementation of the Government's cyber security policy. The role played by other agencies could also be considered as part of an audit.

Cyber-safety Plan

The Department of Broadband, Communications and the Digital Economy (DBCDE) is responsible for Australia's online (internet) safety and security. The department's responsibilities are shared with other Australian Government agencies, including AGD, the AFP, the Office of the Director of Public Prosecutions and the Australian Communications and Media Authority.

In May 2008, the Australian Government committed $125.8 million over four years to a comprehensive Cyber-safety Plan to combat online risks and help parents and educators protect children from inappropriate material. Measures include increased funding towards cyber-safety education and awareness-raising activities, content filtering and law enforcement.

An audit would examine DBCDE's administration of the Cyber-safety Plan and the extent to which it is achieving established objectives. The audit may also involve AGD, AFP, the Office of the Director of Public Prosecutions, and the Australian Communications and Media Authority.

Administration of the Natural Disaster Relief and Recovery Arrangements

The Natural Disaster Relief and Recovery Arrangements (NDRRA) is the principal Commonwealth funding mechanism for non-drought disaster relief and recovery. It provides for reimbursement to the states and territories for expenditure they incur on eligible measures in defined circumstances (although advance payments may also be made in exceptional circumstances). The NDRRA funds: emergency assistance provided to individuals to alleviate their personal hardship or distress; the restoration or replacement of certain essential public assets; loans, subsidies or grants to alleviate the financial burden of costs incurred by certain businesses, primary producers, voluntary non-profit bodies and individuals; community recovery packages; and other acts of relief or recovery carried out to alleviate distress or damage in exceptional circumstances. Including advance payments relating to significant natural disasters in Queensland and Victoria, in 2010–11, some $2.6 billion was paid to the states and territories under NDRRA.

An audit would examine the:

- AGD's administration of the terms of the NDRRA Ministerial Determination; and
- reconstruction and recovery work funded under NDRRA and delivered by other levels of government. Agreement from the Joint Committee of Public Accounts and Audit would be required for the audit scope to extend to commenting on the performance of any state bodies.

Broadband, Communications and the Digital Economy

Audit strategy overview

The stated purpose of the Broadband, Communications and the Digital Economy portfolio is to develop a vibrant, sustainable and internationally competitive broadband, broadcasting and communications sector, through policy development, advice and program delivery, which promotes the digital economy for all Australians. Agencies in the portfolio are: the Department of Broadband, Communications and the Digital Economy (DBCDE); the Australian Broadcasting Corporation; the Special Broadcasting Service Corporation; the Australian Communications and Media Authority; and the Telecommunications Universal Service Management Agency. Total resourcing for these agencies in 2012–13 is around $7.2 billion. The portfolio also includes two Government Business Enterprises: National Broadband Network Co Ltd (NBN Co) and the Australian Postal Corporation (Australia Post).

The department's key priorities are: to facilitate the increased availability of fast, affordable and reliable broadband and communications infrastructure across Australia; to support all Australians to safely and securely realise the full potential of the digital economy; to ensure the availability and reliability to consumers and businesses of reasonably priced basic and essential communication services; to ensure the switchover to digital-only television by the end of 2013; and to support access to high-quality, innovative and diverse broadcasting services that deliver content consistent with Australia's diverse community expectations. The department's key challenges include completing the digital switchover in accordance with the Australian Government's timetable for switch-off of the analog signal; delivering policy advice and monitoring the implementation of the National Broadband Network; delivering the Indigenous Communications Program—the portfolio's contribution to the closing the gap in Indigenous disadvantage initiative; and effectively administering grants and funding programs.

Recent audit coverage in the portfolio included the Regional Backbone Blackspots Program to improve the competition in fibre-optic backbone services and the Digital Television Switchover—Household Assistance Scheme to support the switchover to digital television. The ANAO's future audit program will continue to address the key risks associated with the portfolio's initiatives and responsibilities, with a focus on programs aimed at improving access to digital services in regional and remote areas and those designed to combat risks from internet usage by children.

Audits in progress at July 2012

Regional Backbone Blackspots Program

As part of the Australian Government's commitment to deliver a National Broadband Network that will provide superfast broadband to Australian homes and workplaces, the Government is investing up to $250 million to immediately address areas where there is a lack of competitive backbone infrastructure ('blackspots'). Following a tender process, Nextgen Networks began rolling out approximately 6000 kilometres of backbone infrastructure under the program. The rollout of the backbone infrastructure to the six priority locations was completed in the second half of 2011. Nextgen Networks will also operate and maintain backbone transmission links to the priority blackspot locations for an initial five-year operational period.

The objective of the audit is to examine the tendering, construction and the ongoing operation and maintenance phases of the Regional Broadband Blackspot Program.

The audit report is expected to be tabled in the Winter 2012 Parliamentary sittings.

Potential audits

Indigenous Communications Program

The Indigenous Communications Program is part of the closing the gap in Indigenous disadvantage initiative. The program commenced on 1 July 2009 and is a $31 million initiative to help improve communication services in remote Indigenous communities. The program is also part of the Government's response package to the *Regional Telecommunications Review* and includes the following two elements:

- Community Phones—provides funding to install and maintain community phones in remote Indigenous communities and provides satellite handsets, where appropriate. The program aims to provide up to an additional 320 community phones in small, remote Indigenous communities throughout Australia.
- Internet Access and Training—provides funding to improve access for Indigenous Australians in remote communities to public internet facilities and computer training, in partnership with the state and Northern Territory governments.

An audit would examine the implementation and administration of the Indigenous Communications Program and the extent to which it is achieving established objectives.

Digital Regions Initiative

The four-year, $60 million Digital Regions initiative is a competitive funding program to co-fund innovative digital enablement projects with state, territory and local governments using a National Partnership Agreement approach. Through a collaborative approach, the aim of the initiative is to improve the delivery of education, health and/or emergency services in regional, rural and remote communities.

The Digital Regions initiative was announced in March 2009 and concludes in 2013. Under the program, state, territory and local governments can apply directly for funding, while private and not-for-profit organisations can partner with eligible organisations. The program has seen a total of 16 successful projects funded.

An audit would examine DBCDE's administration of the Digital Regions initiative.

Cyber-safety Plan

DBCDE is responsible for Australia's online (internet) safety and security. The department's responsibilities are shared with other Australian Government agencies, including the Attorney-General's Department, the Australian Federal Police, the Office of the Director of Public Prosecutions and the Australian Communications and Media Authority.

In May 2008, the Australian Government committed $125.8 million over four years to a comprehensive Cyber-safety Plan to combat online risks and help parents and educators protect children from inappropriate material. Measures include increased funding towards cyber-safety education and awareness-raising activities, content filtering and law enforcement.

An audit would examine DBCDE's administration of the Cyber-safety Plan and the extent to which it is achieving established objectives. The audit may also involve the Attorney-General's Department, the Australian Federal Police, the Office of the Director of Public Prosecutions, and the Australian Communications and Media Authority.

Climate Change and Energy Efficiency

Audit strategy overview

The Climate Change and Energy Efficiency portfolio oversees the development and coordination of Australia's climate change and energy efficiency policy. The portfolio is responsible for policy advice, policy implementation and program delivery in the following areas: reducing Australia's greenhouse gas emissions; promoting energy efficiency; adapting to climate change; and helping to shape a global climate change solution. Total appropriations for 2012–13 were $1.6 billion. The Climate Change and Energy Efficiency portfolio includes statutory authorities that are primarily concerned with regulatory functions and program delivery. The Clean Energy Regulator (CER), a new statutory authority that commenced on 2 April 2012 and subsumed the role of Office of the Renewable Energy Regulator, was established to administer: the carbon pricing mechanism; the National Greenhouse and Energy Reporting Scheme; the Renewable Energy Target; and the Carbon Farming initiative.

The Department of Climate Change and Energy Efficiency (DCCEE) is responsible for policy advice and policy implementation. The main priority for DCCEE is implementing the Government's carbon pricing mechanism from July 2012. DCCEE also provides secretariat support to the Multi-Party Climate Change Committee and to the Government's consultative fora. Work is also continuing on the delivery of Home Insulation Safety Programs until the Government's safety commitments have been met. Building Australia's climate change science base and understanding in the community are also ongoing priorities along with advancing Australia's international climate change agenda.

Audits in recent years have focused on grants administration in climate change mitigation and energy efficiency programs, the coordination and reporting of Australia's climate change measures, and regulatory compliance in relation to the National Greenhouse and Energy Reporting Scheme. The ANAO's future audit program will focus on programs providing financial assistance for climate change mitigation and adaptation, as well as key business support functions, such as information technology services and the management of fraud.

Audits in progress at July 2012

Design and Implementation of the Energy Efficiency Information Grants Program

The $40 million Energy Efficiency Information Grants (EEIG) Program forms part of a suite of energy efficiency measures under the Australian Government's *Securing a Clean Energy Future Plan*. This multi-round, competitive merit-based grants program is intended to provide funding to industry associations and non-profit organisations to work with small and medium business enterprises and community organisations on the provision of information concerning the smartest ways to use energy. The 28 projects approved for $20 million of funding under round one of the EEIG Program were announced in May 2012.

The objective of the audit is to assess the effectiveness of the design and implementation of the first funding round of the EEIG Program.

The audit report is expected to table in the Winter 2013 Parliamentary sittings.

Potential audits

Community Energy Efficiency Program

The $200 million Community Energy Efficiency Program is a merit-based grant program established by the Australian Government to provide matched funding to local councils and non-profit community organisations to undertake energy efficiency upgrades and retrofits to council and community-use buildings, facilities and lighting. The program is part of the Government's *Securing a Clean Energy Future Plan* and its objectives are to:

- support a range of local councils and community organisations to improve the energy efficiency of different types of non-residential council and community-use buildings, facilities and lighting; and
- demonstrate and encourage the adoption of improved energy management practices within councils, organisations and the broader community.

Funding for projects under the program is to commence from 2012 (applications under the first round closed in March 2012), with all successful projects under each round to be completed by June 2016.

An audit would examine the design, implementation and administration of the Community Energy Efficiency Program, focusing on the conduct of the first application round, with a view to identifying any improvement opportunities that merit being addressed in further funding rounds. The audit scope will concentrate on the application, assessment and decision-making processes for the round, rather than the management of funding agreements with the successful applicants.

International Climate Change Adaptation Initiative

The International Climate Change Adaptation initiative is jointly managed by the Australian Agency for International Development (AusAID) and DCCEE. The Australian Government has invested $150 million over three years (2008–09 to 2010–11) through its aid program to meet high-priority climate change adaptation needs in vulnerable countries in the Asia-Pacific region.

The 2010–11 Budget extended funding by $178.2 million for an additional two years to continue programs helping those countries in the region adapt to the impacts of climate change. Australia will also extend assistance to vulnerable nations in the Caribbean and Africa and for additional initiatives in the Mekong region. Assistance provided through the International Climate Change Adaptation initiative is designed to assist countries to:

- identify and help finance priority adaptation measures to increase resilience to the impacts of climate change;
- increase understanding of how the climate and oceans have changed and how they may change in the future; and
- assess their vulnerability to climate change and develop evidence-based adaptation strategies.

An audit would examine progress towards the outcomes sought by Government and the extent to which agencies have determined value for money from the funding delivered under the initiative.

Climate Change Adaption Program

Climate change caused by the emission of greenhouse gases has been recognised as a global challenge with the potential to affect ecosystems, water resources, food production, human health, infrastructure and energy systems. Many countries are now developing and implementing strategies to address the effects of climate change already built into climate forecasts.

The Australian Government has provided up to $126 million for the Climate Change Adaption Program, administered by DCCEE. Through the program, a number of projects and assessments have been implemented with the aims of improving public knowledge of the impacts of climate change, and to strengthen the capacity of decision-makers to respond and address major areas of national vulnerability. Specifically, the program funds:

- the establishment of the National Climate Change Adaptation Research Facility—$20 million;
- grants for local councils and professionals—over $4 million; and
- major national vulnerability assessments which include: the National Coastal Risk Assessment; the Biodiversity Vulnerability Assessment; the implications of climate change for Australia's World Heritage Properties and the National Reserve Systems; and interactions between climate change, fire regimes and biodiversity in Australia.

An audit would examine the effectiveness of intergovernmental coordination and priority setting and the extent to which progress towards the outcomes sought by the Government is being measured and reported.

Management of Information Technology Service Delivery

Information Technology (IT) is a critical business platform for the delivery of services in DCCEE and the portfolio. Since the formation of the department in 2007, DCCEE has experienced significant pressures from machinery of government changes and fluctuations in both program focus and resources. This has impacted on the capacity of IT services to meet changing business requirements in terms of timeliness, cost and quality. The introduction of the carbon pricing mechanism from July 2012 and associated new programs will introduce significant ongoing pressures on IT service delivery within the department and within the new Clean Energy Regulator.

Ideally, IT systems should be fit-for-purpose and integrated across the entire organisation, with appropriate connectivity between finance/accounting, human resource management, client relationships and management information and reporting systems. IT systems should facilitate the flow of information across all business functions inside the boundaries of the organisation and manage the connections to outside stakeholders with appropriate security and controls.

An audit would examine the management of significant business risks in the development and implementation of IT services in DCCEE and the Clean Energy Regulator.

Fraud Control and Management

Fraud continues to be an ever-present threat to the Australian community, posing significant challenges to organisations in its prevention and detection. Government departments are not immune from these threats, especially those departments that are responsible for the delivery of grants and funding to the community.

Under the *Financial Management and Accountability Act 1997* (FMA Act), Chief Executive Officers and officials are required to manage the affairs of the agency in a way that promotes

the efficient, effective, economical and ethical use of the Commonwealth resources for which they are responsible. FMA Act agencies are also required to adhere to the Australian Government's fraud control policy framework. The *Fraud Control Guidelines* establish the fraud control policy framework within which entities determine their specific practices, plans and procedures to manage the prevention and detection of fraudulent activities within their organisation, and the investigation and prosecution of offenders, where appropriate.

In 2010–11, DCCEE was responsible for approximately $1 billion in administered appropriations. The Green Loans and Home Insulation Programs increased the department's exposure to the risk of fraudulent activity. Under the Home Insulation Program 150 cases of fraud were identified and DCCEE continues to work towards finalising these cases. The introduction of the carbon pricing mechanism and associated programs from July 2012 will also increase administered expenditure and consequently the risk of fraud.

An audit would examine the establishment of controls and the management of fraud within DCCEE.

Energy Security Fund (Cash Payments)

On 10 July 2011, the Australian Government announced the *Securing a Clean Energy Future Plan*, which included the introduction of a carbon pricing mechanism. As the introduction of a carbon pricing mechanism is likely to have significant implications for the electricity generation sector, the *Securing a Clean Energy Future Plan* includes a package of measures to address energy security. The package comprises three elements: the Energy Security Fund; government loans; and an Energy Security Council. The cash payments element of the Energy Security Fund will provide assistance to highly emissions-intensive coal-fired generators with $1 billion in cash payments expected to be provided in 2011–12. These payments are administered by DCCEE. The guidelines developed by the department, which include eligibility requirements and the assistance formula, set out how the department will assess and deliver cash payments.

An audit would examine the design and delivery of the Energy Security Fund cash payments and the probity and distributional impacts of the funding.

Defence

Audit strategy overview

The Defence organisation is large and complex comprising the Australian Defence Force (ADF), the Department of Defence and the Defence Materiel Organisation (DMO). Defence has a workforce in the order of 102 000 people, assets of $70 billion, and will receive funding of almost $24.2 billion in 2012–13 to defend Australia and its national interests. ANAO's performance audit strategy considers both the substantial resources allocated to achieving this aim, and the changing strategic environment in which Defence will be operating over the coming years.

Defence continues to face the challenges of delivering Force 2030 as envisaged by the 2009 White Paper, while meeting the Strategic Reform Program target of some $20 billion in gross savings by 2019 to fund the investment required to deliver Force 2030. Defence currently plans to replace 80 per cent of its capability assets over the next 15 years, and DMO currently has a program of some 280 projects to deliver approximately $70 billion worth of assets to Defence upon completion. This program will evolve, including in response to the ADF Force Posture Review that will inform the 2013 Defence White Paper. The January 2012 progress report of the Force Posture Review identified the need to support operations in Australia's Northern and Western approaches, and coalition operations in the wider Asia-Pacific.

In light of continuing reform activities in the capability acquisition area and the importance of these reforms, audits of major capital equipment acquisitions continue to be a priority of the ANAO's audit program—including recent reports on naval capability and the M113 upgrade project. Performance audits of the ADF's air-combat capability, the air warfare destroyer and the lightweight torpedo project are underway. Potential audit topics include individual projects such as the MRH-90 helicopter, the implementation of the Military Integrated Logistics Information System, and the acquisition of battlespace communication systems. Defence's capacity to deliver the Strategic Reform Program needs to be supported by effective processes for managing capability development. The ANAO has been examining these processes through the recent audit of DMO's project management Gate Review process, and through the current audit of the two-pass approval process for obtaining government approval of new major projects. This audit coverage complements the annual Major Projects Report on the cost, schedule, technical progress and capability performance of individual major Defence acquisition projects.

Audits in progress at July 2012

Delivery of Family Support Services to Australian Defence Force Families through the Defence Community Organisation

The Defence Community Organisation (DCO) was established in 1996 to support ADF members and their families to balance the demands of military service with personal and family commitments. DCO services are delivered through 21 Area Offices located around Australia. DCO provides a wide range of family support services including: support programs to address the effects of mobility upon ADF families; access to counselling and referral services; and support for families of wounded, ill, or deceased ADF members. DCO also administers grants to support community organisations and provides access to childcare services.

The objective of the audit is to assess the management and effectiveness of DCO's delivery of family support services to ADF families, and in particular, DCO's bereavement support services and support for families of injured or ill ADF members.

The audit report is expected to be tabled in the Spring 2012 Parliamentary sittings.

Enhanced Two-pass Capability Development Approval Process

Defence's enhanced two-pass capability development approval process is intended to provide robust, well-considered advice to the Australian Government on major Defence acquisitions. The two-pass process was established in response to the 2003 Kinnaird Review of Defence procurement and has continued to evolve. Enhanced two-pass processes, developed in response to the 2008 Mortimer Review and the Strategic Reform Program, support Defence staff developing capability proposals, allow for tailoring the process to suit specific projects, and involve senior decision-makers at an early stage. The aim is to improve the quality of the advice provided to Government, allow for more efficient processes, and to provide a consistent chain of accountability and decision-making throughout the capability development cycle.

The objective of the audit is to examine Defence's establishment of the enhanced two-pass approval processes and provide assurance to Parliament on improvements in the quality and timeliness of procurement advice provided to senior decision-makers.

The audit report is expected to be tabled in the Spring 2012 Parliamentary sittings.

Management of Australia's Air-Combat Capability

Australia's defence strategy has long been predicated on control of the air and sea approaches to Australia, and the Royal Australian Air Force's (RAAF's) air-combat fleet is a key element in achieving this strategy. Defence has recently upgraded its air-combat capability through the upgrade of the RAAF's fleet of 71 F/A-18A/B Hornet aircraft (classic Hornets) and the acquisition of a fleet of 24 F/A-18F Super Hornet aircraft (Super Hornets). These aircraft are currently planned to deliver this capability until at least 2020. Defence is also in the process of acquiring aircraft through the AIR 6000 project, under a partnership arrangement with the United States' F-35A Joint Strike Fighter (JSF) project, which is to replace both the F/A-18 Hornet and F/A-18 Super Hornet fleets at the end of their life of type.

The ANAO is conducting two linked audits to examine Defence's management of the RAAF's air-combat capability. The first of these is examining the upgrade and sustainment of the classic Hornet fleet and the sustainment arrangements for the Super Hornet fleet. The second audit is examining Project AIR 6000—New Air-Combat Capability which aims, subject to staged approvals by the Government, to introduce a new air-combat capability with the air superiority and strike functions required to meet Australia's strategic needs through the acquisition of up to 100 F-35A Joint Strike Fighters.

The objective of the first audit is to examine the effectiveness of Defence's arrangements for the upgrade and sustainment of the F/A-18 Hornet fleet and the sustainment of the Super Hornet fleet.

The objective of the second audit is to assess the progress of the AIR 6000 project, including the progress of the F-35 JSF program in achieving its specified cost, schedule and performance requirements.

The audit reports are expected to be tabled together in the Spring 2012 Parliamentary sittings.

Remediation of the MU-90 Lightweight Torpedo Replacement Project

The Lightweight Torpedo Replacement Project, with a total budget of $665.5 million, was designated to deliver an initial tranche of torpedoes; integrate the torpedo onto the Adelaide and ANZAC Class Ships; and then deliver a larger quantity of torpedoes referred to as war stock. In May 2010, the ANAO tabled Report No.37 2009–10, *Lightweight Torpedo Replacement Project*, which concluded that the acquisition of the replacement lightweight torpedo had not been managed effectively by DMO. At the conclusion of the audit there was ongoing uncertainty as to the cost, schedule and capability outcomes for the project.

In response to the audit report, Defence and DMO acknowledged that planning for, and implementation of, the test and evaluation program for the torpedo had not been as proactive as it should have been but advised that there had been senior management intervention to address these problems. Defence further advised that it aimed to achieve an initial operational capability in mid-2011, with the torpedo to be fully in service with all equipment delivered in late 2013. In May 2010, the Minister for Defence requested that the Auditor-General undertake a follow-up audit of the Lightweight Torpedo Replacement Project to provide independent assurance on progress, including whether the project is able to achieve the revised outcomes anticipated by Defence.

The objective of the audit is to assess the effectiveness of the remediation arrangements put in place by Defence and DMO to resolve issues affecting the completion of the Lightweight Torpedo Replacement Project.

The audit report is expected to be tabled in the Spring 2012 Parliamentary sittings.

Selection Process for AIR 8000 Phase 2 Battlefield Airlift Aircraft (Caribou Replacement)

Phase 2 of Project AIR 8000 is intended to provide a light tactical fixed wing airlift capability, replacing the capability previously provided by the RAAF's DHC 4 Caribou transport aircraft, which were withdrawn from service in 2009. On 10 May 2012, the Ministers for Defence and Defence Materiel announced that the Government had agreed to purchase 10 Alenia C-27J Spartan Battlefield Airlift aircraft under this project at a cost of $1.4 billion. The Ministers noted that the C-27J was assessed by Defence as the aircraft which best met all the essential capability requirements and provided the best value for money. The acquisition of the 10 C-27J aircraft with associated support equipment will be conducted through a Foreign Military Sales (FMS) arrangement with the United Sates. On 31 May 2012, the Shadow Minister for Defence wrote to the Auditor-General requesting the ANAO to conduct an audit of the selection process for this acquisition, in light of concerns he had raised about this at a Senate Estimates hearing earlier in May 2012.

The objective of the audit is to assess the adequacy of Defence's processes, including compliance with the *Financial Management and Accountability Act 1997* and other relevant Commonwealth and Defence procurement requirements, to select the capability solution recommended to the Government to satisfy the requirements of AIR 8000 Phase 2 – Caribou Replacement.

The audit report is expected to be tabled in the Autumn 2013 Parliamentary sittings.

Defence's Implementation of Audit Recommendations

Considerable effort and resources are invested annually in the performance audits of Defence and the DMO undertaken by the ANAO and the internal audit areas of both organisations.

Since 2007–08, the ANAO has published 24 audit reports addressing a broad range of issues in the Defence portfolio (excluding the Department of Veterans' Affairs) including: the management and delivery of particular high-value capability acquisition projects, the effectiveness of Defence's processes for matters such as the planning and approval of Defence major capital equipment projects, contracting for recruiting services, the management of health services, the ADF's administration of the Army Individual Readiness Notice and its mechanisms for learning from operational activities. All except two of these audits have made recommendations for the improvement of Defence administration. During this time, a Major Projects Report has also been produced on an annual basis. Major Projects Reports, being status reviews rather than performance audits, do not make recommendations. Since 2007–08, the ANAO has made a total of 74 recommendations to Defence and DMO. Defence and DMO have agreed to 73 of these recommendations, five of which were agreed with qualification. Further, Defence and DMO have internal audit programs separate to the ANAO which also generate a substantial number of recommendations each year.

The objective of the audit is to assess the effectiveness of Defence's monitoring of the implementation of ANAO and internal audit recommendations.

The audit report is expected to be tabled in the Autumn 2013 Parliamentary sittings.

Administration of the F-111 Fuel Tank Workers' Package of Support

Responding to the health effects of F-111 fuel tank maintenance has been a major and ongoing element of DVA's compensation responsibilities for many years. Linked closely with the compensation claims process is the determination of tier classifications in relation to fuel tank maintenance work and associated activities. The tier classification can lead to the payment of a lump sum ex-gratia payment, health care and other benefits, and an easier pathway to compensation entitlements. While tier considerations can include civilians who worked in the RAAF fuel tank maintenance programs, compensation is restricted to those personnel who served in the ADF. In the 2010–11 Budget, the Australian Government allocated $55 million in funding for F-111 workers over four years to provide 'easier access to compensation and health care benefits'. The package was developed partly in response to a 2009 Joint Parliamentary Inquiry report, *Sealing a just outcome: Report from the Inquiry into RAAF F-111 Deseal/Reseal Workers and their Families*. The package is being administered by DVA and Defence.

DVA has established an F-111 Compensation team that is responsible for receiving compensation applications, processing claims and also staffing an enquiry hotline that deals with any aspect of the F-111 benefits. In order for DVA to accurately determine eligibility and assess claims for compensation, documentary evidence such as Defence personnel records is required. However, the Joint Parliamentary Inquiry report identified that an absence of relevant records created some difficulty in establishing tier status and therefore has impacted on compensation claims.

The objective of the audit is to assess DVA's and Defence's progress and effectiveness in implementing the package of support for former F-111 fuel tank maintenance workers and their families funded through the 2010–11 Budget.

The audit report is expected to be tabled in the Winter 2013 Parliamentary sittings.

Air Warfare Destroyer Build Project—SEA 4000 Phase 3

The Project SEA 4000—Air Warfare Destroyer program is considered to be the most complex acquisition ever undertaken by Defence in Australia. At a budgeted cost of nearly $8 billion, SEA 4000 is the nation's largest current Defence project.

Project SEA 4000 is being delivered under an alliance arrangement between ASC AWD Shipbuilder Pty Ltd (ASC), Raytheon Australia Pty Ltd and the Commonwealth. The contracted participants have a shared commercial interest in the outcome of the project through cost and schedule performance incentives. In 2009, the program was in its acquisition phase, with the majority of combat and platform system equipment selected and most combat systems under contract. Preliminary design reviews of the ships' systems were completed, and Critical Design Reviews were planned for December 2009.

ASC is building the ships using modular construction techniques, with each ship comprising 31 steel hull blocks, built separately in shipyards around Australia, outfitted, and then transported to ASC's shipyard in South Australia where they are joined together to form a complete ship.

The objective of the audit is to assess progress of the Air Warfare Destroyer Build project, including an assessment of the adequacy of the project's cost and schedule management system and requirements verification.

The audit report is expected to be tabled in the Spring 2013 Parliamentary sittings.

Potential audits

Cost, Schedule and Capability Executive Reporting (Defence Materiel Organisation)

The ANAO Major Projects Review report team undertakes a series of assurance reviews of elements of DMO's major projects. It has identified that the numerous corporate and project management IT applications in use within DMO have given rise to inconsistencies in the development and review of major projects.

An audit would examine DMO reporting processes and related support systems, to assess the effectiveness of management reporting in DMO.

Acquisition of the MRH-90 Helicopter Capability—AIR 9000 Phases 2, 4 and 6

Project AIR 9000 will provide 46 multi-role helicopters to replace Army's existing Blackhawk and Navy's Sea King helicopters at a budgeted cost of $3.8 billion.

The project has experienced difficulties associated with capability delivery, resulting in ongoing delivery delays and frequent unavailability of aircraft for aircrew training and certification. While the MRH-90 Introduction into Service Date was achieved in December 2007, by September 2011 only 13 of the 46 aircraft on order had been accepted by DMO from the contractor, and all of these await modifications to achieve full contractual compliance. Overall, the MRH-90 helicopters are seen by Defence as being in their development phase, with the level of capability envisaged by the ADF possibly being five to seven years away.

DMO's objective is to: recommence accepting aircraft subject to the satisfactory resolution of deficiencies identified with the aircraft; continue to mature the MRH support arrangements; attain an Australian Military Type Certification and Service Release; and satisfy the Chief of Navy's criteria for granting Initial Operational Capability. The focus on Navy's requirements ahead of Army's is considered necessary by Defence to address the capability gap arising with the decommissioning of the Navy's Sea King helicopter fleet.

An audit would examine DMO's management of the MRH-90 helicopter capability, including adherence to relevant procurement and financial guidelines, contractor management and internal reporting.

Canberra Class Landing Helicopter Dock Project

The Canberra Class Landing Helicopter Docks (LHDs) are new amphibious assault ships being developed for the Royal Australian Navy. The Australian Government has approved a $3 billion project to build two LHDs, which will have air support, amphibious assault, transport and command centre roles. The LHDs are intended to transport up to 1000 troops and 150 vehicles, six helicopters operating from a full-length flight deck, and a fully equipped hospital. The hulls are being constructed in Spain, and the superstructure and other equipment are to be constructed and fitted by BAE Systems Australia at their Williamstown facility.

An audit would report on Defence's management of the project and the progress of the LHD build and outfit.

Project Overlander (Land 121) Phase 3 Light/Lightweight Capability

Project Overlander is a multi-phased project aimed at replacing the ADF's current fleet of field vehicles, modules and trailers acquired between 1959 and 1994. Phase 3 of the project aims to acquire 1200 unprotected vehicles and 973 trailers. In October 2008, Mercedes Benz Australia Pacific was contracted to deliver 1200 of its 'G-Wagon' model light vehicles and 315 modules. Haulmark Trailers was contracted in April 2010 to deliver 973 light/lightweight trailers.

An audit would examine Defence and DMO's progress in undertaking the acquisition of the light/lightweight capability and would assess the two contracts administered by DMO.

Defence's Military Integrated Logistics Information System

The Military Integrated Logistics Information System (MILIS) was installed as Defence's general inventory management system on 8 July 2010, as part of the Defence Capability Program. MILIS records and assists in the management of Defence inventory, comprising over 1.7 million items of supply ranging from cups and boots through to F/A-18 Hornet engines and armoured vehicles. The value of items currently managed within MILIS exceeds $6 billion.

MILIS is a single logistic information system that is designed to enable end-to-end management of Defence's integrated supply chain. MILIS is the foundation for improved financial management, integrated supply, inventory management, maintenance and distribution throughout Defence.

An audit would examine the implementation and rollout of MILIS, including consideration of the effectiveness of the MILIS controls framework.

Battlespace Communications Systems

In 2003, the Chief of the Defence Force declared Network Centric Warfare (NCW) as core to the future of ADF warfighting. The NCW concept was confirmed as integral to battlespace-wide communications in the capstone document, *Enabling warfighting: Network Centric Warfare* in 2004 and the first NCW Roadmap in 2005. The battlespace network consists of four segments: Land; Maritime; Air; and Fixed. At present, there are 25 separate projects in the DCP that contribute directly to the NCW concept. These projects range from $100 million (AIR5405 – Aerospace Battle Management System) to $3.2 billion (JP2072 – Battlespace Communications System Land). While each of these projects is intended to deliver components critical to the success of NCW, there is no one project that addresses the NCW

concept in its own right, and there is accordingly a lack of common understanding or architecture across the various projects and platforms.

An audit would examine the effectiveness of the current approach to NCW.

System of Defence Instructions

Defence is regulated by an extensive system of delegated legislation created mainly by virtue of section 9A of the *Defence Act 1903*. This legislation is intended to facilitate Defence's operations and administration and is referred to collectively as the System of Defence Instructions (SoDI).

The SoDI has been the focus of significant reform since 2007, including procedures for developing and approving Defence Instructions completed in 2008; the update and 'de-clutter' of existing Defence Instructions completed in 2009; and the introduction of a 'best practice' SoDI system from 1 July 2011.

An audit would examine Defence's management of its system of delegated legislation including the implementation of reforms to the SoDI since 2007.

Explosive Ordnance Security Incident Reporting in Defence

In early 2009, Defence established a project to centralise and improve the management and reporting of explosive ordnance incidents across Defence. ANAO Audit Report No.37 2010–11, *Management of Explosive Ordnance Held by the Air Force, Army and Navy*, found that there was still room for improvement in the systems Defence relied on to adequately record, report on and manage explosive ordnance security incidents.

Defence's new explosive ordnance incident reporting and management system was implemented on 1 July 2011. During the period July to September 2011, a total of 103 explosive ordnance incidents were reported throughout Defence.

An audit would examine the systems within Defence relating to the reporting and administration of explosive ordnance security incidents.

Skilling Australia's Defence Industry

The Skilling Australia's Defence Industry (SADI) program commenced in 2005 with three main aims: to increase the skills of existing employees; to improve the quality and quantity of skills training in defence industry; and to generate additional skilled positions. With a budget of more than $215 million over 10 years, the SADI program provides financial support to Australian Defence companies and Defence industry associations for training and skilling activities in trade, technical or professional skill sets that are required to meet a current or future Defence capability need. Requests and proposals are assessed in a non-competitive environment on their merits against published guidelines.

The SADI program was revised in 2010–11 following the release of the Commonwealth Grant Guidelines. The revisions include new funding guidelines and program documentation, and measures to increase the transparency of grant reporting.

The Australian Government allocated over $14 million for SADI grants in 2011–12 to boost the skills of the Defence industry workforce.

An audit would review the effectiveness of DMO's management of the SADI program.

MH-60R Seahawk 'Romeo' Combat Helicopter—AIR 9000 Phase 8

In June 2011, the Minister for Defence announced Second Pass approval for the acquisition of 24 MH-60R Seahawk 'Romeo' naval combat helicopters. At a cost of over $3 billion, the MH-60R helicopters will replace the Navy's current 16 Seahawk S-70B-2 helicopters and provide the air-to-surface strike capability which was to have been provided by the cancelled Seasprite program.

The helicopters will be equipped with Hellfire air-to-surface missiles, Mk 54 torpedoes, dipping sonar, sonobuoy launcher, multi-mode radar, and an integrated self-defence system. The primary roles of the MH-60R are anti-submarine and anti-surface warfare, while secondary roles include surveillance, search and rescue, and utility functions.

MH-60R helicopters are currently in service with the United States Navy, and their purchase is considered to be largely 'military-off-the-shelf', bar minor modifications to adapt the aircraft to Australian requirements. DMO intends to achieve Initial Operating Capability of the first helicopter in 2015, with Final Operational Capability, including all ship and aircraft modifications and a mature weapons suite, planned by 2023.

An audit would examine Defence's and DMO's management of the MH-60R program.

Cyber Security

In the 2008 National Security Statement, the then Prime Minister identified cyber security as one of Australia's top national security priorities. The aim of the Australian Government's resulting cyber security policy is the maintenance of a secure, resilient and trusted electronic operating environment that supports Australia's national security and maximises the benefits of the digital economy.

Following the December 2011 machinery of government changes, responsibility for the cyber security policy function was transferred from the Attorney-General's Department (AGD) to the Department of the Prime Minister and Cabinet (PM&C), which now has responsibility for leading and coordinating the whole-of-government approach to the development of a secure, coordinated and effective national security information management environment. PM&C also chairs the Cyber Security Policy and Coordination Committee. While PM&C is the lead agency, other agencies play a role in Australia's cyber security arrangements including AGD, the Defence Signals Directorate and Australian Security Intelligence Organisation.

An audit would examine the effectiveness of PM&C's coordination and policy leadership in the implementation of the Government's cyber security policy. The role played by other agencies could also be considered as part of an audit.

Veterans' Affairs

Audit strategy overview

The Department of Veterans' Affairs (DVA), on behalf of the Repatriation Commission and the Military Rehabilitation and Compensation Commission, is responsible for carrying out government policy and implementing programs to fulfil Australia's obligations to the veteran, Defence and peacekeeping communities. DVA and other Australian Government entities administered by the Minister for Veterans' Affairs, such as the Australian War Memorial, the Veterans' Review Board and the Office of Australian War Graves, are part of the Defence portfolio. In the 2012–13 Budget, DVA was appropriated more than $12 billion.

DVA has been undergoing significant change for several years due to the declining population of aged World War II veterans and war widows. Current challenges facing the department include delivering the same level of service to veterans within an environment of reducing operating budgets, while meeting the changing needs of the defence force community, particularly those veterans from contemporary military operations.

The ANAO's audit program for 2012–13 is based on the business risks and recent initiatives in the portfolio and takes into consideration DVA's approach to engaging with the veteran community, including: administering government programs; the quality and integrity of its electronic records; and purchasing and protecting government outlays.

Audits in progress at July 2012

Administration of the Veterans' Children Education Schemes

DVA administers programs to support the dependants of deceased or disabled veterans. The objective of both the Veterans' Children Education Scheme and the Military Rehabilitation and Compensation Act Education and Training Scheme is to provide financial assistance and other services for eligible children to help them achieve their full potential in education or career training. In 2011–12, the Schemes had a total budget of some $20 million, assisting about 3150 students.

The objective of the audit is to assess the effectiveness of DVA's administration of the veterans' children education schemes.

The audit report is expected to be tabled in the Spring 2012 Parliamentary sittings.

Administration of the F-111 Fuel Tank Workers' Package of Support

Responding to the health effects of F-111 fuel tank maintenance has been a major and ongoing element of DVA's compensation responsibilities for many years. Linked closely with the compensation claims process is the determination of tier classifications in relation to fuel tank maintenance work and associated activities. The tier classification can lead to the payment of a lump sum ex-gratia payment, health care and other benefits, and an easier pathway to compensation entitlements. While tier considerations can include civilians who worked in the Royal Australian Air Force (RAAF) fuel tank maintenance programs, compensation is restricted to those personnel who served in the Australian Defence Force. In the 2010–11 Budget, the Australian Government allocated $55 million in funding for F-111 workers over four years to provide 'easier access to compensation and health care benefits'. The package was developed partly in response to a 2009 Joint Parliamentary Inquiry report, *Sealing a just outcome: Report from the Inquiry into RAAF F-111 Deseal/Reseal Workers and their Families*. The package is being administered by DVA and Defence.

DVA has established an F-111 Compensation team that is responsible for receiving compensation applications, processing claims and also staffing an enquiry hotline that deals with any aspect of the F-111 benefits. In order for DVA to accurately determine eligibility and assess claims for compensation, documentary evidence such as Defence personnel records is required. However, the Joint Parliamentary Inquiry report identified that an absence of relevant records created some difficulty in establishing tier status and therefore has impacted on compensation claims.

The objective of the audit is to assess DVA's and Defence's progress and effectiveness in implementing the package of support for former F-111 fuel tank maintenance workers and their families funded through the 2010–11 Budget.

The audit report is expected to be tabled in the Winter 2013 Parliamentary sittings.

Potential audits

Management of Arrangements with State and Territory Governments for the Purchase of Hospital Services for Veterans

DVA is one of Australia's largest purchasers of public hospital services, with approximately $1.7 billion appropriated for this purpose in the 2011–12 Budget. Under Section 89 of the *Veterans' Entitlements Act 1986*, DVA may enter into arrangements for the provision of hospital treatments to veterans and other eligible persons with both public and private hospital authorities. In June 2011, DVA had arrangements enabling access to up to 765 public hospitals, and contracts with 229 private hospitals, 55 facilities providing mental health services, and 217 day care procedure centres. The veteran population is ageing and the use of hospital services by those aged 80 years and over is increasing. At the same time, younger veterans have indicated a preference for a more flexible and community-based approach to health care arrangements.

An audit would examine DVA's purchasing of hospital services, including the extent to which those services reflect the needs of veterans and represent value for money.

Integrity of Veterans' Disability Support Program Payments

The Veterans' Disability Support Program provides compensation to eligible veterans for the tangible effects of war or defence service, under the *Veterans' Entitlements Act 1986* and related legislation. In 2010–11, DVA paid around 117 000 veterans approximately $1.6 billion in disability pensions, allowances and special purpose assistance. Several rates of pension exist, depending on the accepted disability.

DVA has a compliance framework that places an emphasis on encouraging compliance but allows for intervention when clients and providers do not comply with their obligations. This framework includes processes and practices to verify compliance, and to differentiate the compliance response via a risk management approach.

An audit would examine DVA's compliance framework, processes and practices that provide assurance about the integrity of Veterans' Disability Support Program payments.

DVA's Roles in the Process of Appeals to the Veterans' Review Board

In providing over $10 billion in payments, DVA makes many thousands of decisions, on an annual basis, relating to veterans' entitlements. Only a small number of these decisions are appealed. In 2010–11, 3275 cases were appealed to the Veterans' Review Board—an independent tribunal that reviews certain claims and determinations made by DVA regarding military rehabilitation and compensation. As part of the review and appeal process, DVA is

required to: inform veterans of their rights; provide information to veterans and the Veterans' Review Board during the process; represent the Commonwealth's interest; and implement the board's decisions in a timely manner.

An audit would examine DVA's effectiveness in undertaking its roles in relation to appeals to the Veterans' Review Board, including the timely implementation of the board's decisions about veterans' entitlements.

Administration of Veterans' Residential Care Payments

DVA administers an Australian Government subsidy for entitled veterans, war widows and widowers who are living in residential aged care facilities. At 30 June 2011, 25 000 veterans and widows/widowers were living in long-term residential aged care and the amount paid via this subsidy was estimated at $1.3 billion in 2011–12. A business partnership agreement between DVA and the Department of Health and Ageing (DoHA) provides the framework for administering these residential care payments. DVA is accountable for updating client details and expenditure and providing information to the Department of Human Services to calculate payments. DVA is also responsible for ensuring that payments are made to eligible clients by obtaining accurate and timely notifications of its clients' entry to and departure from residential care.

An audit would examine DVA's administration of the veterans' residential aged care program, including the policies and practices established to ensure payments are made only to eligible clients.

Administration of the Repatriation Transport Scheme

DVA's Repatriation Transport Scheme is designed to assist veterans, war widows, widowers and their authorised attendants when travelling to healthcare services for treatment. The Australian Government allocated $175 million for veterans' travel to access healthcare services in the 2011–12 Budget, and expects this expenditure to increase in the future as an ageing veteran population accesses a greater quantity and variety of healthcare services. To improve the transport service, DVA introduced a new transport booking and invoicing system in 2011.

An audit would examine the effectiveness of DVA's administration of the Repatriation Transport Scheme, including the procurement of transport services.

Education, Employment and Workplace Relations

Audit strategy overview

The Education, Employment and Workplace Relations portfolio is responsible for taking a national leadership role in education, maximising the ability of working age Australians to participate in the workforce, and improving the productive performance of enterprises in Australia. To fulfil these responsibilities, portfolio agencies work with state and territory governments, contracted service providers, industries and other Australian Government agencies, including by making payments and providing services to individuals and organisations. The portfolio also provides policy advice and carries out regulatory, service quality and information provision roles. The portfolio is responsible for expenditure of more than $40 billion annually—this expenditure is predominantly for working age payments, school funding, and childcare fee assistance.

Within the portfolio, the Department of Education, Employment and Workplace Relations (DEEWR) administers payments in four broad areas: early childhood learning and care; school education; labour market assistance; and workplace arrangements. Over the past four years the Australian Government has made substantial investments to improve the quality of education for Australians, including through the use of National Partnership Agreements. The Government also has identified skills and workforce participation as important priorities to assist in improving economic productivity and the department administers a range of programs in these areas.

Recent audit coverage of the portfolio has emphasised education and early childhood programs. Building on this focus, the ANAO's future audit coverage will focus on programs aimed at improving schooling and student outcomes as well as skills and workforce participation, including Indigenous economic participation and education outcomes.

Audits in progress at July 2012

Improving Access to Child Care—the Community Support Program

The Community Support Program element of the Child Care Services Program involves a range of payments to support access to child care for children in areas or circumstances where the market would otherwise fail to provide child care services. The budget for the Community Support Program element is approximately $150 million per annum.

The objective of the audit is to assess the effectiveness of DEEWR's administration of establishment and sustainability assistance provided to child care services through the Community Support Program.

The audit report is expected to be tabled in the Spring 2012 Parliamentary sittings.

Fair Work Ombudsman

The role of the Fair Work Ombudsman (FWO) was established by the *Fair Work Act 2009*. The FWO works with employees, employers, contractors and the community to promote harmonious, productive and cooperative workplaces. The FWO also has powers to investigate workplace complaints and enforce compliance with Australia's workplace laws.

The objective of the audit is to assess the effectiveness of the FWO's administration of education services and compliance activities in relation to the *Fair Work Act 2009*.

The audit report is expected to be tabled in the Spring 2012 Parliamentary sittings.

Indigenous Early Childhood Development—Children and Family Centres

Under the National Partnership Agreement on Indigenous Early Childhood Development, the Australian, state and territory governments committed $564 million of joint funding over six years to provide integrated early childhood services including child care, early learning, parenting and family support, antenatal, and maternal and child health services in a minimum of 35 communities. This commitment is a major element of the Early Childhood Building Block agreed by the Council of Australian Governments as an area for action under the National Indigenous Reform Agreement.

Element One of the National Partnership Agreement provides Australian Government funding of $292.6 million (over six years) to states and territories for the establishment of a minimum of 35 integrated Children and Family Centres providing a mix of services that are responsive to community needs. While the ultimate mix of services is to be informed by community consultation, the intention is that the centres will provide child care, early learning, and parent and family support services. All services provided through the Children and Family Centres are to have integrated management, governance and service systems. The first two centres were expected to be operational by July 2010, with the majority operational by the end of 2012. As at February 2012, three Children and Family Centres had been built, and DEEWR expects that a total of 13 Children and Family Centres will be built by 30 June 2012.

The objective of the audit is to assess the effectiveness of DEEWR's management of the delivery of the Children and Family Centres under the National Partnership Agreement on Indigenous Early Childhood Development.

The audit report is expected to be tabled in the Spring 2012 Parliamentary sittings.

Establishment, Implementation and Administration of the Heritage Component of the Local Jobs Stream of the Jobs Fund

The $650 million Jobs Fund was one of the fiscal measures implemented by the Australian Government in 2009 to support employment and economic recovery in response to the global financial crisis. The Jobs Fund included a $300 million Local Jobs stream. Of the $300 million announced as being allocated to the Local Jobs stream, $60 million was specifically set aside for heritage-related projects and $40 million was quarantined for the construction of bike paths. Both quarantined components were to be restricted to 2009–10, while the non-quarantined component of the Local Jobs stream would be a two-year program to 30 June 2011.

The objective of the audit is to assess the efficiency and effectiveness of the establishment, implementation and administration of the heritage component of the Local Jobs stream of the Jobs Fund, with a particular focus on the establishment of program objectives and the extent to which approved grants have demonstrably contributed to the cost-effective achievement of those objectives.

The audit report is expected to table in the Spring 2012 Parliamentary sittings.

Establishment, Implementation and Administration of the General Component of the Local Jobs Stream of the Jobs Fund

The $650 million Jobs Fund was one of the fiscal measures implemented by the Australian Government in 2009 to support employment and economic recovery in response to the global financial crisis. The Jobs Fund included a $300 million Local Jobs stream. Of the $300 million announced as being allocated to the Local Jobs stream, $60 million was specifically set aside for heritage-related projects and $40 million was quarantined for the

construction of bike paths. The remaining $200 million general component was not quarantined and involved a two-year stimulus spending program ending on 30 June 2011.

The objective of the audit is to assess the efficiency and effectiveness of the establishment, implementation and administration of the general component of the Local Jobs stream of the Jobs Fund, with a particular focus on the establishment of program objectives and the extent to which approved grants have demonstrably contributed to the cost-effective achievement of those objectives.

The audit report is expected to table in the Spring 2012 Parliamentary sittings.

Australian Employment Covenant

The Australian Employment Covenant (AEC) is a national industry-led initiative which, in partnership with the Australian Government, aims to contribute to closing the gap between Indigenous and non-Indigenous Australians in employment outcomes and employment opportunities. The AEC's aim is the placement and long-term retention of 50 000 jobs for Indigenous job-seekers. Under the partnership, employers commit to providing real jobs for Indigenous people and the AEC supports and guides employers through the recruitment and retention process.

In aiming to create 50 000 jobs, the AEC seeks to make a significant contribution to the Australian Government's overall target of 100 000 jobs by 2018. In order to achieve this target, the Australian Government contributes to the AEC in four main areas:

- facilitating and coordinating training for eligible Indigenous Australians to the appropriate job standards of the employing industry;
- facilitating referral, placement and support processes involving the take-up of AEC jobs by eligible Indigenous job seekers;
- facilitating post-placement and mentor support for eligible Indigenous Australians through Job Services Australia, the Indigenous Employment Program and the Community Development Employment Projects Program; and
- recording and tracking AEC jobs, and the placement and retention of Indigenous job seekers into AEC jobs and training.

The Australian Government, through DEEWR, has allocated direct funding of approximately $21 million to the AEC. The actual level of funding is higher as the Australian Government also supports the AEC through existing programs, such as the Indigenous Employment Program, Job Services Australia and Community Development Employment Projects.

The objective of the audit is to assess the effectiveness of DEEWR's management of the Australian Government's contribution to the Australian Employment Covenant.

The audit report is expected to table in the Autumn 2013 Parliamentary sittings.

Potential audits

Smarter Schools National Partnership Agreements

The Australian Government has entered into a group of National Partnership Agreements, known as the Smarter Schools National Partnership Agreements, with the states and territories to address disadvantage (including Indigenous disadvantage), support teacher quality, and improve literacy and numeracy.

The three National Partnership Agreements are the:

- *Low Socio-economic Status School Communities*, which provides $1.5 billion from 2008–09 to 2014–15, to support education reform activities in approximately 1700 low socio-economic status schools across the country;
- *Improving Teacher Quality*, which provides funding of $550 million from 2008–09 to 2012–13, to help attract and retain quality teachers and leaders in schools; and
- *Literacy and Numeracy*, which provides $540 million from 2008–09 to 2011–12, to improve literacy and numeracy outcomes for all students, especially those who are most in need of support.

An audit of DEEWR's administration of the National Partnership Agreement on Literacy and Numeracy was tabled in June 2012—ANAO Audit Report No.41 2011–12, *National Partnership Agreement on Literacy and Numeracy*. Future audit coverage may include examining one or both of the other agreements, and the operation of the agreements in support of reducing Indigenous disadvantage. Subject to a request from the Joint Committee of Public Accounts and Audit, an audit may also consider the performance of an Australian Government partner or partners.

Job Services Australia

Job Services Australia (JSA) is an initiative designed to provide training, work experience and other interventions to help support job seekers, particularly the disadvantaged, obtain suitable employment. Implemented in July 2009, JSA represents an investment of $5.8 billion by the Australian Government. To help deliver JSA, the Australian Government has contracted a range of organisations to provide employment services in more than 2000 locations across Australia. JSA providers are a mix of large, medium and small, for-profit and not-for-profit organisations.

An audit, or series of audits, would examine aspects of DEEWR's administration of JSA such as planning, the tender process to award JSA provider contracts, ongoing management and aspects related to provision of services to Indigenous job seekers, including coordination with other Indigenous-focused employment services.

Productive Ageing

Australia's mature age workforce participation rate is below that in other comparable economies such as the United States, United Kingdom, Canada and New Zealand. The Australian Government's 2010 Intergenerational Report, *Australia to 2050: Future Challenges*, highlights the importance of addressing this issue and the need to make the most of a proportionately smaller workforce as the workforce ages.

In February 2010, the Australian Government announced the Productive Ageing package to provide practical support to older Australians who want to stay in the workforce, by investing in quality job training for mature jobseekers and supporting mature workers mentoring young Australians. The package includes $19 million to help mature age workers stay in employment and to support skills transfer and $23 million to help mature age workers transition to new employment through Job Services Australia.

An audit would examine the effectiveness of DEEWR's implementation of the Productive Ageing package.

Indigenous Employment Program

The objective of the Indigenous Employment Program is to increase Indigenous Australians' employment outcomes and participation in economic activities, contributing to the Australian Government's commitment to halving the gap between Indigenous and non–Indigenous employment outcomes within a decade. The Australian Government committed $816 million to the Indigenous Employment Program over five years from 2011.

The Indigenous Employment Program is designed to provide assistance to target major barriers to employment and to support Indigenous people in employment. It is also intended to deliver a more targeted approach to assisting Indigenous people to establish sustainable businesses as well as incorporating new elements including: voluntary mobility assistance; language, literacy and numeracy; and aspiration building. The program arrangements are designed to be flexible and responsive to the needs of Indigenous job seekers, Indigenous businesses and employers, and also included an increased focus on reducing red tape through one-contract methodology and simplified contracting arrangements.

An audit, or series of audits, would examine DEEWR's administration of aspects of the Indigenous Employment Program such as the specific delivery streams within the program.

Working Age Payments

Working age payments support people to: improve their prospects of gaining employment; acquire labour market skills and knowledge; and participate in society. Financial assistance is provided to people who are unemployed, looking for work, undertaking employment preparation programs, have parenting responsibilities, have a partial capacity to work due to disability, or young people studying towards a Year 12 or equivalent education attainment. Examples of these payments include the Newstart Allowance, Parenting Payment, and one type of Youth Allowance.

In 2011–12, the Department of Human Services (DHS) administered working age payments worth $14 billion on behalf of DEEWR. DEEWR has overall responsibility for this expenditure, including reporting on key performance indicators, providing policy advice, and overseeing program delivery agencies (and other service providers).

An audit, or series of audits would examine: the overarching agreements between DHS and DEEWR (particularly aspects of coordination of policy implementation and service delivery); DEEWR's high-level oversight of the expenditure of one or more individual program payment and allowance types; and DEEWR's approach to measuring relevant performance indicators to support policy advice. The audit/s may also include other Australian Government agencies involved in selected aspects of administration, such as payment and service delivery.

Administration of Child Care Fee Assistance

Child Care Fee Assistance is provided by the Australian Government to enable more families to access quality child care services. There are two main forms of assistance: Child Care Benefit, which assists parents with the cost of approved and registered child care; and Child Care Rebate, which covers families for 50 per cent of their out-of-pocket approved child care expenses after Child Care Benefit has been received. In 2011–12, nearly $4 billion was budgeted for Child Care Fee Assistance.

Child Care Fee Assistance payments involve a range of Australian Government agencies (such as DEEWR, the Department of Families, Housing, Community Services and Indigenous Affairs and the Department of Human Services), and child care service providers, in activities such as eligibility assessment of service providers and parents, attendance recording, making payments (primarily to service providers on behalf of parents)

and related compliance activities. DEEWR's responsibilities include policy advice, overall operational coordination and eligibility assessments of service providers.

An audit would examine DEEWR's administration of Child Care Fee Assistance and may include other Australian Government agencies involved in selected aspects of administration and implementation, such as the underlying IT systems, assurance processes or management of service providers.

Administration of Asbestos-related Compensation

Comcare has a range of responsibilities arising from Commonwealth legislation for occupational health and safety. In particular, Comcare is responsible for access to compensation for people with asbestos-related diseases where the Commonwealth has a liability, through management of claims. Comcare has annual funding of some $400 million.

Comcare's role in managing liabilities under common law for asbestos-related conditions of the Australian Government and, with certain exceptions, its agencies and controlled companies, is separate to Comcare's role in workers' compensation and rehabilitation. DEEWR has policy and oversight responsibilities in this area.

An audit would examine Comcare's administration of asbestos-related compensation and may include the effectiveness of DEEWR's oversight role.

Safe Work Australia

Safe Work Australia was established as a statutory agency on 1 November 2009 under the *Safe Work Australia Act* 2008. The agency is the principal national body designed to lead policy development and improve work health and safety and workers' compensation arrangements across Australia. Safe Work Australia is responsible for: coordinating and developing national policy and strategies; developing model work health and safety legislation; undertaking research; and collecting, analysing and reporting data.

The establishment of Safe Work Australia gave effect to the *Intergovernmental Agreement for Regulatory and Operational Reform in Occupational Health and Safety*, agreed by the Council of Australian Governments on 3 July 2008. The agency has approximately 100 staff, and is jointly funded by the Australian, state and territory governments. Australian Government funding in 2011–12 was $9 million. Safe Work Australia operates under the Australian Government's accountability and governance frameworks.

An audit would examine the effectiveness of processes and systems established by Safe Work Australia to meet its responsibilities.

Disability Employment Services

Disability Employment Services support people with injury, disability or a health condition to find employment. Much of this support is provided by external services providers contracted by DEEWR. The current Disability Employment Services arrangements began operation in March 2010 with Australian Government funding of over $1.7 billion, over three years.

Disability Employment Services are uncapped so that all eligible people with disability have immediate access to the service they need. A key feature of Disability Employment Services is to provide ongoing support to a participant's condition in the workplace, for as long as it is required.

An audit would examine DEEWR's administration of Disability Employment Services, and may include its role in streamlining service delivery and administration processes that provide transparency and accountability and minimise any unnecessary administrative burden on service providers. The audit complements a potential audit in the Families, Housing, Community Services and Indigenous Affairs portfolio on disability services.

Families, Housing, Community Services and Indigenous Affairs

Audit strategy overview

The Families, Housing, Community Services and Indigenous Affairs portfolio plays a lead role in delivering services and programs to support the Australian Government's social policy and social security outcomes with annual expenditure of more than $83 billion. The portfolio comprises the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA), and a number of portfolio bodies and statutory office holders including: the Equal Opportunity for Women in the Workplace Agency; Aboriginal Hostels Limited; Indigenous Business Australia; Indigenous Land Corporation; Torres Strait Regional Authority; Aboriginal Land Commissioner; Coordinator-General Remote Indigenous Services; Executive Director of Township Leasing; Registrar of Indigenous Corporations; Northern Territory Land Councils; Outback Stores Pty Ltd; Social Security Appeals Tribunal; and the Wreck Bay Aboriginal Community Council.

FaHCSIA seeks to improve the lives of Australians by creating opportunities for economic and social participation across seven core outcomes: families and children; housing; community capability and the vulnerable; seniors; disability and carers; women; and Indigenous Australians. FaHCSIA is responsible for advice on social policy and the administration of grants and other payments which support the capacity and wellbeing of individuals, families and communities. As the lead agency for Indigenous Affairs, the department plays a key role in coordinating government efforts in closing the gap in Indigenous disadvantage, as well as directly delivering programs that seek to directly contribute to the Australian Government's goals in this area. In 2012–13, the major priorities for FaHCSIA include: delivering a substantial package of support for families including a new payment to families with children at school and increases in Family Tax Benefit: the launch of the National Disability Insurance Scheme: a new Remote Jobs and Communities Program jointly with the Department of Education, Employment and Workplace Relations (DEEWR): and the Stronger Futures in the Northern Territory package. In 2012–13, FaHCSIA intends to build on the Government's key reforms for families, seniors, Indigenous Australians, and people with disability and their carers.

Recent ANAO audits have examined FaHCSIA's administration of housing programs, National Partnership Agreements and community assistance programs, focusing on grants management. Future audits will retain a focus on the management of grants and community programs as well as a focus on Indigenous programs.

Audits in progress at July 2012

Australian Government Coordination Arrangements for Indigenous Programs

Under the National Indigenous Reform Agreement, the Council of Australian Governments has committed to closing the gap in Indigenous disadvantage by setting national targets which are to be achieved through the delivery of new and existing programs and services across a range of Australian Government portfolios. Programs and services for Indigenous people are also delivered by governments in each Australian state and territory. The specific nature of the targets and the involvement of a large number of government agencies emphasises the importance of effective coordination of government activity to achieve results. FaHCSIA is the lead agency for Indigenous Affairs within the Australian Government.

The objective of the audit is to examine the effectiveness of FaHCSIA's performance of its lead agency role in coordinating whole-of-government commitments to closing the gap in Indigenous disadvantage.

The audit report is expected to be tabled in the Spring 2012 Parliamentary sittings.

Family Support Program—Communities for Children

The Family Support Program was established in 2009 to increase access to, and deliver, integrated services for families to improve child safety, child development, and family functioning. The program aims to deliver, in collaboration with other levels of government and non-government organisations, coordinated and flexible support services to all families, and particularly targets families who are vulnerable or disadvantaged, or live in disadvantaged communities. The Family Support Program is one of the key Australian Government strategies under the broader *National Framework for Protecting Australia's Children 2009–20*, which focuses on early intervention to minimise the need for statutory intervention in family matters.

The Communities for Children Program is one element of the Family and Children's Services stream of the Family Support Program. Communities for Children provides a range of prevention and intervention services for families with children up to 12 years, who are 'at risk', live in disadvantaged communities, and are disconnected from childhood services. The activities implemented include home visiting, early learning and literacy programs, early development of social and communication skills, parenting and family support programs, and child nutrition. The Australian Government has allocated $134.9 million to Communities for Children for the three years commencing 2011–12. In addition, $42.5 million was allocated in the 2011–12 Budget as part of a separate program, Building Australia's Future Workforce.

The objective of the audit is to assess the effectiveness of FaHCSIA's administration of the Communities for Children element of the Family Support Program.

The audit report is expected to table in the Spring 2012 Parliamentary sittings.

Administration of Income Management Services in the Northern Territory

Income Management is a welfare reform measure that directs a percentage of a person's welfare payments toward priority need items such as food, housing, clothing and utilities. Income managed funds cannot be used to purchase excluded goods such as alcohol, tobacco and pornographic material. Compulsory Income Management was one of the measures introduced in 2007 as part of the Northern Territory Emergency Response.

In November 2009, the Australian Government announced the introduction of reforms to the welfare system, including a redesign of the Income Management measure. In August 2010, a new Income Management scheme was introduced across the Northern Territory. The Australian Government provided $350.9 million over four years for the implementation and administration of the new scheme.

The objective of the audit is to assess the effectiveness of the administration of Income Management services in the Northern Territory by the Department of Human Services and FaHCSIA.

The audit report is expected to be tabled in the Spring 2012 Parliamentary sittings.

National Partnership Agreement on Homelessness

The National Partnership Agreement on Homelessness commenced on 1 July 2009 and is one of three National Partnerships that aim to contribute to the National Affordable Housing

Agreement outcome. The agreement centres around three main areas—prevention and early intervention to stop homelessness, reducing the number of homeless people and improving the accessibility and efficiency of services that aid homeless people.

The objective of the National Partnership is to reduce the number of homeless Australians by seven per cent to 97 350 by 2013, including reducing the number of homeless Indigenous Australians by a third to 6300 by 2013. The Australian, state and territory governments are contributing $1.1 billion over four years under the agreement. The agreement includes payments to the states and territories, with allocations based on the proportion of the homeless population in the state or territory. The Australian Government will contribute $107.5 million in both 2011–12 and 2012–13, which will be matched by the states and territories.

The National Partnership Agreement on Homelessness involves a cooperative effort from the state and territory governments. The Australian Government, through FaHCSIA, is responsible for contributing funding to the states and territories, providing performance and financial reporting as necessary, and monitoring performance against set benchmarks and performance indicators.

The objective of the audit is to assess the effectiveness of FaHCSIA's administration of the Australian Government's responsibilities. Several state and territory audit offices are concurrently undertaking audits of the implementation of this National Partnership Agreement in their respective jurisdictions.

The audit report is expected to be tabled in the Autumn 2013 Parliamentary sittings.

Targeted Community Care (Mental Health) Program

The Targeted Community Care (Mental Health) Program is designed to support community mental health initiatives that will provide high quality and accessible services to aid those with mental illness, support families trying to manage the impacts of mental health illness and provide carers with support services to better cope with their caring role. Grant funding is provided to non-government organisations to deliver a range of community mental health services, such as home-based support and counselling, to reduce the community and social isolation of vulnerable people and improve the prevention and early intervention of mental illnesses.

In response to the expansion of community health initiatives to assist those affected by mental health illnesses, annual program funding will increase from $203 million in 2012–13 to $250.1 million in 2015–16. The total administered funding for the program is projected to be more than $774 million from July 2011 to June 2015.

The objective of the audit is to examine aspects of FaHCSIA's management of grants under the Targeted Community Care (Mental Health) Program.

The audit report is expected to be tabled in the Winter 2013 Parliamentary sittings.

Potential audits

Disability Initiatives—Services and Support for People with Disability

The National Disability Strategy sets a 10-year reform plan for all governments to address the barriers faced by Australians with disability. It aims to help ensure that mainstream services and programs including health care, housing, transport and education address the needs of people with disability.

As part of these broader efforts to improve services for people with a disability, FaHCSIA administers a number of support services including the Services and Support for People with

Disability Program. The estimated funding for the program is $360.5 million in 2012–13. The objective is to provide supported employment and improve access to information, advocacy and services for people with disability so they can develop their capabilities and actively participate in community and economic life. The program also aims to provide social support and community-based care so that people can be self-reliant and live as independently as possible. The services also provide support for carers and families.

An audit or series of audits would examine FaHCSIA's implementation of the Australian Government's responsibilities under the National Disability Strategy, and the administrative effectiveness of the Services and Support for People with Disability Program. The audit complements a proposed audit of Disability Employment Services in the Education, Employment and Workplace Relations portfolio.

National Rental Affordability Scheme

The National Rental Affordability Scheme (NRAS) is a commitment by the Australian Government, in partnership with the states and territories, to invest in affordable rental housing. NRAS commenced in 2008 with the aim of addressing the shortage of affordable rental housing by offering financial incentives to the business sector and community organisations to build and rent dwellings to low and moderate income households at a rate that is at least 20 per cent below the prevailing market rates. The initial target was the supply of 50 000 new affordable rental dwellings, but this was subsequently reduced to a cap of 35 000 to be delivered by 30 June 2014, with the remaining 15 000 dwellings to be delivered in 2015–16. The scheme includes payment (made up of contributions from the Australian Government and the state and territory governments) of incentives to investors for each approved new rental dwelling that is available to low and moderate income households at a rate below the market rate.

The framework for the NRAS is provided by the National Agreement on Affordable Housing, the *National Rental Affordability Scheme Act 2008* and the National Rental Affordability Scheme Regulations.

Support is delivered to investors through either direct payments or refundable tax offsets. The estimated funding for the NRAS for 2012–13 is $85.2 million and $376 million from 2011–12 to 2014–15.

An audit would examine aspects of FaHCSIA's management of the NRAS in line with desired policy objectives, legislative requirements and the National Agreement.

National Strategy for Food Security in Remote Indigenous Communities

In 2009, the Council of Australian Governments agreed to the National Strategy for Food Security in Remote Indigenous Communities to improve the affordability, quality and availability of healthy foods within remote Indigenous communities. The strategy aims to increase the purchase and consumption of healthy foods by establishing a supply of healthy food to remote communities. This is expected to contribute to closing the gap in life expectancy, infant mortality and also indirectly assist in reducing the gap in education attainment between Indigenous and non-Indigenous Australians.

FaHCSIA is the lead Australian Government agency for the National Strategy for Food Security in Remote Indigenous Communities. FaHCSIA's responsibilities include the development of the Food Security Strategy and the implementation of stores licensing in the Northern Territory. In this context, food security is defined as a reasonable ongoing level of access to a range of food, drink and grocery items that are reasonably priced, safe and of sufficient quantity and quality to meet nutritional and related household needs. There are approximately 90 licensed community stores in the Northern Territory, and these stores are

often the major source of food and drink supplies for people in remote communities. Improving the quality and affordability of food in the remote stores is an integral component of achieving food security in remote Indigenous communities. Within the FaHCSIA portfolio, Outback Stores Pty Ltd also seeks to contribute to improved food security through managing remote stores on behalf of Indigenous communities. Outback Stores is a government-owned company with an independent board that was set up in 2006 to help make stores functional and viable, while meeting the long-term health and nutritional needs of Indigenous communities.

An audit or series of audits would focus on the degree to which FaHCSIA has implemented its responsibilities under the National Strategy for Food Security in Remote Indigenous Communities, and the effectiveness of the administration of food security initiatives in the portfolio.

Financial Management Program

The Financial Management Program aims to help people across a range of income and financial literacy levels to manage their money, overcome financial adversity, participate in their communities and plan for the medium to long term. The program comprises a number of service strategies that in 2009 were brought together under a single administrative arrangement within FaHCSIA. In 2010–11, approximately one million clients accessed services under the Financial Management Program, including financial counselling, emergency relief, money management information and education. In 2012–13, funding for the program is expected to be $133.7 million.

An audit would examine FaHCSIA's administration of the Financial Management Program, or selected individual service strategies.

Community Investment Program

The Community Investment Program seeks to increase the involvement of vulnerable people in the community by providing more accessible and better quality services within local communities. Funding is provided to not-for-profit organisations throughout the states and territories which help provide communities with services that enhance the social inclusion of vulnerable people.

The types of services provided by the not-for-profit organisations include parenting skills training and other prevention and early intervention programs and services that provide support to socially disadvantaged families, young mothers and their children. The ultimate objective is to build and foster the resilience of vulnerable people within disadvantaged communities.

Annual funding for the Community Investment Program is $63.5 million in 2012–13, increasing to $72 million in 2015–16. From 1 July 2011 to 30 June 2014 the Australian Government will provide an extra $16 million to around 60 community projects throughout the country to strengthen disadvantaged communities.

An audit would examine aspects of FaHCSIA's management of grants under the Community Investment Program.

Administration of Child Care Fee Assistance

Child Care Fee Assistance is provided by the Australian Government to enable more families to access quality child care services. There are two main forms of assistance: Child Care Benefit, which assists parents with the cost of approved and registered child care; and Child Care Rebate, which covers families for 50 per cent of their out-of-pocket approved

child care expenses after Child Care Benefit has been received. In 2011–12 nearly $4 billion was budgeted for child care fee assistance.

Child Care Fee Assistance payments involve a range of Australian Government agencies (such as DEEWR, FaHCSIA and the Department of Human Services), and child care service providers, in activities such as eligibility assessment of service providers and parents, attendance recording, making payments (primarily to service providers on behalf of parents) and related compliance activities. DEEWR's responsibilities include policy advice, overall operational coordination and eligibility assessments of service providers.

An audit would examine DEEWR's administration of Child Care Fee Assistance and may include other Australian Government agencies involved in selected aspects of administration and implementation, such as the underlying IT systems, assurance processes or management of service providers.

Torres Strait Regional Authority—Regional Service Delivery Arrangements Through the Torres Strait Development Plan

The Torres Strait Regional Authority (TSRA) is a statutory authority that was established in 1994 to improve the lifestyle and wellbeing of the Torres Strait Islander and Aboriginal people living in the Torres Strait region. The *Torres Strait Development Plan 2009–13* outlines the programs that will be delivered by the TSRA to contribute to regional goals, Indigenous-specific outcomes of National Partnership Agreements, and the closing the gap targets and building blocks for overcoming Indigenous disadvantage. The seven programs delivered by the TSRA are economic development; culture, art and heritage; native title; environmental management; governance and leadership; healthy communities; and safe communities.

The TSRA also has a planning and coordination role in bringing together key government agencies to work together in partnership towards integrated planning and improved service delivery in the region. In the 2012–13 Budget, $45.7 million was allocated to the TSRA.

An audit would examine the effectiveness of the TSRA's administration of programs under the *Torres Strait Development Plan 2009–13*.

Indigenous Land Corporation—Land Acquisition Program

Supporting Indigenous people's access to land ownership and management is a key element of the Australian Government's approach to addressing Indigenous disadvantage through increased economic participation. To assist Aboriginal and Torres Strait Islander people to acquire and manage Indigenous-held land, the Indigenous Land Corporation (ILC) was established as a statutory body in 1995. In 2012–13, the ILC will receive $57.4 million from the Aboriginal and Torres Strait Islander Land Account to support the achievement of economic, environmental, social and cultural outcomes through land acquisition and management.

The ILC's Land Acquisition Program assists Indigenous people to achieve benefits through acquiring and granting land. It seeks to build a secure and sustainable land base for Indigenous people now and for future generations. There are two types of land acquisition undertaken through the program.

Socio-Economic Development acquisitions aim to provide significant social and/or economic benefits for Indigenous people through training and employment, by:

- developing viable and sustainable land-based business enterprises; and/or
- implementing social programs.

Cultural and Environmental Values acquisitions aim to provide cultural and/or environmental benefits for Indigenous people through securing access to, and the protection and maintenance of, land with high cultural and/or environmental significance.

An audit would examine the effectiveness of the ILC's management of the Land Acquisition Program.

Finance and Deregulation

Audit strategy overview

The Finance portfolio is diverse and provides an array of support and services to the Australian Government. This includes budget and financial management services and advice; electoral services and support; and the administration of Parliamentarians' entitlements. The portfolio also carries responsibility for implementing the Australian Government's better regulation agenda and ensuring best practice government regulation, and for the continuous improvement of public administration and delivery frameworks.

As a central agency of the Australian Government, the Department of Finance and Deregulation (Finance) plays an important role in assisting and advising Government in a wide range of policy areas to ensure its outcomes are met. Essential services that Finance delivers include:

- supporting delivery of the Budget;
- administering the provision of entitlements provided to Parliamentarians; and
- developing and maintaining the financial framework for Australian Government agencies.

ANAO's planned performance audit strategy reflects Finance's role as the central agency responsible for providing budget and financial management services and advice. In particular, in addition to potential audits specific to the portfolio, Finance is often included in the scope of various cross-portfolio audits in the context of the Commonwealth financial framework and budgetary arrangements.

Potential audits

Commonwealth Review of State Insurance Arrangements

A fundamental principle of the arrangements in place for the Australian Government to help the states and territories (the states) pay for natural disaster relief and recovery costs is that the assistance should not discourage governments, individuals or business from taking out insurance to protect their assets. Following the flooding in parts of Australia over the summer of 2010–11 and Cyclone Yasi, the Australian Government agreed to amend the Natural Disaster Relief and Recovery Arrangements (NDRRA) to incorporate a new process under which the Commonwealth will be able to vary the level of Commonwealth support provided in response to disaster where a state's prudential arrangements are found to be not reasonably adequate. States wishing to be covered by the NDRRA are required to have an independent assessment of their insurance arrangements undertaken, with Finance to review these assessments so as to:

- establish benchmarks for the appropriateness of each state's insurance arrangements;
- assess the appropriateness of states' insurance arrangements; and
- make recommendations as to differential thresholds or differential rates of assistance that should apply under the NDRRA depending on the appropriateness of the individual state's insurance arrangements.

States wishing to be covered by the NDRRA were required to have their first independent assessment completed by 30 September 2011, with Finance required to report on its review within 90 days of receiving any state's assessment. However, due to delays in receiving state assessments, Finance did not publish a phase one report until March 2012, with a

further report to be published later in 2012 once additional information from the states and local government input has been obtained and analysed.

The amendments to the NDRRA also outlined that the Commonwealth Auditor-General is to periodically conduct audits of the Australian Government's responsibilities. As most of the substantive matters will be addressed in the second phase report, ANAO's audit work will not commence until after that report has been completed. An audit would examine Finance's review of these initial assessments.

Administration of Travel Entitlements Provided to Parliamentarians

Parliamentarians have certain entitlements to travel within Australia at Commonwealth expense, both during their service in Parliament and after retirement. For current Parliamentarians, travel is typically required to be for Parliamentary, electorate or official business, but not party business. Spouses (or nominees) and dependent children of Parliamentarians also have certain entitlements to travel at Commonwealth expense. In aggregate, the various travel entitlements comprise a significant proportion of the cost of all entitlements provided to Parliamentarians.

ANAO Audit Report No.3 2009–10, *Administration of Parliamentarians' Entitlements by the Department of Finance and Deregulation* examined Finance's administration of a range of entitlements, including some travel entitlements, but did not include a comprehensive examination of all travel entitlements, including those provided by the Parliamentary departments. The last time comprehensive audit work was undertaken in respect to Parliamentarians' entitlements was in ANAO Audit Report No.5 2001–02, *Parliamentarians' Entitlements: 1999–2000*.

Against this background, and given the level of public interest in the administration of Parliamentarians' entitlements, the scope of an audit would include the administration of travel entitlements provided to Parliamentarians by Finance, the Department of the House of Representatives and the Department of the Senate. An audit would examine the role played by the Remuneration Tribunal in setting various travel entitlements, the frameworks under which the various entitlements are provided and administered, analyse the use of the various entitlements and assess the effectiveness of the administrative arrangements that are in place (including arrangements to respond to any issues that arise in respect to entitlements use).

Implementation of Improvements to the Administration of Parliamentarians' Entitlements

ANAO Audit Report No.3 2009–10, *Administration of Parliamentarians' Entitlements by the Department of Finance and Deregulation*, examined the administration of Parliamentarians' entitlements by Finance. A positive outcome of that audit was that, in July 2009, the Australian Government made some decisions concerning the reform of certain entitlements and agreed to a 'root and branch' review of the entitlements framework. The Australian Government further agreed to provide significant additional funding for Finance to improve the administration of entitlements as well as for publishing, online, details of the entitlements framework and expanding the current reporting regime to table and publish on the Finance internet site all entitlements expenditure administered by Finance.

An audit would examine the implementation of improvements to the entitlements framework and its administration.

Foreign Affairs and Trade

Audit strategy overview

The principal agencies in the Foreign Affairs and Trade portfolio are the Department of Foreign Affairs and Trade (DFAT), the Australian Agency for International Development (AusAID) and the Australian Trade Commission (Austrade). The portfolio's overarching objective is to advance Australia's national interest—the security and prosperity of Australians—by contributing to improvements in international security, national economic and trade performance, and global cooperation. In 2012–13, funding for the agencies within the portfolio totalled some $7.2 billion.

In recent years the ANAO has focused its audit coverage on addressing risks associated with operating Australia's network of missions overseas and delivery of services to travelling Australians. AusAID's delivery of an expanding aid program was also reviewed.

Planned audit work will continue to focus on these key areas, and could also examine Austrade's implementation of its new operating model.

Audits in progress at July 2012

AusAID's Management of Aid to Indonesia

Australian aid to Indonesia is expected to amount to $578.4 million in 2012–13, which makes Indonesia the largest recipient of development assistance. The focus of the assistance provided is wide-ranging, including education and scholarships, health, infrastructure, democratic and economic governance, decentralisation reform, disaster risk reduction, and climate change initiatives. Support to improve infrastructure and infrastructure planning is the largest single element of AusAID's program to support Indonesia's economic growth. Infrastructure aid to Indonesia has two principal components: the Eastern Indonesia National Road Improvement Program and the Indonesia Infrastructure initiative. In 2011–12, infrastructure development aid comprised around 20 per cent of the overall country program ($100 million), with further growth foreshadowed by the Australian Government in the 2012–13 Budget.

The objective of the audit is to assess the effectiveness of AusAID's management of infrastructure aid to Indonesia. The audit will focus on the extent to which infrastructure aid meets defined program and policy goals. The audit provides an opportunity to continue the ANAO's engagement with the Indonesian Board of Audit (BPK). The ANAO is providing ongoing assistance to the BPK as part of its commitment to develop public sector auditing in the Asia-Pacific region.

The audit report is expected to be tabled in the Winter 2013 Parliamentary sittings.

Potential audits

Deployment and Management of Australia-based Staff Overseas

The Australian Government seeks to promote Australia's interests overseas through the establishment and operation of a network of overseas missions. Missions are staffed by a mix of Australia-based (A-based) and locally engaged staff.

The number of A-based staff deployed overseas has decreased by some 35 per cent over the last 20 years to around 586 staff, while at the same time the workload of DFAT and its

missions has increased. A substantial component of this increase involves the provision of consular and passport services to an increasing number of Australian travellers.

An audit would examine the arrangements that DFAT has in place to manage and deploy A-based staff overseas. Particular emphasis would be given to strategic consideration of the appropriate number of A-based staff, their skills and the location of deployment. Arrangements to support these deployments, including the selection and training of staff and management of overseas conditions of service, would be key areas of focus. The audit would complement a previous audit, ANAO Audit Report No.1 2008–09, *Employment and Management of Locally Engaged Staff.*

Management of Embassy Construction Projects

The Overseas Property Office of DFAT is responsible for the effective management of a substantial construction program for the overseas property estate, including new chancery construction projects in Jakarta and Bangkok. The relocation and construction of the Jakarta chancery was approved by the Parliament in August 2009 with construction due for completion in 2014. This $400 million project will involve construction of a secure compound including a chancery, a Head of Mission residence, residential accommodation for 32 diplomatic personnel and their families, recreational facilities and a medical clinic.

During 2010, DFAT secured land for the construction of a new embassy compound in Bangkok. This $200 million project will involve the construction of a new chancery and Head of Mission residence and is expected to be completed in 2016.

An audit, or series of audits, would examine one or both of these construction projects from design and approval, through to contracting and construction. It would consider DFAT's coordination with other Australian agencies represented in-country, its project and financial management arrangements, project risk management and security considerations.

AusAID's Management of Aid to Papua New Guinea

Papua New Guinea (PNG) is Australia's nearest neighbour and, as a fragile state, faces significant challenges and constraints to its development. PNG is the second-largest recipient of Australia's overseas development assistance (approximately $491.7 million in 2012–13). Australian aid makes up approximately 70 per cent of all foreign aid provided to PNG.

In May 2010, a review of the *Papua New Guinea-Australia Development Cooperation Treaty (1999)* concluded that AusAID should narrow the focus of aid provided. As such, AusAID is seeking to reposition its PNG country program to focus on improving access to education, health, law and justice and transport.

An audit would examine AusAID's management of aid to Papua New Guinea, and the outcomes being achieved. Focus could be given to AusAID's management of aid activities to support one or more of the sectors of development being given priority under the repositioning of the PNG country program.

AusAID's Contract Management Arrangements

As at 30 June 2011, AusAID managed 6097 contracts with a total value of $13.3 billion (an increase of 49 per cent and 36 per cent on the previous year, respectively). The contracting parties included other Australian government agencies, non-government organisations, multilateral agencies, partner governments and commercial entities.

The ANAO last conducted an audit of AusAID's contract management arrangements in 2001–02. With both the overall aid program and the use of contracts to deliver aid

expanding, a reassessment of AusAID's contract management arrangements would be timely.

An audit would examine the effectiveness of AusAID's contract management arrangements.

Implementation of Austrade's New Operating Model

In May 2011, the Minister for Trade announced a comprehensive reform program to maximise the value of Austrade. This program involves the implementation of a new operating model with a number of objectives, including:

- a clearer rationale and purpose predicated on market failure, and better focusing of resources to areas where Austrade can add the most value;
- a realigned international network, with a lesser focus on North America and Europe, and increased representation in Latin America, Africa, Central Asia and Western China;
- more clearly directing resources to companies that are internationally business ready; and
- a simpler organisational structure, with a global rather than regional focus.

An audit would examine the implementation and effectiveness of the new arrangements in achieving the objectives outlined by the Australian Government.

International Climate Change Adaptation Initiative

The International Climate Change Adaptation initiative is jointly managed by AusAID and the Department of Climate Change and Energy Efficiency. The Australian Government has invested $150 million over three years (2008–09 to 2010–11) through its aid program to meet high-priority climate change adaptation needs in vulnerable countries in the Asia-Pacific region.

The 2010–11 Budget extended funding by $178.2 million for an additional two years to continue programs in the Asia-Pacific region to help these countries adapt to the impacts of climate change. Australia will also extend assistance to vulnerable nations in the Caribbean and Africa and for additional initiatives in the Mekong region. Assistance provided through the International Climate Change Adaptation initiative is designed to assist countries to:

- identify and help finance priority adaptation measures to increase resilience to the impacts of climate change;
- increase understanding of how the climate and oceans have changed and how they may change in the future; and
- assess their vulnerability to climate change and develop evidence-based adaptation strategies.

An audit would examine progress towards the outcomes sought by Government and the extent to which agencies have determined value for money from the funding delivered under the initiative.

Health and Ageing

Audit strategy overview

The Health and Ageing portfolio has a broad objective of working to achieve a health care system that meets the health care and ageing needs of all Australians. Achieving this objective relies upon the Department of Health and Ageing (DoHA) and a large number of portfolio agencies delivering against 14 specific outcomes that reflect the Australian Government's desired results for health and ageing. DoHA and the portfolio agencies were appropriated $53 billion in the 2012–13 Budget to deliver against these outcomes.

DoHA is the lead agency in the portfolio and is responsible for achieving the Government's health and ageing priorities by developing evidence-based policy, managing programs and undertaking research and regulatory activities. DoHA and the portfolio agencies deliver programs and initiatives both directly to health practitioners and health consumers, and through a range of intermediaries, including state and territory governments.

Recent ANAO audit coverage has focused on portfolio outcomes involving the effectiveness of grants administration, aged care, mental health, therapeutic goods and health workforce development. The ANAO's 2012–13 audit program for the Health and Ageing portfolio has been developed within the context of the ANAO's audit strategy, which recognises the broad range of departmental and portfolio agency outcomes and targets the key risks to their achievement. The strategic areas of the ANAO's planned audit coverage include: the delivery of health and hospital services; building healthy communities; improving primary health care; and building a mentally healthy Australia.

Audits in progress at July 2012

Preventing Chronic Disease

The Australian Government contributes to the prevention of chronic disease through the implementation of the Council of Australian Government's 2008 National Partnership Agreement on Preventive Health. The agreement aims to fund programs that will improve health outcomes and reduce pressure on the health system in the long term. To target the lifestyle risk factors of chronic disease, the Australian Government committed $872 million over six years, commencing in 2009–10. Specific responsibilities for the Australian Government under the agreement include supporting workplace-based and community-based programs for healthy living, developing partnerships with relevant industry sectors, establishing the Australian National Preventive Health Agency (ANPHA) and supporting its roles around social marketing, surveillance, research, and the workforce audit and strategy. ANPHA came into existence on 1 January 2011, with Government funding of $133.2 million over four years.

The objective of the audit is to examine the effectiveness of DoHA and ANPHA in fulfilling the Government's role in implementing the 2008 National Partnership Agreement on Preventive Health, in order to achieve its outcomes and objectives, including supporting all Australians to reduce their risk of chronic disease.

The audit report is expected to be tabled in the Spring 2012 Parliamentary sittings.

Managing Aged Care Complaints

The Aged Care Complaints Scheme commenced operation from 1 September 2011, with the primary role of responding to concerns raised by care recipients, their representatives and others regarding the quality of care or services provided through the Australian

Government's subsidised aged care services. The scheme was introduced in response to a review conducted in 2009–10, and aims to improve the operation and transparency of the Aged Care Complaints Investigation Scheme that was in place at the time. In 2010–11, the Complaints Investigation Scheme received 13 606 contacts and investigated 8468 cases. DoHA, through the Office of Aged Care Quality and Compliance, is managing the implementation of the Aged Care Complaints Scheme in four phases from 2010 to 2014.

The objective of the audit is to examine DoHA's implementation and ongoing management of the new Aged Care Complaints Scheme and the effectiveness of DoHA's complaints management systems in supporting service delivery and regulatory outcomes.

The audit report is expected to be tabled in the Spring 2012 Parliamentary sittings.

GP Super Clinics

GP Super Clinics are designed to bring together General Practitioners (GP), nurses, visiting medical specialists, allied health professionals and other health care providers, to deliver care that is tailored to the needs and priorities of local communities. The Australian Government committed $280.2 million over five years, commencing in 2007–08, to establish 36 GP Super Clinics across Australia. The Government committed a further $370.2 million in the 2010–11 Budget to improve the quality and accessibility of primary health care services, which included $253.2 million for the establishment of 28 new GP Super Clinics, bringing the total to 64. As at 30 April 2012, 24 sites were open and providing services to patients.

The objective of the audit is to examine aspects of DoHA's planning and implementation of GP Super Clinics.

The audit report is expected to be tabled in the Winter 2013 Parliamentary sittings.

Mersey Hospital

The Mersey Community Hospital is located at Latrobe in the north-west region of Tasmania, and has been wholly owned by the Commonwealth since 2007. It is managed and operated on the Commonwealth's behalf by the Tasmanian Government, under consecutive heads of agreement signed in 2008 and 2011. The agreements have been administered by the Commonwealth Department of Health and Ageing and the Tasmanian Department of Health and Human Services. The Commonwealth has agreed to provide Tasmania with $197.6 million over three years from 2011 to 2014 for the management and operation of the hospital.

The objective of the audit is to assess the effectiveness of the administration of the 2008 and 2011 heads of agreement, including the use of Commonwealth funding and the management and operation of the hospital in accordance with the agreements. The audit involves Commonwealth partners, namely the Tasmanian Department of Health and Human Services and the Tasmanian Health Organisation – North West, and has been requested by the Joint Committee of Public Accounts and Audit as required by section 18B of the *Auditor-General Act 1997*.

The audit report is expected to be tabled in the Winter 2013 Parliamentary sittings.

Potential audits

Progressing National Health Reforms

In August 2011, all Australian governments signed the *National Health Reform Agreement*. Under this agreement, the Australian Government has committed an extra $16.4 billion until 2019–20 for public hospitals. The *National Health Reform Agreement*, and the *National*

Health and Hospitals Network Agreement that it supersedes, propose reforms to the financing of the Australian health and hospital system with major changes to the governance arrangements between the Australian Government and the states and territories aimed at delivering better health and hospital services. The changes to the funding arrangements are designed to provide a secure funding base for health and hospital services in the future. The new governance arrangements are intended to improve the responsiveness of the system to local needs, enhance the quality of services, and allow greater transparency.

An audit would examine the effectiveness of DoHA's actions to progress the national health reforms.

National e-Health Implementation

In the 2011−12 Budget, the Australian Government committed $433 million to e-Health, largely as part of ongoing processes to facilitate the transition of paper-based clinical record keeping to electronic means for better information exchange to deliver safer, more efficient, better quality healthcare. Since June 2009, the National e-Health Transition Authority has been responsible for delivering key components of the National e-Health Strategy (a Council of Australian Governments initiative) and, from 2010, had a managing agent role, under the department's leadership, in relation to the personally controlled electronic health record (PCEHR) for all Australians. DoHA has set a goal to have 0.5 million Australians registered for their own PCEHR before the national launch of e-Health in 2012–13. However, problems encountered in pilot practices, relating to software incompatibility, have threatened the achievement of this goal.

An audit would examine DoHA's leadership, management and co-ordination of e-Health developments.

Indigenous Chronic Disease Package

In November 2008, the Council of Australian Governments (COAG) agreed to commit $1.6 billion to the National Partnership Agreement on Closing the Gap in Indigenous Health Outcomes. The agreement, which runs from July 2009 to June 2013, aims to contribute to COAG's target of closing the life expectancy gap within a generation. The Australian Government has committed $805 million to the agreement to be delivered through the Indigenous Chronic Disease Package. The Australian Government is focusing its effort on three elements: tackling chronic disease risk factors such as smoking; improving chronic disease management and follow-up care; and workforce expansion and support.

Jurisdiction implementation plans establish the respective roles and responsibilities of the different governments involved in the National Partnership Agreement. Activities within the Australian Government's implementation plan are delivered by a number of different areas of DoHA.

An audit, or series of audits, would examine the effectiveness of DoHA's administration and delivery of the different elements of the package, as set out in the implementation plan, and also consider the department's internal coordination arrangements to support the implementation plan.

National Suicide Prevention Strategy

In 2010, the most recent year for which mortality data are available, there were 2361 registered deaths from suicide, representing an overall rate of 10.5 per 100 000 people. Suicide accounts for approximately 1.6 per cent of all deaths in Australia.

The goal of the *National Suicide Prevention Strategy* is to reduce deaths by suicide across the population and among at-risk groups, and reduce suicidal behaviour. To inform and support this goal, the Australian Government is working with communities across Australia to build resilience, resourcefulness and social connectedness in people, families and communities to protect against the risk factors for suicide. The total funding attached to the National Suicide Prevention Strategy is $134.4 million from 2007–08 to 2012–13.

An audit would examine DoHA's administration of the *National Suicide Prevention Strategy.*

Professional Services Review Scheme

The Professional Services Review (PSR) Scheme commenced in July 1994 and is administered by an agency of the same name. The agency investigates the provision of services by a practitioner to determine whether the practitioner has engaged in inappropriate practice in providing Medicare services or in prescribing under the Pharmaceutical Benefits Scheme. Medicare is one of the largest programs administered by the Australian Government at a cost of approximately $17.9 billion in 2012–13. Expenditure under the PBS was around $10 billion in the same year.

The PSR Scheme has continued to evolve since its inception, with a number of reviews conducted and legislative amendments made to strengthen and clarify the professional review process and address evidentiary difficulties.

An audit would examine the administration of the PSR Scheme.

Fifth Community Pharmacy Agreement

The five-year *Fifth Community Pharmacy Agreement* (Agreement) between the Australian Government and the Pharmacy Guild of Australia commenced on 1 July 2010. The Agreement provides $15.4 billion over the life of the Agreement (until 30 June 2015) for around 5000 community pharmacies for dispensing Pharmaceutical Benefits Scheme medicines and providing pharmacy programs and services; and for the continuation of Community Services Obligation arrangements with pharmaceutical wholesalers. A commitment to maintaining location rules for approved community pharmacies is also provided. The Government has reported that the agreement will result in a gross saving of $1 billion over five years.

An audit would examine DoHA's administration of the *Fifth Community Pharmacy Agreement*.

Progressing Mental Health Reforms

A number of Australian Government strategies are aimed at improving outcomes for people with mental illness. Many of these strategies are incorporated in the *Fourth National Mental Health Plan 2009–14* and the Delivering National Mental Health Reform Program. Together with the Council of Australian Governments' *Ten Year Road Map for Mental Health Reform,* these programs and strategies provide an agenda for collaborative government action on mental health reform. Significant funding has been committed to improving mental health, with Australian Government expenditure of $2.2 billion over five years on mental health services. Some of the expenditure on new programs has been offset by savings in existing services, such as a redirection of $580.5 million from the Better Access to Mental Health Care Program.

A program of audits would examine the effectiveness of DoHA's actions to progress national mental health reform.

Immunise Australia Program

The Australian Government aims to reduce preventable mortality and morbidity in Australia through regulation and national initiatives that support healthy lifestyles and disease prevention.

The Australian Government has long identified immunisation as an important strategy to reduce preventable mortality and morbidity. At 31 December 2010, the national immunisation coverage rates for children 12–15 and 24–27 months of age were more than 91 per cent. The Immunise Australia Program encompasses the Essential Vaccines funding arrangements with states and territories through the National Partnership Agreement on Essential Vaccines, and other immunisation activities—including the Australian Childhood Immunisation Register, Human Papilloma Virus Register, the purchase of influenza vaccine and the National Immunisation Program support arrangements. Funding of $82.5 million was allocated in the 2012–13 Budget for immunisation programs.

An audit would examine DoHA's administration of the Immunise Australia Program.

Australian Radiation Protection and Nuclear Safety Agency

The Australian Radiation Protection and Nuclear Safety Agency (ARPANSA) is an agency within the Health and Ageing portfolio with responsibility for protecting the health and safety of people and the environment from the harmful effects of radiation. The role and function of ARPANSA is set out in the *Australian Radiation Protection and Nuclear Safety Act 1998*. ARPANSA's net resourcing is $28.3 million in 2012–13, most of which is spent on research, developing standards, safety protocols and assurance activities. In 2005, the ANAO conducted an audit of ARPANSA which made 19 recommendations for improving the delivery of its regulatory function. Since May 2011, ARPANSA has operated under a new structure following an internal review aimed at improving the organisation and the way it operates.

An audit would examine ARPANSA's management of the regulatory framework for the safety of radiation facilities and sources, and would review implementation of the recommendations of ANAO Audit Report No.30 2004–05, *Regulation of Commonwealth Radiation and Nuclear Activities*.

Therapeutic Goods Regulations—Medical Devices

The Therapeutic Goods Administration (TGA), a part of DoHA, regulates the quality, safety and efficacy of therapeutic goods, including prescription, over-the-counter and complementary medicines, and medical devices. Medical devices are widely used in the provision of health care services and range from low-risk items, such as bandages, to high-risk items, such as heart pacemakers. Other examples include artificial hips, blood pressure monitors, breast implants, and catheters.

The role of the TGA in regulating the supply and use of medical devices in the Australian market encompasses: classifying medical devices based on different levels of risk; assessing compliance with a set of essential principles for their quality, safety and performance; implementing appropriate regulatory controls for manufacturing processes; including medical devices in the Australian Register of Therapeutic Goods; and implementing a post-market vigilance and adverse incident reporting program.

An audit would examine the effectiveness of the TGA's regulation of medical devices.

Australian Hearing's Delivery of the Community Service Obligation

Australian Hearing is a statutory authority within the Human Services portfolio, established under the *Australian Hearing Services Act 1991.* It provides services under the Australian Government's Hearing Services Program, which is administered by DoHA. The Hearing Services Program has two streams — the Community Service Obligation (CSO) Program (where Australian Hearing is the sole provider) and the Voucher Program (where Australian Hearing competes with other hearing service providers).

Under a memorandum of understanding, DoHA provides funding to Australian Hearing for the delivery of services under the CSO Program to meet the hearing needs of special needs groups, including children and young adults up to 26 years of age, adults who have profound hearing loss and adults who live in remote parts of Australia. In 2010–11, Australian Hearing received approximately $48 million for the delivery of hearing services under the CSO Program. The 2011–12 Budget contained an increase in funding of $47 million for the CSO Program over the coming four years.

An audit would examine the effectiveness of DoHA's and Australian Hearing's administration of the CSO Program, including assessing the sufficiency and appropriateness of the memorandum of understanding between the two organisations. An audit would also assess the actions taken by DoHA and Australian Hearing to address relevant recommendations from the Senate Community Affairs References Committee report of May 2010—*Hear Us: Inquiry into Hearing Health in Australia.*

Indigenous Ear and Eye Health Initiatives

Improving ear and eye health in Indigenous communities is an important element of the Australian Government's approach to closing the gap in Indigenous disadvantage. A high percentage of Indigenous people experience preventable ear and eye conditions. Some conditions, if not treated appropriately, can lead to permanent impairment and be a contributing factor to poor outcomes in other areas such as education and employment.

The Improving Eye and Ear Health Services for Indigenous Australians for Better Education and Employment Outcomes initiative expands eye and ear health services for Indigenous Australians, providing $58.3 million over four years from 2009–10. The initiative is focused on the prevention and treatment of otitis media and trachoma—two of the main causes of sight, hearing and speech disabilities in Indigenous communities. The eye health components of the initiative include trachoma surveillance and control activities, an expansion of the Visiting Optometrist Scheme, and eye surgery intensives in Alice Springs under the Central Australian and Barkly Integrated Eye Health Strategy. The ear health components of the initiative include hearing health promotion, training of health workers in ear health and hearing, maintenance and purchase of equipment for ear health screening, and specialist services including ear surgery. The 2012–13 Budget also included funding for other hearing and vision-related services for people living in remote areas.

An audit would examine aspects of DoHA's management of ear and eye health initiatives.

Human Services

Audit strategy overview

The Human Services portfolio was created in 2007, and is designed to improve the development and delivery of the Australian Government's social and health-related services. In December 2009, the Australian Government announced the Service Delivery Reform program, which led to the 1 July 2011 integration of Centrelink and Medicare Australia services within the Department of Human Services (DHS).[9] Australian Hearing remains within the Human Services portfolio as a statutory authority separate from the department.

DHS is responsible for the development of service delivery policy and delivering a range of payments and services to support individuals, families and communities to achieve greater self-sufficiency. In 2011–12, the department had a budget of approximately $5.7 billion and was responsible for delivering over $130 billion in payments on behalf of a range of policy departments including: Education, Employment and Workplace Relations (DEEWR); Families, Housing, Community Services and Indigenous Affairs (FaHCSIA); and Health and Ageing (DoHA). Current challenges for DHS include balancing the ongoing implementation of the Service Delivery Reform program (including the integration of corporate functions), with the continuing requirement to deliver day-to-day services to millions of citizens.

Recent performance audit coverage has examined the effectiveness and management of a number of programs, systems and strategies within the department. Areas examined have included the administration of the Tasmanian Freight Equalisation Scheme; the operation of Quality On Line (a pre-payment control mechanism); the management of feedback in the Child Support Program; and the implementation of the Multicultural Servicing Strategy. The audit strategy for the Human Services portfolio will focus on administration and risks in two high-level areas: service delivery programs and initiatives, and fraud and compliance activities. With the recent integration of programs into the reconstituted DHS, the audit coverage will also provide a balance between examining activities that cut across the department with those that are managed within respective programs.

Audits in progress at July 2012

Administration of Income Management Services in the Northern Territory

Income Management is a welfare reform measure that directs a percentage of a person's welfare payments toward priority need items such as food, housing, clothing and utilities. Income managed funds cannot be used to purchase excluded goods such as alcohol, tobacco and pornographic material. Compulsory Income Management was one of the measures introduced in 2007 as part of the Northern Territory Emergency Response.

In November 2009, the Australian Government announced the introduction of reforms to the welfare system, including a redesign of the Income Management measure. In August 2010, a new Income Management scheme was introduced across the Northern Territory. The Australian Government provided $350.9 million over four years for the implementation and administration of the new scheme.

The objective of the audit is to assess the effectiveness of the administration of Income Management services in the Northern Territory by DHS and FaHCSIA.

The audit report is expected to be tabled in the Spring 2012 Parliamentary sittings.

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[9] The *Human Services Legislation Amendment Act 2011*. The Child Support Program and CRS Australia were already part of the department.

Potential audits

Implementation of the Service Delivery Reform Program—Co-location of Services

One of the foundations of the Service Delivery Reform program is to provide citizens with better access to services regardless of their location or circumstances. To support this goal, DHS is undertaking a project whereby existing Centrelink, Medicare and Child Support services will be co-located and delivered through a number of 'one stop shops' across Australia.

At 31 December 2011, Centrelink and Medicare services had been co-located at 128 locations across Australia. The 2011–12 Budget allocated $107.5 million (including $66 million from existing departmental resources) over four years to enable DHS to progressively co-locate a total of 520 Centrelink and Medicare shopfronts.

An audit would examine DHS' administration of the co-location initiative.

Recovery of Centrelink Payment Debts by External Collection Agencies

In 2010–11, approximately $1.1 billion in debts relating to Centrelink payments was recovered. In some cases DHS uses external collection agencies to manage the recovery of a debt arising from a Centrelink payment. These debts can include when a person is no longer receiving Centrelink payments and has failed to make or maintain a recovery arrangement directly with the department. External collection agencies in the private sector specialise in the collection of payments in arrears or debts and, in the case of Centrelink payment debts, are paid a commission based on the recovered amount.

In engaging external collection agencies, DHS is responsible for managing the contractual arrangements, referring debt cases, and monitoring performance.

An audit would examine the effectiveness of the department's arrangements for engaging and managing external collection agencies to recover debts arising from Centrelink payments.

Live Animal Exports Assistance Packages

In June 2011, the Minister for Agriculture, Fisheries and Forestry suspended the export of live cattle to Indonesia in response to animal welfare issues. In late June 2011, the Minister announced an Income Recovery Subsidy assistance package of around $3 million for workers whose income had been directly affected by the temporary suspension. Soon after, the Prime Minister announced a further $30 million live animal exports assistance package for businesses that had been affected by the temporary suspension.

The assistance packages were time limited, with applications for the Income Recovery Subsidy and business assistance package closing in September 2011. The business assistance package could be closed earlier if all the funds were committed before the final lodgement date. DHS administered the payments on behalf of the Department of Agriculture, Fisheries and Forestry.

An audit would examine the effectiveness of DHS' delivery of the 2011 live animal exports assistance packages.

Indigenous Servicing Strategy

DHS has developed a range of measures that are designed to improve access to its services for Indigenous Australians. These measures include:

- a network of Indigenous Servicing Officers and Indigenous Customer Service Advisors;
- Indigenous Service Units;
- an Indigenous Call Centre;
- 174 Indigenous Community Agent sites in rural and remote areas;
- 36 Indigenous Access points in remote areas; and
- a strategy to expand existing interpreter services to include a wider range of Indigenous languages.

An audit would examine the effectiveness of the department's strategy to improve Indigenous Australians' access to DHS services. An audit would complement ANAO Audit Report No.42 2011–12, *Administration of the Multicultural Servicing Strategy for the Delivery of Centrelink Services*.

Community Engagement Programs and Services

DHS works closely with many community and advocacy groups in the design and delivery of its programs and services. This engagement has also been a key focus of the Service Delivery Reform program. DHS programs and services that involve working with, as well as within, local communities include:

- Local Connections to Work—which offers a range of services, in nine targeted sites, designed to improve job placement opportunities for the long-term unemployed and disadvantaged youth;
- Community Engagement Officers—a network of 90 specialists providing outreach services, including referrals to other government and non-government services, to people who are homeless or at risk of homelessness;
- Social Work Services—a network of approximately 650 social workers who undertake professional assessments and provide professional counselling, support and referral services to customers, including young people without adequate family support and people who are homeless or at risk of homelessness; and
- Community Innovation Through Collaboration—an initiative announced in the 2011–12 Budget (worth $38.2 million over four years) designed to support the development and delivery of innovative services in ten targeted locations, in order to boost engagement, capability and workforce participation among people experiencing barriers to employment and social inclusion.

An audit, or a series of audits, would examine the administration and effectiveness of DHS' programs and services targeted at community engagement.

Use of Coercive Information-gathering Powers

Coercive information-gathering powers are important administrative and regulatory devices used by many Australian Government agencies. These powers can be used to compel the provision of information, the production of documents and responses to questions. An overriding principle for the use of such powers is that the exercise of the power is closely controlled, so as to achieve a balance between obtaining the necessary information and safeguarding the rights and freedoms of the individuals or organisations involved.

In 2008, the Administrative Review Council published a report—*The Coercive Information-gathering Powers of Government Agencies*—that outlined 20 best-practice principles it considered, if followed, would ensure that agencies use coercive information-gathering powers effectively, efficiently and with due regard to individual rights. Within DHS, coercive information-gathering powers are used across a variety of functions.

An audit would examine the use of coercive information-gathering powers by DHS.

Protection of Customer Information

DHS is required to protect customers' personal information by the *Privacy Act 1988*, as well as several secrecy provisions contained in other legislation governing the department's delivery of services, including the *Social Security (Administration) Act 1999*, the *Health Insurance Act 1973* and the *Child Support (Assessment) Act 1989.*

DHS undertakes privacy impact assessments for projects and program improvements involving personal information, and has a number of measures designed to protect such information, including providing education and regular communication to staff to promote an awareness and understanding of privacy issues. In 2010, DHS established a Memorandum of Understanding with the Office of the Australian Information Commissioner to help in the management of privacy issues and complaints.

In 2010–11, DHS reported 708 privacy breaches/incidents. While this was less than in previous years, concerns around the protection of customers' information have gained prominence with the implementation of the Service Delivery Reform program.

An audit would assess the effectiveness of DHS' administration of processes and systems associated with the protection of customers' information.

Follow-up of Recommendations Made in Previous ANAO Audit Reports

Over the last five years the ANAO has completed a range of audits in the Human Services portfolio. These audits have examined a number of areas including: customer service, payment integrity, information communication and technology, customer feedback and review and appeal systems, and fraud and compliance activities. In many audits, the ANAO has made a number of recommendations designed to improve the administration and effectiveness of the areas.

An audit, or series of audits, would examine whether DHS has effectively implemented the recommendations made in previous ANAO reports.

Implementation of Fraud and Debt Prevention Measures for Centrelink Services

In the 2010–11 Budget, Centrelink was provided with approximately $150 million over four years to enhance its capability to detect and respond to emerging fraud risks, and to help reduce the risks of individuals receiving benefit payments that they are not entitled to. Specifically, funding was provided for:

- improving liaison with intelligence and law enforcement agencies, including by recruiting specialist analysts and investigators—$71 million;
- establishing arrangements with compensation payers so that DHS is notified about the payment of compensation to its customers—$48.7 million; and
- putting in place arrangements for the regular review of debt repayment rates—$19.4 million.

In the 2011–12 Budget, DHS was allocated a further $59 million over five years to improve its capacity to prevent social welfare recipients from accumulating debt when they commence new employment.

An audit would examine the effectiveness of the actions taken to implement these Budget measures, and assess whether the estimated savings associated with these measures are being realised.

Administration of the Data-matching Program

One of the tools used by DHS to assist with payment integrity activities for Centrelink services is data-matching. The Data-matching Program involves a virtual agency (the Data-matching Agency) located within DHS using data supplied by source agencies (such as the Australian Taxation Office) to verify the accuracy of customer data.

DHS is required to administer the Data-matching Program in accordance with the provisions of the *Data-Matching Program (Assistance and Tax) Act 1990* (the Act). The program aims to:

- detect people who may be receiving incorrect income support payments;
- verify the accuracy of income support customers' declared income;
- encourage voluntary compliance, including deterring people from attempting to claim support to which they are not entitled; and
- detect fictitious or assumed identities.

In 2010–11, the Data-matching Program resulted in 40 266 reviews and returned $147.6 million in net savings.

The Act requires that DHS have in place a framework of privacy safeguards covering the collection, storage, use and disclosure of personal information. As part of these safeguards, DHS provides funding to the Office of the Australian Information Commissioner to support its monitoring of the data-matching work.

An audit would examine the effectiveness of DHS' administration of the Data-matching Program, including assessing whether the program has been administered in accordance with legislative requirements.

Working Age Payments

Working age payments support people to: improve their prospects of gaining employment; acquire labour market skills and knowledge; and participate in society. Financial assistance is provided to people who are unemployed, looking for work, undertaking employment preparation programs, have parenting responsibilities, have a partial capacity to work due to disability, or young people studying towards a Year 12 or equivalent education attainment. Examples of these payments include the Newstart Allowance, Parenting Payment, and one type of Youth Allowance.

In 2011–12, DHS administered working age payments worth $14 billion on behalf of the DEEWR. DEEWR has overall responsibility for this expenditure, including reporting on key performance indicators, providing policy advice, and overseeing program delivery agencies (including DHS and other service providers).

An audit, or series of audits would examine: the overarching agreements between DHS and DEEWR (particularly aspects of coordination of policy implementation and service delivery); DEEWR's high-level oversight of the expenditure of one or more individual program payment and allowance types; and DEEWR's approach to measuring relevant performance indicators

to support policy advice. The audit/s may also include other Australian Government agencies involved in selected aspects of administration, such as payment and service delivery.

Health and Aged Care Compliance Program

The Health and Aged Care Compliance Program (formerly known as the Medicare Australia National Compliance Program) sets out DHS' approach to improving compliance with the requirements of the health and aged care services it administers. The compliance program is risk-based and highlights the key areas of priority and focus for compliance management activity. In 2010–11, the program focused on:

- education—continuing to develop resources to help providers, including new doctors and international medical graduates, to voluntarily meet their compliance obligations;
- stakeholder engagement—co-designing the compliance initiatives;
- completion of the published work program of compliance audits and reviews; and
- close cooperation with other portfolio agencies to improve compliance and fraud management.

DHS uses a range of tools as part of its compliance management activities for health and aged care services. These include audits and reviews, data-matching, artificial intelligence analysis and tip-offs from members of the community or medical professionals. In 2010–11, Medicare Australia initiated action to recover more than $28 million in incorrect payments from over 600 debtors.

A series of audits would examine the effectiveness of the design and operation of elements of the Health and Aged Care Compliance Program.

Administration of Child Care Fee Assistance

Child Care Fee Assistance is provided by the Australian Government to enable more families to access quality child care services. There are two main forms of assistance: Child Care Benefit, which assists parents with the cost of approved and registered child care; and Child Care Rebate, which covers families for 50 per cent of their out-of-pocket approved child care expenses after Child Care Benefit has been received. In 2011–12, nearly $4 billion was budgeted for Child Care Fee Assistance.

Child Care Fee Assistance payments involve a range of Australian Government agencies (such as DEEWR, FaHCSIA and DHS), and child care service providers, in activities such as eligibility assessment of service providers and parents, attendance recording, making payments (primarily to service providers on behalf of parents) and related compliance activities. DEEWR's responsibilities include policy advice, overall operational coordination and eligibility assessments of service providers.

An audit would examine DEEWR's administration of Child Care Fee Assistance and may include other Australian Government agencies involved in selected aspects of administration and implementation, such as the underlying IT systems, assurance processes or management of service providers.

Administration of the Chronic Disease Dental Scheme

In November 2007, the Chronic Disease Dental Scheme was introduced to give chronically ill people, who are being managed under an Enhanced Primary Care Plan, access to Medicare rebates for most dental services. The Scheme, which is not means-tested, entitles eligible patients to subsidies of up to $4250 in a two-year period. At the time it was

established, the Scheme was forecast to cost $385 million over four years. However, actual expenditure in the four years since November 2007 has exceeded $2 billion.

In June 2010, Medicare began investigating the level of compliance with the Scheme and commenced a program to educate and inform dentists on its use. In September 2011, the Minister for Health established the National Advisory Council on Dental Health as a time-limited group to provide strategic, independent advice on dental health issues to the Australian Government. The Council reported to the Government in February 2012 on options for dental health services.

An audit would examine the effectiveness of DHS' administration of the Scheme, including compliance activities.

Child Support Program—Objections to Decisions

Parents and non-parent carers are entitled to request that DHS conduct a formal internal administrative review of some decisions made under child support legislation. An objection review is conducted by a Child Support Program officer not involved in the original decision.

In 2010–11, 17 068 objections were lodged and 16 646 reviews were finalised. DHS is required by law to finalise all objections received within 60 days for domestic customers, and 120 days for international customers. In 2010–11, 87.4 per cent of domestic customers' objections were finalised within 60 days, and 86.9 per cent of international customers' objections were finalised within 120 days.

An audit would examine the effectiveness of DHS' administration of the objections process.

Child Support Program—Appeals to the Social Security Appeals Tribunal and the Administrative Appeals Tribunal

Parents who disagree with objection decisions made after 1 January 2007 can apply to the Social Security Appeals Tribunal (SSAT) for a review of those decisions. As an external review body, the SSAT received 2536 applications for review of child support objection decisions in 2010–11, of which 39 per cent of the original decisions were changed.

In limited circumstances, such as decisions on Departure Prohibition Orders and some SSAT decisions, a parent may also apply to the Administrative Appeals Tribunal (AAT) for review of the decision.

An audit would assess the effectiveness with which DHS undertakes its role in relation to child support appeals to the SSAT and the AAT.

Australian Hearing's Delivery of the Community Service Obligation

Australian Hearing is a statutory authority within the Human Services portfolio, established under the *Australian Hearing Services Act 1991.* It provides services under the Australian Government's Hearing Services Program, which is administered by DoHA. The Hearing Services Program has two streams — the Community Service Obligation (CSO) Program (where Australian Hearing is the sole provider) and the Voucher Program (where Australian Hearing competes with other hearing service providers).

Under a memorandum of understanding, DoHA provides funding to Australian Hearing for the delivery of services under the CSO Program to meet the hearing needs of special needs groups, including children and young adults up to 26 years of age, adults who have profound hearing loss and adults who live in remote parts of Australia. In 2010–11, Australian Hearing received approximately $48 million for the delivery of hearing services under the CSO

Program. The 2011–12 Budget contained an increase in funding of $47 million for the CSO Program over the coming four years.

An audit would examine the effectiveness of DoHA's and Australian Hearing's administration of the CSO Program, including assessing the sufficiency and appropriateness of the memorandum of understanding between the two organisations. An audit would also assess the actions taken by DoHA and Australian Hearing to address relevant recommendations from the Senate Community Affairs References Committee report of May 2010—*Hear Us: Inquiry into Hearing Health in Australia.*

Immigration and Citizenship

Audit strategy overview

The Immigration and Citizenship portfolio comprises the Department of Immigration and Citizenship (DIAC) and the Migration Review Tribunal and Refugee Review Tribunal (MRT-RRT). DIAC's purpose is to build Australia's future through the well-managed entry and settlement of people. The MRT-RRT provides independent merits review of general visa decisions and protection visa decisions by DIAC. In 2012–13, funding for DIAC and MRT-RRT totalled some $2.7 billion.

In recent years, DIAC has been involved in a number of major reviews of its activities and performance. Moreover, a sharp surge in Irregular Maritime Arrivals (IMAs), and consequential increase in the number of persons in immigration detention, has placed a considerable burden on the department's detention policy and operations areas. A key challenge for DIAC is to effectively balance the administrative response to the increase in IMAs with the delivery of 'business as usual' services, including visa, compliance and settlement services.

The ANAO has focused its recent audit coverage on key risks to DIAC achieving its outcomes, centring on the need to balance border security and effective, efficient visa and entry processing; and to facilitate the economic benefits of migration and effective settlement of new migrants in Australia. Recent audit coverage in DIAC has included the management of student visas, and the need to be assured about the character of visa and citizenship applicants. The provision of individual management services to people in immigration detention is the subject of a current audit.

Planned audit work will focus on DIAC's management of community detention arrangements as well as visa services to asylum seekers and persons seeking to migrate to Australia under the General Skilled Migration Program. The identification and management of visa overstayers and the Department's Movement Alert List are also identified as potential audits.

Audits in progress at July 2012

Provision of Individual Management Services to People in Immigration Detention

The *Migration Act 1958* requires people who are not Australian citizens and who are unlawfully in Australia to be detained. Unlawful non-citizens may be detained in Immigration Detention Centres (IDCs), Immigration Residential Housing (IRH), Immigration Transit Accommodation (ITA), Alternative Places of Detention, or Community Detention.

The majority of unlawful non-citizens are held in IDCs. As at 31 January 2012, there were 4783 people in immigration detention facilities and Alternative Places of Detention, including 3951 in immigration detention on the mainland and 832 in immigration detention on Christmas Island. Separately, 1600 people have been approved to live under Community Detention arrangements.

In 2009, DIAC signed contracts with Serco Australia Pty Ltd, worth an estimated cost of $415 million over five years, to provide detention services at IDCs, IRHs and ITAs. Given the significant increase in the number of unlawful non-citizens arriving in Australia, the cost of this contract is likely to be greater than the estimate. International Health and Medical Services Pty Limited are separately contracted to provide general and mental health services to people in immigration detention.

The objective of the audit is to assess the effectiveness of DIAC's management of the individual management services provided to people in immigration detention.

The audit report is expected to be tabled in the Spring 2012 Parliamentary sittings.

Potential audits

Community Detention and Bridging Visas for Irregular Maritime Arrivals

The *Migration Act 1958* requires people who are not Australian citizens and who are unlawfully in Australia to be detained. The purpose of immigration detention is to protect the Australian community from risks that may arise from the presence of unlawful non-citizens. One form of immigration detention is known as Community Detention. Community Detention is subject to a number of conditions, including a mandatory requirement to report regularly to DIAC and/or the service provider, and to reside at the address specified by the Minister for Immigration and Citizenship. The Australian Red Cross is funded to act as the lead agency for Community Detention and is supported by other subcontracted non-government organisations. Services include assistance with housing, residential/out-of-home care for unaccompanied minors, case workers, an allowance to meet daily living costs and a range of activities. Alternatively, since November 2011, eligible Irregular Maritime Arrivals (IMAs) who have passed initial health, security and identity checks and who do not pose a risk to the community may be granted a Bridging Visa E (BVE) while their asylum claims are assessed. Like people in Community Detention, asylum seekers on BVEs will be required to report to DIAC and may be eligible for some support from the department. However, holders of BVEs will also have the right to work and will be required to support themselves.

Over the past six months, DIAC has moved significant numbers of longer-term immigration detainees and vulnerable groups, including vulnerable single adult males, into community-based detention or onto BVEs. As at 31 March 2012, 1712 people were in Community Detention; 29 per cent of the 5909 people in immigration detention. In addition, 1089 IMAs were granted BVEs between 25 November 2011 and 31 March 3012.

An audit would examine DIAC's management of community detention and BVEs, including the criteria applied to determine whether a person is granted a BVE or moves into Community Detention, the support provided under each system, and how DIAC monitors an individual's compliance with the conditions attached to Community Detention or their BVE. The audit would complement the ANAO's previous series of audits of detention services, and the current audit of the Provision of Individual Management Services to People in Immigration Detention.

Processing of Asylum Seekers in Australia

Each year, thousands of people request asylum (protection under the 1951 United Nations *Convention and Protocol Relating to the Status of Refugees* (the Refugees Convention)) in Australia. In 2010–11, of the 11 491 people requesting asylum, 5175 arrived by boat without prior authorisation and are referred to as Irregular Maritime Arrivals (IMAs). The majority of the remaining 6316 people (non-IMAs) arrived by air and were already lawfully in Australia when they requested protection.

The processing of unauthorised arrivals is complex and can be protracted. It usually includes an assessment of whether the person is owed protection obligations under the Refugees Convention, a consideration of health, character and security requirements, with various stages of review. In 2010–11, DIAC granted 4818 protection visas—2717 to IMAs and 2101 to non-IMAs. During that period, the average processing time from arrival to visa grant for IMAs was 299 days, an increase of over 150 per cent from the previous year's average.

An audit would examine DIAC's approach to processing persons applying for asylum and protection visas in Australia. The audit would include a consideration of the stages in the assessment and review process and the reasons for delays in finalising decisions. The audit would complement the current audit of the Provision of Individual Management Services to People in Immigration Detention and ANAO Audit Report No.56 2003–04, *Management of the Processing of Asylum Seekers.*

General Skilled Migration Program

The General Skilled Migration (GSM) program allows for the entry of highly skilled individuals without the sponsorship of an employer. The three broad categories of permanent visa within the GSM program are: independent; state and territory-sponsored; and family-sponsored visas. All categories involve a points test, where applicants are allocated points on the basis of particular attributes. The GSM program is capped, and its level is closely monitored by the Australian Government, given its relationship to economic growth.

Australia's migration program is broken into three streams: skill, family and special eligibility. The skill stream is the largest component, accounting for 67 per cent of the total migration program, or 113 725 persons in 2010–11. The GSM program makes up 54 per cent of the skill stream, with 61 459 persons in 2010–11, making it the largest permanent visa program. In late 2008, the Government commenced making changes to the GSM program aimed at better targeting it to the skills needed in the economy and changing it from a supply-driven program to a demand-driven program. This culminated in the introduction from 1 July 2010, of a more tightly targeted Skilled Occupations List, and a review of the points test.

An audit would examine DIAC's management of the GSM program, focusing on its management of the implementation of changes to transition from a supply to a demand-driven skilled migration program in accordance with the Australian Government's objectives.

Management of the Movement Alert List (follow-on)

The Movement Alert List (MAL) is a computer database, developed by DIAC, to store the personal details and information on travel documents of immigration concern to Australia. A person may be listed on MAL for a number of reasons, including if they have a serious criminal record or if their presence in Australia may constitute a risk to the Australian community. Documents listed on MAL include reported lost, stolen or fraudulently altered travel documents. As at 30 June 2011, there were 639 000 identities of interest and 1.71 million lost, stolen or fraudulently altered travel documents of interest listed on MAL.

ANAO Audit Report No.35 2008–09, *Management of the Movement Alert List* made five recommendations aimed at improving the effectiveness of DIAC's management of MAL.

An audit would examine DIAC's progress in implementing those recommendations.

Identification and Management of Visa Overstayers

Visa holders who enter Australia lawfully become overstayers if they remain in Australia after their visa has expired or is cancelled. At 30 June 2011, about 58 400 people were estimated to have overstayed their visas and remained in Australia. This was an increase of 4500 over 30 June 2010 estimates. Overstayer numbers are expected to continue to increase as a consequence of the historical growth in the number of people arriving in Australia. DIAC has several approaches to encourage voluntary compliance with Australia's migration laws and to detect and respond effectively to non-compliance by visa holders. These approaches include: departmental compliance officers who locate overstayers; an immigration dob-in line

for advising the department about persons living and/or working illegally in Australia; and a national communication strategy, implemented in 2009–10, to encourage non-compliant visa holders to voluntarily contact the department to resolve their visa status.

An audit would examine DIAC's strategies for identifying, investigating and taking appropriate action in relation to visa overstayers. The audit would complement a previous ANAO Audit Report No.2 2004–05, *Onshore Compliance–Visa Overstayers and Non-Citizens Working Illegally.*

Industry, Innovation, Science, Research and Tertiary Education

Audit strategy overview

The Industry, Innovation, Science, Research and Tertiary Education portfolio was formed in December 2011 with the integration of the Tertiary Education function from the Education, Employment and Workplace Relations portfolio. By strengthening the links between science, research, industry and tertiary education, the portfolio aims to foster an economy where new ideas are nurtured and innovation drives productivity, economic growth and social well-being.

Within the portfolio the Department of Industry, Innovation, Science, Research and Tertiary Education (DIISRTE) is the lead policy, coordination and delivery agency, and has a key priority of encouraging the sustainable growth of Australian industries by promoting innovation. In 2012–13, the department's total resourcing budget is $17.6 billion. Other agencies within the portfolio include: the Australian Institute of Aboriginal and Torres Strait Islander Studies, the Australian Institute of Marine Science (AIMS), the Australian Nuclear Science and Technology Organisation, the Australian Research Council, the Commonwealth Scientific and Industrial Research Organisation (CSIRO), IP Australia, the Australian Skills Quality Authority and the Tertiary Education Quality and Standards Agency.

Recent ANAO audits have examined various industry assistance schemes administered by the department including the LPG Vehicle Scheme, the Automotive Competitiveness and Investment Scheme and the Textile, Clothing and Footwear Scheme. Other audits have examined aspects of the portfolio agencies CSIRO and AIMS. The audit strategy for the portfolio will focus on the delivery of grant and assistance programs administered by DIISRTE and portfolio agencies. With the recent integration of the Tertiary Education function within the department, the audit program will also consider those programs new to the department.

Audits in progress at July 2012

Administration of Research Block Grants

In 2012, DIISRTE will provide $1.6 billion to Australian higher education providers (HEPs) as research block grants to support research and research training activities. The grants are made through six performance-based schemes managed by the department.

Eligible HEPs receive a single annual funding amount (block) for each scheme and are responsible for administering the scheme, within broad guidelines, on behalf of DIISRTE. HEPs have considerable autonomy in deciding the research projects, personnel, equipment and infrastructure that the block funding will support.

The objective of the audit is to assess the effectiveness of DIISRTE's administration of selected research block grant schemes; namely, the Research Training Scheme and the Joint Research Engagement Scheme.

The audit report is expected to be tabled in the Autumn 2013 Parliamentary sittings.

Education Investment Fund

The Education Investment Fund (EIF) is a major component of the Australian Government's 'Education Revolution', and is also one of the three nation-building funds established by the *Nation-building Funds Act 2008*. The EIF commenced in January 2009 and provides funding

to support the development, renewal and refurbishment of infrastructure in the higher education, research and vocational education and training (VET) sectors.

Prior to machinery of government changes in December 2011, which consolidated responsibility for the EIF within DIISRTE, projects within the higher education and VET sectors were managed by the Department of Education, Employment and Workplace Relations. Projects in the research sector were managed by the former Department of Innovation, Industry, Science and Research.

Seven funding rounds have been completed with an eighth round in the assessment phase. Across the funding rounds the Australian Government has committed $4.5 billion from the EIF.

The objective of the audit is to assess the effectiveness of DIISRTE's administration of grants from the EIF, focusing on Round 2 and Round 3, including the Sustainability Round.

The audit report is expected to be tabled in the Autumn 2013 Parliamentary sittings.

Potential audits

Automotive Transformation Scheme

The Automotive Transformation Scheme (ATS) commenced on 1 January 2011 and will provide $3.4 billion in assistance to registered participants until 2020–21. The ATS aims to encourage competitive investment and innovation in the Australian automotive industry and to place it on an economically sustainable footing. The scheme replaced the Automotive Competitiveness and Investment Scheme Stage 3.

The ATS is administered by AusIndustry under the *Automotive Transformation Scheme Act 2009*. Assistance is provided to automotive participants registered in one of the following categories: motor vehicle producers; automotive component producers; automotive machine tool and automotive tooling producers; and service providers.

The ATS provides participants with cash payments for strategic investment in research and development, plant and equipment, and the production of motor vehicles, engines and engine components. In 2010–11, registered participants received $93 million in assistance, of which motor vehicle producers received $58 million.

An audit would examine the implementation and administration of the ATS.

Australian Research Council's Administration of Grants

The Australian Research Council (ARC) is a statutory authority that aims to deliver policy and programs that advance Australian research and innovation globally and benefit the community. The ARC provides advice to the Australian Government on research matters, manages the National Competitive Grants Program (NCGP), and administers the Excellence in Research for Australia (ERA) initiative.

The NCGP supports fundamental and applied research and research training through national competition across all disciplines, with the exception of clinical medicine and dentistry. In 2010–11, the ARC provided 188 grants to Australian universities and institutions. The ERA initiative assesses research quality within Australia's higher education institutions and gives government, industry, business and the wider community assurance on the research conducted. The ERA also provides a national stocktake, by research discipline area, of research strength against international benchmarks.

In 2011–12, the ARC's budget will be approximately $845 million, of which $810 million will be awarded through the NCGP.

An audit, or series of audits, would examine the ARC's administration of grants and the progress made with implementing the recommendations from ANAO Audit Report No.38 2005–06, *The Australian Research Council's Management of Research Grants.*

Cooperative Research Centres

Cooperative Research Centres (CRCs) are partnerships between publicly funded researchers and end-users (either from the private, public or community sector) to address major challenges that require medium to long-term collaborative efforts. The first CRCs were established in 1991.

The Australian Government has contributed more than $3.4 billion over the life of the program, with approximately $11 billion being contributed in cash and in-kind by CRC participants. During 2010–11, there were 42 CRCs operating in four broad sectors: Agriculture, Forestry and Fishing; Mining; Manufacturing; and Services. In 2011–12, the Australian Government allocated $148 million for CRCs.

An audit would examine DIISRTE's administration of CRCs.

Enterprise Connect

Commencing in May 2008 with a five-year $251 million commitment by the Australian Government, Enterprise Connect is a national network of 12 centres with around 100 business advisers and facilitators designed to help Australian firms develop the skills, tools and knowledge to improve their competitiveness and productivity. Core services include business reviews for eligible businesses at no charge to firms, and grant assistance to implement recommendations flowing from the business reviews. Enterprise Connect offers support to businesses across Australia in industries including manufacturing, resources, defence and clean energy.

In 2010–11, Enterprise Connect performed business reviews on 1196 firms and provided 855 Tailored Advisory Service grants for projects flowing from these reviews.

An audit, or series of audits, would examine DIISRTE's administration of Enterprise Connect, focusing on one or more of the services it delivers.

Commercialisation Australia

Commercialisation Australia is a competitive, merit-based assistance program offering funding and resources to accelerate the business-building process for Australian companies, entrepreneurs, researchers and inventors. Commercialisation Australia operates within DIISRTE with its own Chief Executive Officer and Board.

The program assists participants through a range of funding options as well as multi-layered networking opportunities. Commercialisation Australia has a network of 22 Case Managers throughout Australia to help participants commercialise their product and monitor their performance against agreed milestones. The Case Manager guides participants through the commercialisation process and facilitates their access to experienced Volunteer Business Mentors.

Commercialisation Australia received initial funding of $278 million for the five years to 2014, with annual ongoing funding of $82 million thereafter. In addition, the program has a number of support components with each requiring a contribution from the participant. In 2010–11, the Commercialisation Australia Board considered 172 applications for assistance and approved 98, providing funding of $39.6 million to projects across a range of industry sectors.

An audit would assess DIISRTE's management of the Commercialisation Australia program, including the effectiveness of support services provided to applicants and the administration of funding and grants.

Commonwealth Grant Scheme for Higher Education

The Commonwealth Grant Scheme provides funding to higher education providers for Commonwealth supported places (CSPs) in bachelor courses of study. Some CSPs are also funded in sub-bachelor, non-research postgraduate, medicine and other courses of study specified by the Minister for Tertiary Education, Skills, Science and Research. The program is aimed at lifting higher education attainment rates, as well as enrolment rates of those from disadvantaged backgrounds.

Prior to 2012, the Commonwealth provided funding to eligible higher education providers for an agreed number of CSPs in a given year. From 2012, public universities determine the number of students they enrol in bachelor level courses (excluding medicine) and receive funding for these places. This allows universities to increase the number of CSPs they offer in particular disciplines in response to employer and student demands.

Providers must enter into a funding agreement with the Commonwealth in order to receive funding under the Commonwealth Grant Scheme. In 2012, there are 44 agreements in place with providers. In 2010–11, $5 billion in payments were made under the scheme with a similar figure forecast for 2011–12.

An audit, or series of audits, would examine the effectiveness of the Commonwealth Grant Scheme for Higher Education, including DIISRTE's administration of the program, the funding agreements between universities and the Commonwealth, and the transition to a demand-driven model.

Skills for Sustainable Growth—Building Australia's Future Workforce Initiative

The Australian Government has announced a series of measures over recent years focused on supporting growth in skills and qualifications to better enable Australians to enter the workforce for the first time, re-enter the workforce, retrain for a new job or upgrade from an existing job.

The Building Australia's Future Workforce initiative was announced in the 2011–12 Budget and provides $3 billion over six years. Key elements of the initiative include:

- $558 million to deliver tailored, quality training places through the National Workforce Development Fund;
- establishing the National Workforce Productivity Agency ($25 million) and the Productivity Education and Training Fund ($20 million);
- $1.8 billion over five years from 2012–13 to reform the vocational education and training system, under a new National Partnership Agreement with the states and territories; and
- a range of measures to boost participation by rewarding work, providing new opportunities through training, education and services, and introducing new requirements for some groups in the community.

An audit, or series of audits, would examine the administration and effectiveness of one or more elements of the Building Australia's Future Workforce initiative.

Administration of the Economic Diversification Package Under the Tasmanian Forests Intergovernmental Agreement

Through the Tasmanian Forests Intergovernmental Agreement, in August 2011 the Australian Government committed to provide up to $120 million over a period of 15 years to fund regional development projects in Tasmania that would improve the productivity and income-earning capacity of the Tasmanian economy.[10] Of this amount, $20 million was to be paid in 2011–12, with this funding administered by two departments, as follows:

- DIISRTE administers the Tasmanian Innovation and Investment Fund (TIIF), a competitive, merit-based program aimed at companies seeking $50 000 or more in grant funds for investments in activities that provide sustainable employment and diversify Tasmania's economy. The TIIF is to provide up to $8 million in grant funding during the 2011–12, 2012–13 and 2013–14 financial years, of which $4 million was to be paid in 2011–12. Twenty-eight successful applications have been announced.
- The Department of Regional Australia, Local Government, Arts and Sport administers the remaining funding. Between February and April 2012, 10 projects were announced for funding from within the first $16 million tranche. This funding is governed by a National Partnership Agreement, with Australian Government funding to be paid to the state government which, in turn, is to enter into funding arrangements with the various project proponents.

An audit (or two contemporaneous audits) would examine the processes by which funding proposals were sought, assessed and approved under both components of the Economic Diversification package. The ANAO would also examine each department's oversight of the delivery of approved projects.

[10] The two governments also committed to agreeing on the design, criteria, joint assessment procedures, and monitoring and evaluation of the $120 million package.

Infrastructure and Transport

Audit strategy overview

The responsibilities of the Infrastructure and Transport portfolio include: providing, evaluating, planning and investing in infrastructure; and fostering an efficient, sustainable, competitive, safe and secure transport system. The resources available to the portfolio in 2011–12 amounted to some $3.7 billion.

Over recent years, the ANAO's performance audit activities have focused on the funding and delivery of transport infrastructure programs such that each of the major funding programs has been examined on at least one occasion. The ANAO also audited Infrastructure Australia's conduct of the first national infrastructure audit, and its development of the first infrastructure priority list. A range of economic stimulus programs that funded the construction of community infrastructure have also been examined.

The ANAO's potential audit coverage includes continued attention to the delivery of grant funding programs, as well as the administration of planning requirements for the leased Federal airports. Consistent with a recommendation from the Joint Committee of Public Accounts and Audit, the department has also been included in the cross-agency audit examining agencies' implementation of ANAO audit recommendations.

Potential audits

Design, Implementation and Administration of the Liveable Cities Program

The objective of the Liveable Cities Program is to improve the planning and design of major cities that are experiencing population growth pressures and housing and transport affordability cost pressures. Australia's 18 capital and major regional cities were eligible to apply for funding for planning and design projects and/or demonstration projects. Applications closed in December 2011 and 25 successful applications with grant values of some $19.5 million have been announced.

An audit would examine the application, assessment and approval processes applied in respect to the Liveable Cities Program, as well as the department's development of funding agreements in respect to the successful applications. In the context of the findings from earlier audits of grant programs, the audit scope will include an assessment of steps the department has taken to improve program development and implementation, including the development of a Program Manager's Toolkit.

Administration of Airport Planning Requirements for the Leased Federal Airports

All leased Federal airports (except for Tennant Creek and Mount Isa) are subject to a planning framework outlined in the *Airports Act 1996*. As part of the planning framework, those airports are required to prepare: a 20-year strategic vision for the airport site which is renewed every five years (referred to as the airport master plan); a plan for major airport developments on the airport site; and a strategy to manage environmental issues. Following amendments to the *Airports Act 1996*, new arrangements in relation to planning requirements have recently been implemented, with airports to progressively submit their master plans incorporating the new arrangements.

An audit would examine the Department of Infrastructure and Transport's administration of the airport planning requirements, including the extent to which the Commonwealth's

interests have been protected. In light of progressive implementation of the new requirements, an audit would not commence until late in 2012–13 at the earliest.

Administration of the Remote Aerodrome Upgrade Grants Program

From 1 July 2010, four programs targeted at remote aviation services and infrastructure were consolidated into the Regional Aviation Access Program so as to better target assistance to remote communities and concentrate resources where they will be most effective. One of these four programs was the Remote Aerodrome Safety Program, which has now been replaced with the Remote Aerodrome Upgrade Grants Program. The program provides funding for upgrades to remote airstrips in isolated outback communities. Applications under the current round for the program closed in December 2011.

An audit would examine the application, assessment and approval processes applied in respect to the Remote Aerodrome Safety Program, as well as the department's oversight of the delivery of those approved projects that proceeded to have a funding agreement executed.

Parliamentary Departments

Audit strategy overview

There are four Parliamentary departments which provide support for the working of the Parliament of Australia: the Department of Parliamentary Services; the Department of the Senate; the Department of the House of Representatives; and the new Parliamentary Budget Office (PBO). In 2011–12, total funding for the departments was $171 million.

The Department of Parliamentary Services provides direct support to occupants and users of Parliament House to ensure that the Parliament functions effectively and its work and buildings are accessible to the public. Its responsibilities include information and communication technology services, library and research services, building and security services, and visitor services including management of the Parliament Shop and visitor guide service. The Departments of the House of Representatives and Senate provide facilities, support, advice and information to their respective Houses of Parliament to ensure their effective operation and to the Parliament more widely. They also maintain relationships with other official parliamentary bodies, both national and international, as well as with the Australian community. The PBO began operations on 1 July 2012 and its purpose is to assist the Parliament in its scrutiny of budget and fiscal policy.

Previous audit coverage has considered aspects of the management of Parliamentary services to ensure that the departments support the effective operation of the Parliament. The audit strategy for the departments will continue with this focus and include the PBO.

Potential audits

Administration of Travel Entitlements Provided to Parliamentarians

Parliamentarians have certain entitlements to travel within Australia at Commonwealth expense, both during their service in the Parliament and after retirement. For current Parliamentarians, travel is typically required to be for Parliamentary, electorate or official business, but not party business. Spouses (or nominees) and dependent children of Parliamentarians also have certain entitlements to travel at Commonwealth expense. In aggregate, the various travel entitlements comprise a significant proportion of the cost of all entitlements provided to Parliamentarians.

ANAO Audit Report No.3 2009–10, *Administration of Parliamentarians' Entitlements by the Department of Finance and Deregulation*, examined Finance's administration of a range of entitlements, including some travel entitlements, but did not include a comprehensive examination of all travel entitlements, including those provided by the Parliamentary departments. The last time comprehensive audit work was undertaken in respect to Parliamentarians' entitlements was in ANAO Audit Report No.5 2001–02, *Parliamentarians' Entitlements: 1999–2000*.

Against this background, and given the level of public interest in the administration of Parliamentarians' entitlements, the scope of an audit would include the administration of travel entitlements provided to Parliamentarians by Finance, the Department of the House of Representatives and the Department of the Senate. An audit would examine the frameworks under which the various entitlements are provided and administered, analyse the use of the various entitlements and assess the effectiveness of the administrative arrangements that are in place (including arrangements to respond to any issues that arise in respect to entitlements use).

Prime Minister and Cabinet

Audit strategy overview

The principal function of the Department of the Prime Minister and Cabinet (PM&C) is to provide support and policy advice to the Prime Minister, the Cabinet, portfolio ministers and parliamentary secretaries on matters relating to public and government administration. The department also assumes a key role in driving policy development and innovation across the Australian Public Service, coordinating portfolio responsibilities in the areas of work and family policy, national security and international policy, and coordinating whole-of-government initiatives. In 2011–12, the department's total appropriations were $480 million.

The portfolio includes the following agencies:

- Australian National Audit Office;
- Australian Public Service Commission;
- Office of National Assessments;
- Office of the Commonwealth Ombudsman;
- Office of the Inspector-General of Intelligence and Security;
- Office of the Official Secretary of the Governor-General; and
- National Mental Health Commission.

Major risks for the department and its portfolio agencies continue to relate to the treatment of complex issues at the forefront of public policy and government administration. These issues include Commonwealth, state and territory relations and national security. Consistent with past practice, audits of these issues will continue to be included in the audit program of the relevant portfolios or as cross-agency audits. The future audit program also includes potential audits of the administration of the Register of Lobbyists and coordination of the Australian Government's cyber security policy implementation.

Potential audits

Administration of the Register of Lobbyists

In 2008, the Australian Government introduced the Lobbying Code of Conduct and a Register of Lobbyists (the Register). These measures were intended to ensure that contact between lobbyists and the Australian Government representatives is conducted in accordance with public expectations of transparency, integrity and honesty. Included in the Register are the:

- business registration details and trading names of the lobbyist including, where the business is not a publicly listed company, the names of owners, partners or major shareholders;
- names and positions of persons employed, contracted or otherwise engaged by the lobbyist to carry out lobbying activities; and
- names of clients on whose behalf the lobbyist conducts lobbying activities.

An audit would examine PM&C's administration of the establishment and ongoing maintenance of the Register.

Cyber Security

In the 2008 National Security Statement, the then Prime Minister identified cyber security as one of Australia's top national security priorities. The aim of the Australian Government's resulting cyber security policy is the maintenance of a secure, resilient and trusted electronic operating environment that supports Australia's national security and maximises the benefits of the digital economy.

Following the December 2011 machinery of government changes, responsibility for the cyber security policy function was transferred from the Attorney-General's Department (AGD) to PM&C, which now has responsibility for leading and coordinating the whole-of-government approach to the development of a secure, coordinated and effective national security information management environment. PM&C also chairs the Cyber Security Policy and Coordination Committee. While PM&C is the lead agency, other agencies play a role in Australia's cyber security arrangements including AGD, the Defence Signals Directorate and Australian Security Intelligence Organisation.

An audit would examine the effectiveness of PM&C's coordination and policy leadership in the implementation of the Government's cyber security policy. The role played by other agencies could also be considered as part of an audit.

Regional Australia, Local Government, Arts and Sport

Audit strategy overview

The Department of Regional Australia, Regional Development and Local Government was created as a result of the agreement made between the Australian Labor Party (ALP) and two Independent Members in order for the ALP to form government following the 2010 General Election. In December 2011, machinery of government changes saw the department become the Department of Regional Australia, Local Government, Arts and Sport. Among other things, the department deals with the delivery of regional and rural-specific services, regional development and regional Australia policy and coordination. It also provides secretariat services to the Australian Government Reconstruction Inspectorate (the subject of an audit that is underway). The portfolio includes significant entities such as the Australia Council (which administers arts-related grants programs, conducts arts research and policy development and advises the Australian Government on issues affecting Australian artists) and the Australian Sports Commission (which coordinates the Australian Government's contribution to the sports industry).

Current audit activity has focused on the department's role in supporting Australian Government oversight of significant Commonwealth expenditure on natural disaster reconstruction activities in Queensland and Victoria, as well as in the administration of regional funding programs. Future audit activity will continue to reflect a focus on program delivery, including in respect to arts-related grants programs.

Audits in progress at July 2012

Design, Implementation and Administration of the Regional Development Australia Fund

As part of the Australian Government's commitment to regional Australia, funding has been allocated to a Regional Development Australia Fund (RDAF) to provide financial grants to support the growth and development of Australia's regions. More than $1 billion is to be made available under RDAF over five years, commencing in 2011–12. The RDAF is to fund projects that support the infrastructure needs, and enhance the economic and community growth, of Australia's regions. The Minister for Regional Australia, Regional Development, and Local Government has announced that grants of between $500 000 and $25 million will be available, and that the allocation of funding will be competitive, merit-based and only applications that have the backing of the relevant Regional Development Australia committee will be considered.

The objective of the audit is to examine the design of the RDAF and the conduct of the first application round (including the processes by which applications were sought, assessed and successful projects approved for funding) so as to provide early assurance on the delivery of the program, and identify any improvement opportunities that merit being addressed in further funding rounds.

The audit report is expected to be tabled in the Spring 2012 Parliamentary sittings.

Australian Government Reconstruction Inspectorate

The National Partnership Agreement for Natural Disaster Reconstruction and Recovery signed by the Australian and Queensland governments in February 2011 established the Australian Government Reconstruction Inspectorate. The role of the Inspectorate is to provide assurance that value for money is being achieved in the expenditure of both

Commonwealth and state funds during the recovery from the 2010–11 Queensland floods and Cyclone Yasi. The Reconstruction Inspectorate is supported by the Commonwealth Natural Disaster Recovery Taskforce, established within the Department of Regional Australia, Local Government, Arts and Sport to provide support for reconstruction work.

The objective of the audit is to examine the effectiveness of the Inspectorate, supported by the Commonwealth Natural Disaster Recovery Taskforce within the Department of Regional Australia, Local Government, Arts and Sport, in providing assurance that value for money is being achieved in recovery and reconstruction expenditure.

The audit report is expected to be tabled in the Autumn 2013 Parliamentary sittings.

Preparation and Delivery of the Natural Disaster Recovery Work Plans for Queensland and Victoria

A key output from the National Partnership Agreements for natural disaster reconstruction and recovery signed by the Australian and Queensland governments in February 2011, and the Australian and Victorian governments in May 2011, is the preparation and agreement of a Natural Disaster Recovery Work Plan. Under the National Partnership Agreement, each Plan is to:

- identify a set of specific projects to assist with reconstruction and/or recovery;
- build on the planning work undertaken by Regional Development Australia committees and local governments; and
- be developed consistently with principles set out in a schedule to each National Partnership Agreement, including being supported by cost-benefit analysis and appropriate analysis of the expected fiscal cost.

Each National Partnership Agreement also requires each state to report, at least initially, on a monthly basis on its progress against the Natural Disaster Recovery Work Plan.

The objective of the audit is to examine the extent to which disaster recovery work plans for Queensland and Victoria were prepared and appropriate reports provided in accordance with the relevant National Partnership Agreement.

The audit report is expected to be tabled in the Autumn 2013 Parliamentary sittings.

Potential audits

Administration of the Economic Diversification Package Under the Tasmanian Forests Intergovernmental Agreement

Through the Tasmanian Forests Intergovernmental Agreement, in August 2011 the Australian Government committed to provide up to $120 million over a period of 15 years to fund regional development projects in Tasmania that would improve the productivity and income-earning capacity of the Tasmanian economy.[11] Of this amount, $20 million was to be paid in 2011–12, with this funding administered by two departments, as follows:

- The Department of Industry, Innovation, Science, Research and Tertiary Education administers the Tasmanian Innovation and Investment Fund (TIIF), a competitive, merit-based program aimed at companies seeking $50 000 or more in grant funds for investments in activities that provide sustainable employment and diversify Tasmania's economy. The TIIF is to provide up to $8 million in grant funding during the 2011–12,

[11] The two governments also committed to agreeing on the design, criteria, joint assessment procedures, and monitoring and evaluation of the $120 million package.

2012–13 and 2013–14 financial years, of which $4 million was to be paid in 2011–12. Twenty-eight successful applications have been announced.

- The Department of Regional Australia, Local Government, Arts and Sport administers the remaining funding. Between February and April 2012, 10 projects were announced for funding from within the first $16 million tranche. This funding is governed by a National Partnership Agreement, with Australian Government funding to be paid to the state government which, in turn, is to enter into funding arrangements with the various project proponents.

An audit (or two contemporaneous audits) would examine the processes by which funding proposals were sought, assessed and approved under both components of the Economic Diversification package. The ANAO would also examine each department's oversight of the delivery of approved projects.

Festivals Australia Program

The Festivals Australia Program is a competitive grant program that has been providing regional and remote community festivals with assistance for arts and culture projects since 1995. It is designed to assist festivals present new or special arts activities that they have not presented before and where they would be unable to do so without financial support. Applications for round 34 of the program closed in February 2012, for projects commencing from 1 July 2012.

An audit would examine the application, assessment and approval processes applied in respect to the Festivals Australia Program, as well as the department's oversight of the delivery of those approved projects. The focus would be on the more recent rounds of the program.

Conduct of Round 2 of the Regional Development Australia Fund

The Australian Government has allocated almost $1 billion to the Regional Development Australia Fund. The conduct of the $150 million first round is currently the subject of an ANAO performance audit, with the $200 million second round launched in November 2011. Key changes announced to the program compared with the first round included a two-stage application and assessment process and a stronger role for Regional Development Australia committees.

An audit would examine the conduct of the second round, as well as progress with the delivery of projects funded in the first round (the current audit of the first round is focused on the application, assessment and approval processes and not the delivery of contracted projects).

Creative Australia Artists Grants Program

In May 2011, the Creative Australia Artists Grants Program was announced. The five-year, $10 million program provides funding for artists, including young and emerging artists, and is expected to support more than 150 additional artistic works, presentations and fellowships for outstanding artists working across all artforms.

An audit would examine the implementation and administration of the Creative Australia Artists Grants Program by the Australia Council. As a Commonwealth authority, the Australia Council is not subject to the Commonwealth Grant Guidelines, and this situation will be reflected in the audit objectives and methodology.

Resources, Energy and Tourism

Audit strategy overview

The Resources, Energy and Tourism portfolio was established in December 2007 and is responsible for Australia's resources, energy and tourism industries. Combined funding for the portfolio in 2012–13 is around $1 billion. The portfolio assists the Australian Government to enhance Australia's economic prosperity, by providing advice and delivering programs to achieve improved productivity, competitiveness, security and sustainability of the resources, energy and tourism industries. The Department of Resources, Energy and Tourism (RET) is the lead agency within the portfolio, with other agencies including Geoscience Australia and Tourism Australia.

A key departmental focus in 2012–13 will be the continuing implementation of the Australian Government's *Securing a Clean Energy Future Plan*, including the establishment of the Australian Renewable Energy Agency and related supporting arrangements. Additional areas of focus include improving mine safety in Australia.

Recent audit activity has included Geoscience Australia and Tourism Australia and the department's administration of the Renewable Energy Demonstration Program. The future audit program will focus on the department's implementation of the key elements of the *Securing a Clean Energy Future Plan* as well as portfolio agency coverage of the National Offshore Petroleum Safety and Environmental Management Authority (NOPSEMA) and Tourism Australia.

Audits in progress at July 2012

Renewable Energy Demonstration Program

The Renewable Energy Demonstration Program is designed to accelerate the commercialisation and deployment of new renewable energy technologies for power generation in Australia. The Minister for Resources and Energy launched the program on 20 February 2009 as a merit-based competitive grants program, which had a proposed funding range of $50 million to $100 million for individual projects. The Australian Government initially made available $435 million under the program to stimulate investment in renewable energy technology for power generation, with the private sector contributing at least $2 for every $1 provided by the program.

The objective of the audit is to assess the effectiveness of the RET's administration of the Renewable Energy Demonstration Program, including progress towards achieving the program's objectives.

The audit report is expected to be tabled in the Winter 2012 Parliamentary sittings.

Potential audits

Smart Grid, Smart City

The Australian Government has committed up to $100 million under the Smart Grid, Smart City Program to gather information about the costs and benefits of smart grids in order to inform future decisions by government, electricity providers, technology suppliers and consumers across Australia. After a competitive grants process in June 2010, the Australian Government announced Energy Australia as the successful bidder to demonstrate Australia's first commercial-scale smart grid, based in Newcastle. The initiative is being administered by RET, in consultation with the Department of the Prime Minister and Cabinet,

the Department of Broadband, Communications and the Digital Economy, and the Department of Climate Change and Energy Efficiency.

An audit would examine the administration of the Smart Grid, Smart City program, including the selection process and progress towards achieving the program's objective.

Carbon Capture and Storage Flagships Program

The Carbon Capture and Storage (CCS) Flagships Program supports the construction and demonstration of large-scale integrated carbon capture and storage projects in Australia. The program promotes the wider dissemination of CCS technologies by supporting a small number of demonstration projects that capture CO_2 emissions from industrial processes and safely store CO_2 underground in stable geological formations. This objective supports international efforts to launch 20 demonstration CCS projects worldwide by 2010, to be operational from 2015, with commercial deployment by 2020.

The Australian Government has allocated funding of $1.7 billion to the CCS Flagships Program, which is part of the Government's expanded $5 billion *Securing a Clean Energy Future Plan*. As part of the 2011–12 Budget, the Education Investment Fund will provide $100 million in funding for the research infrastructure component of short-listed projects, which requires projects to partner with an eligible research institution, such as universities, for collaborative research into CCS.

On 11 June 2011, the Minister for Resources and Energy announced the Government's decision to select the Western Australian Collie South West Hub project, a decision based on the recommendations of the independent assessment panel. The Minister also announced the Government's decision to continue to progress other CCS projects to maximise the potential to deliver a fully-integrated project by 2020.

An audit would examine the implementation and administration of the CCS Flagships Program.

Solar Flagships Program

The Solar Flagships Program supports the construction and demonstration of large-scale, grid-connected solar power stations in Australia. The program supports solar power playing a significant role in Australia's electricity supply and operating within a competitive electricity market. The Australian Government has allocated $1.4 billion to the Solar Flagships program, which includes $200 million sourced from the Education Investment Fund (EIF). The EIF is established under the *Nation-building Funds Act 2008*.

In June 2011, the Prime Minister and the Minister for Resources and Energy announced the following projects had been selected for funding under Round 1 of the program:

- the 150 megawatt Moree Solar Farm photovoltaic (PV) project ($307 million); and
- the 250 megawatt Solar Dawn solar thermal project ($464 million).

The Moree Solar Farm consortium has since advised RET that it has been unable to meet all of the funding conditions and has proposed substantial changes to the project that was originally selected. As a consequence, short-listed PV applicants have now been invited to update their applications for re-assessment by the independent Solar Flagships Council.

Separately, the Government also extended the time for Solar Dawn to reach financial close until 30 June 2012. Solar Dawn was the only solar thermal project to be assessed viable by the Solar Flagships Council. However, the Queensland Government has since withdrawn its support for the Solar Dawn project and the project was unable to meet financial close. The

future of this project will now be determined by the newly created Australian Renewable Energy Agency (ARENA).

An audit, which may also involve ARENA, would examine the implementation and administration of Round 1 of the Solar Flagships Program.

Contract for Closure Program

The Contract for Closure Program is part of the Australian Government's *Securing a Clean Energy Future Plan* and aims to support the closure of around 2000 megawatts of highly emissions-intensive electricity generation capacity by 2020. Under the program, eligible generators can seek payment from the Australian Government as part of a competitive tender process to retire their operations by an agreed date. Participation in the program is voluntary. This program is designed to facilitate investment in new lower-emissions electricity generation capacity by providing certainty to future investors about the timing of closure of existing generators and, in turn, help them to plan ahead with confidence. The cost of the program has not been disclosed by the Government.

The expression of interest (EOI) phase of the initiative has now concluded and five generators have been invited to proceed to the negotiation phase, which will involve generators preparing detailed closure proposals. Initially, the Government had intended to enter into any Contracts for Closure by 30 June 2012. The Government subsequently announced on 29 June 2012 that there would be an extension to the Contract for Closure negotiation process. When finalised, the contracts will set out the agreed date by which capacity will be withdrawn. The Government's preferred closure timeframe is from 1 July 2016 to 30 June 2020, although proposals for closure prior to 1 July 2016 may be considered.

An audit would examine the administration of the EOI and negotiation phases of the Contract for Closure Program.

National Offshore Petroleum Safety and Environmental Management Authority

The National Offshore Petroleum Safety and Environmental Management Authority (NOPSEMA) was established on 1 January 2012, and is Australia's first national regulator for health and safety, well integrity and environmental management for offshore oil and gas operations. NOPSEMA has superseded the National Offshore Petroleum Safety Authority, which was established in 2005 with a remit to regulate the health and safety of workers on offshore facilities in Commonwealth waters, and in waters where state powers had been conferred. Following recommendations arising from the *Final Government Response to the Report of the Montara Commission of Inquiry* (2011) and the Productivity Commission's *Review of Regulatory Burden on the Upstream Petroleum (Oil and Gas) Sector* (2009), the Minister for Resources and Energy endorsed the establishment of NOPSEMA.

The responsibility to investigate and report on offshore environmental management practices and make recommendations had previously rested with the state and territory designated authorities. The passing of the Offshore Petroleum and Greenhouse Gas Storage Amendment (National Regulator) Bill 2011 transferred this duty to NOPSEMA from 1 January 2012. NOPSEMA effectively consolidates current state, territory and national regulation for health and safety, structural integrity, environmental plans and day-to-day operations associated with petroleum activities in Commonwealth waters. Funds to enable NOPSEMA to deliver its legislated functions will be raised by industry levies in line with NOPSEMA's cost recovery operating model.

An audit would examine the establishment and administration of NOPSEMA, including the discharge of its regulatory responsibilities.

Tourism Australia

Tourism Australia is the Australian Government's tourism marketing agency, responsible for attracting international visitors to Australia and encouraging Australians to travel domestically. It is an independent statutory authority governed by the *Tourism Australia Act 2004* and the *Commonwealth Authorities and Companies Act 1997*. Tourism Australia's key contributions to the Australian community are to increase demand for Australia as a travel destination, strengthen relationships in the travel distribution system, and contribute to the development of a sustainable tourism industry through consumer marketing, trade development and research activities.

In 2008, the ANAO completed a performance audit of Tourism Australia—ANAO Audit Report No.2 2008–09, *Tourism Australia*. The ANAO made three recommendations aimed at improving Tourism Australia's governance arrangements, relating in particular to: revising conflict of interest procedures; strengthening its risk management framework; and reviewing its planning and performance management framework.

An audit would examine the extent to which Tourism Australia is achieving its stated objectives, as well as the implementation of the recommendations from the 2008 audit.

Sustainability, Environment, Water, Population and Communities

Audit strategy overview

The Sustainability, Environment, Water, Population and Communities portfolio advances the Australian Government's policy interests and administers programs in respect of environmental, water, heritage and sustainability matters. The portfolio includes the Department of Sustainability, Environment, Water, Population and Communities (DSEWPaC) and six portfolio agencies: Bureau of Meteorology; Director of National Parks; Great Barrier Reef Marine Park Authority; Murray-Darling Basin Authority; National Water Commission; and Sydney Harbour Federation Trust. In 2012–13, $3.2 billion of funding will be provided to DSEWPaC and the portfolio agencies.

DSEWPaC is the lead portfolio agency, responsible for developing and implementing national policy, programs and legislation to protect and conserve Australia's environment and to meet Australia's future population needs. A major funding area is the $12.9 billion Water for the Future initiative, the Australian Government's long-term initiative to better balance the water needs of communities, farmers and the environment. DSEWPaC also has an ongoing role in administering the *Environment Protection and Biodiversity Conservation Act 1999*, the Australian Government's central piece of environmental legislation that provides a legal framework to protect and manage nationally and internationally important flora, fauna, ecological communities and heritage places.

Recent audit activity included: Indigenous Protected Areas; the Housing Affordability Fund; and the Private Irrigation Infrastructure Operators Program in NSW (which is one of the programs under the $5.8 billion Sustainable Rural Water Use and Infrastructure Program within the Water for the Future initiative). The ANAO's future audit program will continue to focus on programs concerned with managing water use, conservation and biodiversity, natural resource management, and portfolio agency functions.

Audits in progress at July 2012

Commonwealth Environmental Watering Activities

As part of Murray-Darling Basin reforms, the Australian Government is acquiring water entitlements with the objective of returning more water to the environment. Entitlements acquired are assigned to the Commonwealth Environmental Water Holder (CEWH), who is based within DSEWPaC. Under the *Water Act 2007*, the CEWH's statutory obligation is to 'protect or restore environmental assets of the Murray-Darling Basin, and other areas outside the Basin where the Commonwealth holds water, so as to give effect to relevant international agreements'. As at December 2011, the Australian Government had acquired over 1350 gigalitres of water entitlements for use by the CEWH.

The objective of the audit is to examine the extent to which the CEWH has used water entitlements to achieve the objectives of the *Water Act 2007*.

The audit report is expected to be tabled in the Autumn 2013 Parliamentary sittings.

Establishment, Implementation and Administration of the Heritage Component of the Local Jobs Stream of the Jobs Fund

The $650 million Jobs Fund was one of the fiscal measures implemented by the Australian Government in 2009 to support employment and economic recovery in response to the

global financial crisis. The Jobs Fund included a $300 million Local Jobs stream. Of the $300 million announced as being allocated to the Local Jobs stream, $60 million was specifically set aside for heritage-related projects and $40 million was quarantined for the construction of bike paths. Both quarantined components were to be restricted to 2009–10, while the non-quarantined component of the Local Jobs stream would be a two-year program to 30 June 2011.

The objective of the audit is to assess the efficiency and effectiveness of the establishment, implementation and administration of the heritage component of the Local Jobs stream of the Jobs Fund, with a particular focus on the establishment of program objectives and the extent to which approved grants have demonstrably contributed to the cost-effective achievement of those objectives.

The audit report is expected to table in the Spring 2012 Parliamentary sittings.

Potential audits

Administration of New Water Information Functions Under the Water Act 2007

In 2007, the Bureau of Meteorology was assigned responsibility, under the *Water Act 2007*, for compiling and delivering a range of water information, in addition to its national weather and climate functions. One of its specific tasks is to produce the National Water Account each year that contains standardised information about the management of Australia's water resources. Funding of $450 million was provided for the Bureau of Meteorology's water information functions, allocated from within the Water for the Future initiative.

An audit would examine the integration and management of the water information functions in the Bureau of Meteorology.

Weather Forecasting and Warnings

The Bureau of Meteorology is Australia's national weather and climate agency, operating under the authority of the *Meteorology Act 1955*. The Bureau of Meteorology provides expertise and services to assist Australians in dealing with the natural environment, including drought, floods, fires, storms, tsunami and tropical cyclones. Through regular forecasts, warnings, monitoring and advice spanning the Australian region and Antarctic Territory, the Bureau of Meteorology provides one of the most fundamental and widely used services of government.

An audit would examine how effectively the Bureau of Meteorology undertakes its responsibility for providing weather forecasts and warnings.

Sustainable Rural Water Use and Infrastructure Program

The Sustainable Rural Water Use and Infrastructure Program is a major component of the Australian Government's $12.9 billion Water for the Future initiative. Under the program, some $5.8 billion has been provided to fund a range of programs and projects throughout Australia, with a particular focus on the Murray-Darling Basin. These include: competitive grant programs; state priority projects, jointly funded by the Australian Government and the respective state; and one-off funding for particular projects, such as engineering improvements to the Menindee Lakes. ANAO audit activity of this program was included in ANAO Audit Report No.38 2011–2012, *Administration of the Private Irrigation Infrastructure Operators Program in New South Wales*.

The $1.2 billion Northern Victoria Irrigation Renewal Project (NVIRP) is the single largest project under the Sustainable Rural Water Use and Infrastructure Program. NVIRP is

funding the most significant upgrade to the Goulburn Murray Irrigation District's irrigation infrastructure in its 100-year history, The Australian Government and Victorian State Government will invest over $2 billion in the project.

An audit would examine the administration of the NVIRP and determine the extent to which the project is achieving established objectives. Future audits would examine other material sub-programs or funding elements within the Sustainable Rural Water Use and Infrastructure Program.

Caring for our Country

The goal of the Caring for our Country Program is to achieve an environment that is healthier, better protected, well managed, resilient, and provides essential ecosystem services in a changing climate. In 2011, Caring for our Country was subject to a major review in anticipation of funding lapsing in 2012–13. As part of the 2012–13 Budget, the Australian Government announced the continuation of Caring for our Country with funding of $2.2 billion over the period 2013–14 to 2017–18 in two streams—sustainable environment and sustainable agriculture. The design and future implementation of the Caring for our Country Program will incorporate the findings of the review and take into account submissions received through a public consultation process to be completed in August 2012.

An audit would examine the administration of the Caring for our Country Program and the progress towards achieving its objectives.

Management of the National Reserve System

The National Reserve System (NRS) has been developed to form a network of protected areas, conserving examples of unique landscapes, plants and animals for future generations. The NRS was created with the intention of forming the nation's natural safety net against its greatest environmental challenges. The NRS includes more than 9300 protected areas, comprising national parks, Indigenous lands and substantial reserves administered by not-for-profit organisations. Over 13 per cent of Australia's land mass (98 million hectares) is protected under the NRS. The NRS involves a range of stakeholders, including local government agencies, conservation groups, community groups, multinational organisations, individual farmers and Indigenous communities. Funding, sourced from the Australian Government's Caring for our Country Program, is delivered to each of these stakeholder groups through a regional funding model. During 2009–10, the Caring for our Country Program contributed $35.8 million to the NRS for the purchase of 27 properties, covering 1.14 million hectares. A further $180 million has been allocated to expand the NRS over the next five years.

An audit would examine DSEWPaC's administration of the National Reserve System.

Implementation of Aspects of the Tasmanian Forests Intergovernmental Agreement

On 7 August 2011, the Australian Government and the Tasmanian State Government signed the Tasmanian Forests Intergovernmental Agreement (IGA). The IGA provides $277 million for support and re-skilling programs, to facilitate the protection of high conservation value forests and to fund regional development in Tasmania. DSEWPaC is responsible for coordinating the implementation of the IGA and implementing aspects of the IGA relating to the functions under the *Environmental Protection and Biodiversity Conservation Act 1990*. Activities under the agreement are also delivered by the Australian Government Departments of: Agriculture, Fisheries and Forestry; Regional Australia, Local Government,

Arts and Sport; and Education, Employment and Workplace Relations, as well as Tasmanian State Government entities and third-party service providers.

An audit would examine the effectiveness of DSEWPaC's implementation of aspects of the IGA, including the coordination of the implementation of the agreement.

National Television and Computer Recycling Scheme

Under the *Product Stewardship Act 2011* (and related Regulations), DSEWPaC is establishing a co-regulatory approach with industry to recycle television and computer waste. The legislative framework establishes timetables for implementing collection services, and targets for collecting television and computer waste, and recycling constituent components.

An audit would examine the effectiveness of DSEWPaC's establishment and administration of the National Television and Computer Recycling Scheme.

Clean Energy Biodiversity Fund

In July 2010, the Australian Government announced its *Securing a Clean Energy Future Plan* to: introduce a carbon pricing mechanism; promote innovation and investment in renewable energy; and encourage energy efficiency and create opportunities in the land sector to cut pollution. Within this multi-billion dollar initiative, DSEWPaC is administering the Biodiversity Fund to support the restoration and protection of biodiverse carbon stores at a cost of $946 million over six years from 2011–12. On 4 May 2012, the Australian Government announced the approval of $271 million in Round 1 funding for 317 projects.

An audit would examine the effectiveness of DSEWPaC's establishment and implementation of the Biodiversity Fund and the extent to which the fund is achieving established objectives.

Treasury

Audit strategy overview

The Treasury portfolio undertakes a range of activities aimed at achieving strong sustainable economic growth and the improved wellbeing of Australians. These include the provision of policy advice to portfolio ministers, the effective implementation and administration of policies that fall within the portfolio ministers' responsibilities, and regulatory functions. The portfolio comprises 16 agencies, including the Department of the Treasury, the Australian Prudential Regulation Authority (APRA), the Australian Securities and Investments Commission (ASIC), the Australian Bureau of Statistics, the Australian Competition and Consumer Commission and the Australian Taxation Office (ATO). Aggregate resources available within the Treasury portfolio (excluding the Australian Taxation Office) were $450 billion in 2011–12.

A key issue for Treasury in 2012–13 will be supporting the Australian Government's fiscal strategy in a macroeconomic environment characterised by fluctuations in world financial markets and domestic reliance on international demand for Australian resources. Treasury will be focused on providing advice on key risks facing the global economy, including sovereign debt concerns in major advanced economies, high oil prices, and inflationary pressures in emerging markets. Particular emphasis is placed on assessing the implications for Australia of economic developments in China and other emerging economies. Treasury pursues regulatory and competition reforms aimed at improving Australia's productivity and international competitiveness, including providing advice on the reform of regulatory frameworks for securities markets, financial advice, corporate governance and consumer credit. Treasury also monitors prudential frameworks applying to the banking sector, insurers and superannuation funds.

An ongoing focus of ANAO audit activity relates to the Council of Australian Governments' reform agenda, which is supported by the Intergovernmental Agreement on Federal Financial Relations. As Treasury has a significant role in making payments to the states and in the development of National Partnership Agreements, Treasury has been involved in a number of cross-agency audits assessing the reform agenda and it is expected that the agency will continue to be involved in these audits. Planned audit activity in Treasury also covers the annual Tax Expenditure Statement prepared under the *Charter of Budget Honesty Act 1998*. An extension of audit coverage within the portfolio is also being planned, including considering core functions of APRA.

Audits in progress at July 2012

Tax Expenditures Statement (follow-on)

The annual Tax Expenditures Statement provides details of concessions, benefits, incentives and charges provided through the tax system (tax expenditures) by the Australian Government. The publication of information on the Australian Government's tax expenditures is a requirement under the *Charter of Budget Honesty Act 1998*. The Tax Expenditures Statement 2011 lists 364 tax expenditures and, in financial terms, total measured tax expenditures in 2010–11 were estimated at around $112 billion.

The ANAO conducted a performance audit on the preparation of the 2006 Tax Expenditures Statement, ANAO Audit Report No.32 2007–08, *Preparation of the Tax Expenditures Statement*. At the time of the audit, 272 tax expenditures were reported, with an aggregate value of more than $41 billion for 2006–07. Among other things, the earlier audit concluded that there were unreported categories of tax expenditures, and that the Tax Expenditure

Statement 2006 included quantified estimates for less than 60 per cent of the tax expenditures that were reported and, of these, two-thirds were not based on reliable estimates.

The objective of the audit is to assess the extent to which Treasury and the ATO have implemented ANAO's recommendations from ANAO Audit Report No.32 2007–08, *Preparation of the Tax Expenditures Statement*, including examining improvements to the completeness and reliability of the tax expenditure estimates reported in the Tax Expenditures Statement 2011.

The audit report is expected to be tabled in the Autumn 2013 Parliamentary sittings.

Potential audits

Standard Business Reporting

It has been reported that the majority of Australian companies spend up to two per cent of their sales revenue in managing government compliance activities. Standard Business Reporting (SBR) is an Australian Government initiative to reduce the business-to-government reporting burden. SBR (through SBR enabled software) is intended to offer a quicker and easier way for Australian businesses to complete their government reporting requirements, with anticipated savings of an estimated $800 million per annum when fully implemented.

SBR was endorsed by Council of Australian Governments as part of its regulation reform agenda with Australian Government funding of $243 million over four years to 2010 administered by Treasury.

An audit would examine the effectiveness of Treasury's administration of SBR and potentially the ATO's, APRA's and ASIC's implementation of the program.

Australian Prudential Regulatory Authority's Administration of Levies Collected from Financial Institutions (Supervisory Levies)

APRA's expenditure is devoted to implementing and enhancing the prudential framework in Australia and to its ongoing supervisory and enforcement activities. APRA's income derives mostly from annual levies on its supervised entities.

Levies are raised according to the *Financial Institutions Supervisory Levies Collection Act 1998* and six other Acts applying to the regulated industries. Prior to the beginning of each financial year, and after consultation with the main industry representative groups, the Minister for Financial Services and Superannuation announces the levy determinations for each industry. The levy rate is applied on assets, subject to a minimum and maximum amount per institution, except for non-operating holding companies that are levied at a flat rate. The levies collected by APRA also cover some costs of ASIC and the ATO. Levies are based on the costs incurred for each industry. Supervisory levies have increased significantly over time and impose a significant cost on the financial industry.

Treasury published a Consultation Paper on the *Proposed Financial Institutions Supervisory Levies* seeking industry views on the levies to apply for the 2011–12 financial year.

An audit would examine the effectiveness of APRA's collection and use of supervisory levies, including the evidence base for setting them and whether the raising and use of levies amounts to value for money for supervised entities. The audit would focus on levies collected from a particular sector, for example, superannuation, noting that levies have increased significantly over time and impose a significant cost on the financial industry.

Australian Taxation Office

Audit strategy overview

The Australian Taxation Office (ATO) is the Australian Government's principal revenue collection agency. The ATO's role is to manage and shape tax, excise and superannuation systems that fund services for Australians. The ATO aims to achieve confidence in the administration of Australia's taxation and superannuation systems through helping people understand their rights and obligations, improving ease of compliance and access to benefits, and managing non-compliance with the law. The ATO also provides operational support to the Tax Practitioners Board, the Registrar of the Australian Business Registration (ABR) and the Australian Valuation Office (AVO). Funding available to the ATO in 2011–12 totalled $12.3 billion. The ATO collected $273 billion in net tax, excise and superannuation revenue in 2010–11.

Particular issues for ATO administration in 2012–13 will include:

- realising the benefits of improvements to the ATO's Information and Communications Technology (ICT) environment developed through its long-running 'Change Program';
- managing an increase in the cost of resource inputs in a tight funding environment;
- appropriate responses to changes in taxpayer behaviours, especially in the context of uncertainty in global economic conditions; and
- successfully implementing key elements of the Superannuation Reform agenda.

Previous audit coverage has given priority to audits examining the delivery of services underpinned by the ATO's evolving IT environment. As the various elements of the Change Program have become bedded down, the focus of audits will shift to examining aspects of the ATO's core processes including taxpayer registration, lodgement, assessment, revenue collection, and management of aggressive tax planning. Audits will examine these processes with respect to particular taxpayer segments, including large businesses and high net wealth taxpayers.

Audits in progress at July 2012

Tax Expenditures Statement (follow-on)

The annual Tax Expenditures Statement provides details of concessions, benefits, incentives and charges provided through the tax system (tax expenditures) by the Australian Government. The publication of information on the Australian Government's tax expenditures is a requirement under the *Charter of Budget Honesty Act 1998*. The Tax Expenditures Statement 2011 lists 364 tax expenditures and, in financial terms, total measured tax expenditures in 2010–11 were estimated at around $112 billion.

The ANAO conducted a performance audit on the preparation of the 2006 Tax Expenditures Statement, ANAO Audit Report No.32 2007–08, *Preparation of the Tax Expenditures Statement*. At the time of the audit, 272 tax expenditures were reported, with an aggregate value of more than $41 billion for 2006–07. Among other things, the earlier audit concluded that there were unreported categories of tax expenditures, and that the Tax Expenditure Statement 2006 included quantified estimates for less than 60 per cent of the tax expenditures that were reported and, of these, two-thirds were not based on reliable estimates.

The objective of the audit is to assess the extent to which Treasury and the ATO have implemented ANAO's recommendations from ANAO Audit Report No.32 2007–08,

Preparation of the Tax Expenditures Statement, including examining improvements to the completeness and reliability of the tax expenditure estimates reported in the Tax Expenditures Statement 2011.

The audit report is expected to be tabled in the Autumn 2013 Parliamentary sittings.

Regulation of Tax Agents by the Tax Practitioners Board

The Tax Practitioners Board (the Board) is a relatively new statutory entity within the ATO, established in 2009 by the *Tax Agent Services Act 2009*. The Board is responsible for a nationally consistent regime of registering and regulating tax practitioners (tax agents, Business Activity Statement agents, and other professionals that give tax advice for a fee). This regime is significantly different from the previous system of tax practitioner regulation and has introduced a Code of Professional Conduct for tax practitioners, and the ability to impose sanctions for breaches of the Code.

The objective of the audit is to assess the effectiveness of the Board's implementation and administration of the regulatory arrangements for tax agents under the *Tax Agent Services Act 2009*.

The audit report is expected to be tabled in the Autumn 2013 Parliamentary sittings.

Management of the Property Portfolio

The ATO is among the Australian Government's largest holders of property leases in terms of office space. At 30 June 2010, the ATO was located at 61 sites across Australia, including customer service shopfronts, call centres, and office accommodation. In 2009–10 office lease expenses amounted to more than $179 million. In managing the property portfolio, important considerations include providing suitable accommodation for staff, and controlling expenditure while still achieving business outcomes.

The objective of the audit is to assess the effectiveness of the ATO's management of its property portfolio.

The audit report is expected to be tabled in the Autumn 2013 Parliamentary sittings.

Administration of the Taxation of Personal Services Income

The *New Business Tax System (Alienation of Personal Services Income) Act 2000* introduced changes to the tax treatment of personal services income earned by contractors and consultants. Income is defined as personal services income if it is mainly a reward for an individual's personal efforts or skills. This definition applies regardless of whether the income is received directly by the individual or is received by a company, trust or partnership (known as a personal services entity). The changes to the tax law clarify what deductions can be claimed against personal services income and limit some deductions.

The objective of the audit is to assess the effectiveness of the ATO's administration of the Personal Services Income regime.

The audit report is expected to be tabled in the Winter 2013 Parliamentary sittings.

Management and Reporting of Goods and Services Tax, Fringe Benefits Tax and Fuel Tax Credit Information

Data reported by the ATO is used internally and externally at critical levels of decision-making, and by a range of strategic government bodies including the Treasury, the Department of Finance and Deregulation and state and territory governments. ATO data is

also used to report on the ATO's accountability to the Australian Government and the Australian public. In this context, any issues relating to data integrity can have major consequences for the ATO and the economy. It is essential that internal ATO decision-makers, other government agencies and the Australian public have a high level of confidence in the integrity of the data reported by the ATO.

Due to the large amount of data collected and processed by the ATO, and the size and complexity of the ATO's ICT systems, the scope of the audit is limited to the examination of a selected range of data relating to three key ATO taxes: Goods and Services Tax (GST); Fringe Benefits Tax (FBT); and Fuel Tax Credit (FTC), sourced from the ATO's ICT system and reported in key internal and external reports.

The objective of the audit is to assess the effectiveness of the ATO's management and reporting of selected information on GST, FBT and FTC.

The audit report is expected to be tabled in the Winter 2013 Parliamentary sittings.

Potential audits

Complaints Handling

The Commonwealth Ombudsman has identified an upward trend in the number of complaints against the ATO. This increase is in contrast to a decrease in complaints about Australian Government agencies overall. The Ombudsman also notes that a common area of complaint about the ATO is its handling of complaints.

The ATO introduced a new complaints handling system and business practices during 2009–10. Service standards also include performance measures related to the timeliness of complaints handling. In 2009–10 and in 2010–11, the ATO did not meet these performance targets, in part due to an increase in the number of complaints it received in relation to the implementation of its Change Program initiatives and their impact on the processing of income tax returns.

An audit would examine the ATO's complaints handling systems, having regard to ATO service standards and the Ombudsman's better practice guidance.

Management of Taxation Debt

As the broader Australian economy strengthens after the global financial crisis, the ATO is carefully managing its approach to debt collection to contain debt levels at acceptable limits. In 2010–11 the ATO collected $273 billion in net revenue and was managing $14 billion of outstanding debt—that is, debt outstanding as at 30 June 2011 that was not subject to objection or appeal, or some form of insolvency administration. The major components comprising total collectable debt were: activity statement debt ($8.2 billion); income tax debt ($5.5 billion) and superannuation guarantee charge debt ($0.3 billion).

An audit would examine the effectiveness of the ATO's strategies to manage collectable debt, and would build on the findings of ANAO Audit Report No.54 2011–12, *The Engagement of External Debt Collection Agencies*.

Negotiated Settlements with Large and International Business

The ATO has developed a *Code of Settlement Practice*, as well as supporting *Law Administration Practice Statements*. These documents assist administrative processes in circumstances where, for reasons of good management of the tax system, the ATO decides to settle a disputed liability to tax. In 2009, the Inspector-General of Taxation reviewed the ATO's processes for negotiating disputed settlements. This review noted that, where large

businesses are involved in disputes over liabilities, there may at times be a strengthened case for the ATO to negotiate a settlement because of uncertainty in the ATO sustaining its view of the law due to the complexity of the issues in dispute.

An audit would examine the ATO's application of the *Code of Settlement Practice* and associated *Law Administration Practice Statements* in negotiating disputed settlements.

Compliance Effectiveness Methodology

The ATO's method for assessing the effectiveness of its compliance activities is set out in its Compliance Effectiveness Methodology (CEM). The CEM was established to determine how effective the ATO is in supporting taxpayers' compliance with their obligations. The methodology, recognised as good practice by the Organisation for Economic Co-operation and Development, is based on two key elements: the identification of measurable compliance objectives and the articulation and treatment of the risks to achieving them. It recognises the importance of measuring the ATO's contribution to improving voluntary compliance.

An audit would examine whether the CEM has been effective in supporting the ATO to achieve its objectives of promoting voluntary compliance and building community confidence in the taxation and superannuation systems.

Service Standards

When the general public deals with the ATO, there are community expectations that the ATO will treat taxpayers fairly and consistently while providing a high level of customer service. In order for the ATO to assure itself and the community that the services delivered are of a consistently high standard, the ATO has developed Service Standards.

ATO Service Standards are public commitments about the level of performance that the community can expect when dealing with the ATO, and they are designed to be challenging, while attainable. There are currently 27 Service Standards, an increase from 22 in 2007–08. The ATO groups these standards into key ATO deliverables that include: lodgements, enquiries, amendments and objections and complaints. In 2010–11, the ATO reported that it achieved 22 of the 27 Service Standards. In May 2011, the ATO commenced a review of ATO Service Standards. The aim of the review was to ensure greater alignment of service standards with community expectations and greater flexibility in alignment with whole-of-government commitments.

An audit would examine the application of the ATO's revised Service Standards across the range of services provided by the ATO. Particular attention would be given to the development, administration and appropriateness of these Service Standards and also to how they align with the broader ATO Business Plan and Strategic Statement.

Strategies to Address the Cash Economy

The cash economy presents risks that people in business will operate in the informal economy to hide income and evade tax obligations. The cash economy can also reduce the amount of revenue collected by the Australian Government that is available to fund community services.

In the 2010–11 Budget, the ATO received $107.9 million over four years to address non-compliance in the cash economy. The ATO has identified in its Compliance Program 2011–12 an ongoing focus on the cash economy, and has recently implemented additional strategies to improve voluntary compliance, including the development of industry benchmarks covering key cash economy businesses.

An audit would examine the ATO's strategies and compliance activities for dealing with the cash economy.

Australian Business Register

The Australian Business Register (ABR) is the central collection, storage and verification system for basic business identity information from all entities with an Australian Business Number (ABN). When an organisation applies for and receives their ABN, the business details from their application become part of the ABR.

The ABR's purpose is to make it easier for businesses to transact business with Australian Government agencies. It does so by making the system available to state, territory and local government regulatory bodies, reducing the number of government registrations and thereby reporting requirements.

The ATO has highlighted two ongoing priorities for the ABR—a continuing focus on data integrity, and providing easier access to ABR data. Concurrently, the ATO is encouraging the broader use of the ABN as the key identifier for business-to-government dealings and working with other agencies to implement and encourage the use of the ABR and standard business reporting.

Recently, the ATO announced that, to improve the accuracy of data held in the ABR, the Registrar will be reviewing and cancelling any ABNs where ATO records indicate tax agents' clients are not carrying on an enterprise. The Registrar is focusing on individuals (sole traders) as they comprise almost 50 per cent of the records on the register, to address concerns that inappropriate persons, especially in the building and construction industry, have been granted ABNs when they are employees and not contractors.

In relation to access to ABR data, currently there are two categories—public and non-public access. Non-public access provides access to confidential ABR data and is by an authentication Globally Unique Identifier or AUSkey. From early 2010–11, a bulk data exchange facility allowed government agencies to download ABR data via a secure online mailbox.

The audit would examine the effectiveness of the ATO's management of the ABR. This could include: the processes for verifying applicants and determining access to ABR data; the associated processes for ensuring data integrity and security; and the ATO's strategies to encourage broader use of the ABN for business-to-government dealings

Administration of Lodgement of Taxation Returns Using E-Tax

The ATO provides taxpayers with the option of lodging their annual taxation returns through an online system known as E-Tax. The E-Tax System offers a free and secure lodgement option for individual taxation returns through the internet. The E-Tax system has in-built checks and calculators that help ensure a tax return has been completed correctly, as well as a tool that provides an estimate of the taxpayer's tax assessment. The use of the E-Tax system also enables pre-filling of tax return data from previous returns and current year information from organisations including, for example, employers, banks and government agencies that are also required to report to the ATO.

The ATO has seen an increase in the number of taxpayers using the E-Tax system since 2006–07. The use of E-Tax has increased from 1.6 million of the total 14.3 million tax returns lodged in 2006–07, to 2.5 million of the total 15.6 million tax returns lodged in 2010–11. This represents a 56 per cent increase in the use of E-Tax. For individuals lodging tax returns, in 2010–11, 92 per cent of these were lodged through the E-Tax system.

An audit would examine the effectiveness of the ATO's administration of the lodgement of taxation returns through the E-Tax system, and would focus on the use of pre-filling returns and protection of taxpayer information.

Deterring Taxpayer Participation in Aggressive Tax Planning and Evasion Schemes

The ATO's approach to promoting taxpayers' compliance with their obligations includes a focus on informing taxpayers about the features of tax avoidance schemes and deterring them from participating in these schemes. The ATO provides a number of information products and engages directly with tax intermediaries on issues of concern. This activity is critical as it is focused on taxpayers who are considering, or who may be unknowingly brought into, participation in tax avoidance practices.

An audit would examine the effectiveness of the ATO's strategies to inform taxpayers about tax evasion and to deter them from participating in tax evasion schemes, with a focus on particular schemes of concern. These include phoenix corporate arrangements, mortgage structuring, use of discretionary trusts and Goods and Service Tax serious evasion.

Promoting Compliance Among High Wealth Individuals

The ATO is implementing a population-based approach to promoting taxpayer compliance, and has identified high wealth individuals as a key group for compliance activity. These individual taxpayers are Australian residents who, together with associates, effectively control $30 million in net wealth. There are about 2700 of these individuals, and in 2010–11 the ATO raised over $800 million in adjustments to returns they submitted.

An audit would examine the compliance strategy the ATO is implementing to promote tax compliance by highly wealthy individuals. It would consider the ATO's identification of compliance risks for this population, and the effectiveness of initiatives such as engagement with tax intermediaries, the provision of interpretative assistance, annual compliance agreements, audits and reviews.

Annual Compliance Arrangements with Large Corporate Taxpayers

The ATO is implementing a risk-differentiated approach to dealing with large businesses in relation to their income tax, Goods and Services Tax and excise obligations. It is progressively entering into annual compliance arrangements with large corporate taxpayers. The corporate entities which had annual compliance arrangements in place as at 30 June 2011 had a combined annual turnover of $150 billion.

An audit would examine the effectiveness of annual compliance arrangements in providing practical certainty and rapid response to large corporate taxpayers concerning their taxation obligations, and examine the differentiation in treatment between taxpayers and the impact of these agreements on taxation revenue.

Data Integrity of Client Information

One of the key aims of the ATO's Change Program has been to provide a single system for case management and client relationship management that would give staff a single view of taxpayer information and enable them to undertake all their work electronically. In considering individual cases, the ATO seeks to deliver quality decision-making by applying the law consistently, while also taking individual circumstances into account. ATO processes are governed by its Integrated Quality Framework. The purpose of the framework is to assist

the ATO to produce work of a consistent and sustainable quality standard, and promote a culture of continuous improvement.

An audit would examine the ATO's Integrated Quality Framework system in supporting effective data integrity.

Cross-agency Audits

Audits in progress at July 2012

Senate Order for Departmental and Agency Contracts (Calendar Year 2011 Compliance)

The Senate Order for Departmental and Agency Contracts requires agencies operating under the *Financial Management and Accountability Act 1997* to place lists of contracts valued at $100 000 or more on the Internet. These lists must, among other things, indicate whether each contract requires the parties to maintain the confidentiality of any of the contract's provisions.

The objective of the audit is to assess the appropriateness of the use and reporting of confidentiality provisions in Australian Government contracts.

The audit report is expected to be tabled in the Spring 2012 Parliamentary sittings.

Agencies' Implementation of ANAO Audit Recommendations

Under the *Financial Management and Accountability Act 1997*, Chief Executives of Australian Government agencies have an obligation to promote the efficient, effective, economical and ethical use of Commonwealth resources.

Through its mandate to report on public sector performance, the ANAO has a role to play in assisting Chief Executives to meet this core obligation. ANAO performance audits make recommendations designed to improve public administration, and ANAO Better Practice Guides disseminate examples of better practice for the information of all agencies.

The objective of the audit is to assess the effectiveness of agencies' governance arrangements for monitoring and implementing agreed ANAO performance audit recommendations.

The audit report is expected to be tabled in the Autumn 2013 Parliamentary sittings.

Controls for Credit Card Use

Australian Government agencies have been using credit cards since 1987. Credit cards enable agencies to purchase some goods and services with reduced administrative costs, and provide greater convenience and flexibility for staff. The use of credit cards exposes agencies to risks of inappropriate or unauthorised expenditure. Control frameworks within Australian Government agencies should be designed to mitigate risks of inappropriate or fraudulent use of credit cards. It is important that these control frameworks are effective, as the misuse of credit cards can attract substantial public interest and reflect poorly on the Australian Public Service.

The objective of the audit it to assess whether Australian Government agencies control the use of Commonwealth credit cards so that expenditures are in line with legislative and policy requirements.

The audit report is expected to be tabled in the Autumn 2013 Parliamentary sittings.

Potential audits

Agency Management of Arrangements to Meet Australia's International Obligations Under Selected Treaties

Treaties are agreements between countries which are binding under international law. Through a process, known as ratification or accession, countries indicate their commitment to undertake the obligations under a treaty. In 2012, there are some 601 treaties (ratified and acceded to) which Australia has entered into, and which currently are in force. This number is rising: the past 12 months saw a net increase of some eight treaties being ratified or acceded to. The treaties to which Australia is a party are both bilateral and multilateral, and cover a wide range of issues including: postal, shipping and social security and health arrangements; defence and security; nuclear non-proliferation; the environment; civil aviation; maritime delimitation; technological exchanges; and agreements designed to establish universal standards in relation to the treatment of civilians in time of war.

An audit would examine how selected agencies are managing arrangements in order to meet Australia's international obligations under selected treaties.

Closing the Gap in Indigenous Disadvantage Initiative—Measuring Progress

In December 2007, the Council of Australian Governments (COAG) agreed to a series of six targets to address the gap between Indigenous and non-Indigenous Australians in a range of socio-economic indicators. In 2008, these targets were developed into the National Indigenous Reform Agreement (NIRA), which now provides the overarching framework for the delivery of the closing the gap strategy.

Data quality and availability has been an ongoing issue for governments in measuring progress towards targets set by all governments for closing the gap on Indigenous disadvantage. The NIRA identified the need to build data sets and collections to support the reporting and measurement of progress across jurisdictions. Accordingly, the NIRA also includes a strategy for 'Agreed Data Quality Improvements', which sets out specific actions for the Australian Government and the state and territories to improve the performance indicator data required to measure progress towards the closing the gap targets in the period up to 30 June 2013.

An audit would focus on the effectiveness of efforts by the Australian Government to improve the measurement and reporting of progress towards the closing the gap targets, including the effectiveness of the data quality agreement in building the data sets and collections. An audit may also examine agencies' performance information systems to consider the extent that these enable reporting on contribution toward the six COAG targets.

Implementation of the Council of Australian Governments Service Delivery Principles for Programs and Services for Indigenous Australians

Services for Indigenous people are delivered through both mainstream and Indigenous-specific programs and services. By far the greater expenditure is in the area of mainstream services, with Indigenous-specific services intended to supplement mainstream service delivery. Accordingly, the Council of Australian Governments (COAG) has placed ongoing emphasis on appropriate, effective and integrated service delivery for all programs providing services to Indigenous people.

In 2008, COAG agreed the Service Delivery Principles for Programs and Services for Indigenous Australians as part of the National Indigenous Reform Agreement (NIRA) and a renewed focus on improving service delivery. Importantly, the service delivery principles are

intended to guide the design and delivery of mainstream government programs and services provided to Indigenous people as well as the development and negotiation of National Partnership Agreements. The principles build on COAG's earlier National Framework of Principles for Government Service Delivery to Indigenous Australians (agreed in 2004) which covered: sharing responsibility; harnessing the mainstream; streamlining service delivery; establishing transparency and accountability; developing a learning framework; and focusing on priority areas. The revised principles, agreed by COAG in 2008, for designing and delivering services for Indigenous people are: priority, Indigenous engagement, sustainability, access, integration and accountability. Under the NIRA, all governments are required to take these principles into account in designing policies and delivering services for Indigenous people.

A series of audits would examine to what extent Australian Government agencies have applied these principles in the design and delivery of selected mainstream programs to improve the performance of those programs for Indigenous people.

Implementation of the Australian Government's Petrol Sniffing Strategy

The Australian Government's Petrol Sniffing Strategy aims to reduce the incidence and impact of petrol sniffing and other forms of substance abuse among Indigenous youth and communities in specific areas. The Petrol Sniffing Strategy is implemented through an eight point plan which includes: roll-out of unleaded Opal fuel; consistent legislation dealing with petrol sniffing across jurisdictions; activities to strengthen and support communities; youth diversionary activities; rehabilitation and treatment facilities; appropriate levels of policing; communications and education strategies; and evaluation. Responsibility for the strategy is shared between the Department of Families, Housing, Community Services and Indigenous Affairs, the Department of Health and Ageing (DoHA), the Attorney-General's Department, and the Department of Education, Employment and Workplace Relations.

The Opal Fuel and Petrol Sniffing Program is the major element of the Petrol Sniffing Strategy. It is an ongoing program which involves subsidising the production and roll-out of low-aromatic fuel (opal fuel), providing advice about treatment and rehabilitation for petrol sniffers, informing the public about low-aromatic fuel and petrol sniffing prevention through communication and education strategies, and collecting data and program evaluation. In the 2010–11 Budget, additional funding of $38.5 million was allocated to expand the fuel production, storage and distribution of low-aromatic fuel in northern Australia, bringing the total funding commitment to approximately $83.4 million over four years. DoHA is responsible for the Opal Fuel and Petrol Sniffing Program under the broader Petrol Sniffing Strategy.

An audit, or series of audits, would examine the implementation and ongoing management of the Australian Government's Petrol Sniffing Strategy and the expanded Opal Fuel and Petrol Sniffing Program.

Procurement

The Australian Government purchased over $32 billion in goods and services in 2010–11 through procurement processes. When undertaking procurement, agencies are required to follow the principles and requirements set out in the Commonwealth Procurement Rules (effective 1 July 2012) and associated legislation.

In recent years the ANAO has completed cross-agency audits on contract management, direct source procurement and procurement panels. As procurement remains a core activity of Australian Government agencies, ANAO plans to continue to focus on specific aspects of procurement, such as agencies' approaches to attaining value for money when procuring goods and services.

AusTender

AusTender is the Australian Government's web-based procurement information facility and is managed, on behalf of the Australian Government, by the Department of Finance and Deregulation. AusTender provides centralised publication of Australian Government business opportunities, annual procurement plans, multi-use lists and contracts awarded. It enables entities to meet their publishing obligations under the *Commonwealth Procurement Rules* (effective 1 July 2012). This generally would include procurements valued at $10,000 and above for *Financial Management and Accountability Act 1997* entities and $400,000 and above for *Commonwealth Authorities and Companies Act 1997* entities. AusTender can also be used by entities to monitor and review their procurements.

An audit would examine selected entities' AusTender reporting processes, and the accuracy and timeliness of their reported information. It would also examine the Department of Finance and Deregulation's management of AusTender from a whole-of-government perspective.

Implementation of the Protective Security Policy Framework

On 8 June 2010, the Attorney-General announced that a new Protective Security Policy Framework (PSPF) had come into effect. The PSPF replaced the Protective Security Manual and contains 33 mandatory protective security requirements for Australian Government entities to implement, followed by a tiered framework of core standards, policies and guidelines. The Defence Signals Directorate's *Information Security Manual* provides detailed technical measures for information security and continues to apply under the PSPF.

The PSPF applies to Australian Government entities and any organisations working on their behalf, or handling Australian Government information and assets. This may include other governments and contracted goods or service providers. The Attorney-General's Department has policy responsibility for the development and implementation of the PSPF.

An audit would be appropriately timed to examine the effectiveness of the implementation of the PSPF. This includes communication and guidance to Australian Government entities from the Attorney-General's Department, and an assessment of the implementation of the PSPF in selected entities.

Implementation of the Australian Government Security Vetting Agency

On 1 December 2009, the Australian Government centralised the vetting of all Australian Government agencies' staff security clearances (apart from those exempt entities) into a single security vetting agency, the Australian Government Security Vetting Agency (AGSVA) in the Department of Defence. Implementation of the AGSVA has been part of a Better Regulation Ministerial Partnership initiative between the Attorney-General, the Minister for Finance and Deregulation and the Minister for Defence to reduce costs and improve the efficiency of the security vetting process.

The AGSVA began processing Australian Government security clearances from 1 October 2010. The AGSVA currently employs over 200 staff in all major capital cities around Australia and all clearances granted by them have a whole-of-government effect.

An audit would examine the AGSVA's administration of security clearances, and the degree to which the initial aims associated with setting up the AGSVA have been realised.

Physical Security Management

Physical security arrangements are an important element of the Australian Government's overall protective security arrangements. The physical security environment should support the efficient and effective performance of an entity, without compromising the application of protective security measures. The Australian Government's physical security management protocol and guidelines are outlined in the Protective Security Policy Framework. It provides specific guidance to entities on the protection of the Australian Government's information, assets, personnel and clients from potential security threats.

An audit would assess selected Australian Government entities' implementation of systems and practices to protect information, assets, personnel and clients from potential security risks, in accordance with legislative and policy requirements.

Security Risk Management

Entities are required to adopt a risk management approach to cover all areas of protective security activity across their organisation. The Protective Security Policy Framework advises that the security risk management process should:

- identify specific risks to their people, information and assets;
- identify the entity's level of risk tolerance;
- identify appropriate protections to reduce or remove risks; and
- identify and accept responsibility for untreatable residual risks (such as undertaking business on the Internet).

Within this context, entities are to establish the scope of any security risk assessment, identify the people, information and assets to be safeguarded, and determine the threats to people, information and assets in Australia and abroad.

An audit would examine security risk management processes in selected Australian Government entities.

Management of Business Continuity

Australian Government entities deliver a wide range of programs and services which are critical to the economic and social wellbeing of society. Business continuity management (BCM) is an essential business practice and an integral component of effective public sector governance. BCM involves the development, implementation, and maintenance of policies, frameworks and procedures to assist an entity manage a business disruption. This capability assists in managing, and recovering from the impacts of a disruptive event. Planning for business continuity continues to be essential in underpinning an entity's ability to maintain key business functions and deliver services. Recent financial statement audits have identified that some entities have not fully embedded the establishment, maintenance, and testing of business continuity and recovery plans into their normal business activities, and face a continued risk of being unable to recover effectively from an event that disrupts their business.

An audit would examine BCM arrangements in a selection of Australian Government entities. Better practice characteristics and principles identified in the ANAO's Better Practice Guide *Business Continuity Management* (June 2009), would be considered as part of the examination.

Managing Conflicts of Interest

Under the *Australian Public Service Code of Conduct*, public officials are expected to perform their duties in a fair and unbiased way, and decisions they make should not be affected by self-interest, private affiliations, or the likelihood of personal gain or loss. Public officials and public sector entities can protect the public interest by ensuring that private interests that conflict, or may conflict, are identified and managed effectively. A clear conflict of interest policy which details specific reporting procedures is an effective tool to ensure that potential and actual conflicts of interests are handled appropriately, before they give rise to allegations of misconduct. Even the perception that a conflict of interest has influenced an outcome can undermine public confidence in an entity and its staff.

An audit would examine the policies and practices used by a selection of Australian Government entities to manage conflicts of interest and potential conflicts of interest.

Managing Data Privacy

Under the *Privacy Act 1998* (the Privacy Act), Australian Government entities are required to comply with Information Privacy Principles (IPPs) when handling personal information. The IPPs outline how an entity may collect, use, store and disclose personal information. The Privacy Act's IPP 4 specifically relates to how entities store and secure personal information, indicating that a record keeper who has possession or control of a record that contains personal information, including staff and public information, shall ensure that the record is protected.

IPP 4 applies to all personal information held by entities, regardless of how it was collected. It is based on the principle that a person whose information is held by an Australian Government entity has a right to expect that the entity will hold it securely, and will ensure that access to the information is permitted only for legitimate purposes. IPP 10 and IPP 11 deal with the use and disclosure of personal information, respectively.

An audit would examine the effectiveness of controls put in place by entities to secure personal information, including staff data, and personal data collected as a function of any entity's role in collating, assessing and maintaining personal information.

Evaluation

Evaluation involves the systematic and objective assessment of policies and programs to assess their efficiency and effectiveness. Within the Australian Government, responsibility for evaluation is usually devolved to the entities responsible for program oversight and implementation. The evaluation experience and capability of these entities is variable.

An audit would examine Australian Government entities' guidance and support in relation to evaluation activities and, for selected entities, the extent and use of evaluation. The audit would also consider the progress of work being taken by the Department of Finance and Deregulation to develop guidance material on evaluation as part of the Better Government agenda.

Senate Order for Departmental and Agency Contracts (Calendar Year 2012 Compliance)

The Senate Order for Departmental and Agency Contracts requires agencies operating under the *Financial Management and Accountability Act 1997* to place lists of contracts valued at $100 000 or more on the Internet. These lists must indicate, among other things, whether each contract requires the parties to maintain the confidentiality of any of the contract's provisions.

An audit would assess the appropriateness of the use of confidentiality provisions in selected contracts reported in the 2012 calendar year listings, and the processes used by selected agencies for compiling contract listings.

30-day Payment Policy for Small Business

Under Australian Government's 30-day payment policy for small business, government agencies operating under the *Financial Management and Accountability Act 1997* (FMA Act) are required to include in contracts, a requirement to make payments within 30 days of a correctly rendered invoice, if the supplier is a small business and the payment is equal to or less than $5 million (GST inclusive). The FMA Act agency may agree to make payments within a shorter period than 30 days.

An audit would examine selected agencies' compliance with the Government's 30-day payment policy for small business.

Fraud Control

The prevention and management of fraud are important issues for the Australian Public Service. In the 2009–10 *Fraud against the Commonwealth* annual report, the government reported losses of almost half a billion dollars through fraud in more than 700 000 reported incidents. The vast majority of fraud was committed by those outside the government with misuse of social security payments accounting for about 613 000 of the alleged incidents.

In March 2011, the ANAO updated its Better Practice Guide on *Fraud Control in Australian Government Entities*. The Better Practice Guide (which updated the 2004 version) reflects the changing fraud risk landscape and explains measures entities can take in establishing an effective fraud control environment. The release of the Better Practice Guide, prepared in consultation with the Attorney-General's Department, coincided with the issue of an updated version of the *Commonwealth Fraud Control Guidelines* (the Guidelines). The Guidelines are issued by the Minister for Home Affairs under Regulation 16A of the *Financial Management and Accountability Regulations 1997* (FMA Regulations) and establish the fraud control policy framework within which entities determine their own specific practices, plans and procedures to manage the prevention and detection of fraudulent activities. Officials are required to have regard to the Guidelines when performing duties related to the efficient, effective, economical and ethical use of public resources.

An audit of selected entities would assess key aspects of fraud control arrangements in place across the Australian Public Service. For example, increased outsourcing by the public sector has focused attention on fraud control arrangements applied by external service providers, and applied by entities in relation to external service providers. The audit would, therefore, include several entities engaged in outsourcing of major services.

Management of Non-campaign Advertising

Non-campaign advertising is simple, informative advertising that generally appears only once or twice and contains factual statements. Non-campaign advertising can typically include, but is not limited to: recruitment for specific job vacancies; auction and tender notices; invitations to make submissions or apply for grants; notification of date and/or location-specific information (for example, notification of a public meeting at a particular time and place); and other public notices. All agencies subject to the *Financial Management and Accountability Act 1997* are required to place their non-campaign advertising through a master media agency. When undertaking recruitment advertising, agencies must comply with the *Guidelines on Non-campaign Recruitment Advertising*.

An audit would examine non-campaign advertising placements from selected portfolios for compliance with relevant policies and procedures.

Administration of Government Advertising Arrangements

Governments use advertising to inform the public about taxpayer-funded programs, to promote government policies and to support the establishment and delivery of services. Agencies subject to the *Financial Management and Accountability Act 1997* are required to: buy the media space for their advertising through the Central Advertising System; comply with the *Guidelines on Information and Advertising Campaigns by Australian Government Departments and Agencies* (March 2010 Guidelines); use the Communications Multi-Use List to select consultants for campaigns with expenditure over $250 000; and comply with applicable procurement policies for campaigns. The framework has continued to evolve over time.

An audit would examine the ongoing administration of the Australian Government's advertising framework by the Department of Finance and Deregulation (Finance) following changes to its role in August 2011 and the establishment of a new Peer Review Group. An audit would also examine the ongoing effectiveness of the revised certification process to promote compliance of government advertising campaigns with the March 2010 Guidelines; and appropriate procurement practices in accordance with legal and process requirements. An audit would form part of a periodic series of audit reports on government advertising that the ANAO expects to undertake over time, and will examine the implementation of recommendations made in ANAO Audit Report No.24 2011–12, *Administration of Government Advertising Arrangements: March 2010 to August 2011*.

Payments Made Under the Scheme for Compensation for Detriment Caused by Defective Administration

The Scheme for Compensation for Detriment caused by Defective Administration (CDDA Scheme) provides Australian Government agencies with the discretion to make compensation payments where there is a moral rather than a legal obligation. The CDDA Scheme enables agencies to compensate persons who have experienced detriment as a result of the agency's defective actions or inaction.

The CDDA Scheme is available to provide a remedy for all *Financial Management and Accountability Act 1997* agencies. In 2010–11, the Department of Human Services (DHS) made the greatest number and total value of payments. DHS reported that 1283 payments totalling $3.7 million were under the CDDA Scheme—the majority of these payments related to Centrelink services (1216 payments costing $3.6 million). During this same period, the Australian Taxation Office paid 696 claims totalling $770 000; the Department of Immigration and Citizenship paid 56 claims totalling $105 000; and the Department of Defence made 17 payments totalling $179 000.

In August 2009, the Ombudsman published a report—*Putting things right: compensating for defective administration*—which reported the findings of an investigation of the CDDA Scheme intended to guide all Australian Government agencies involved with its administration. The report identified a number of areas requiring general improvement in CDDA administration and also called for greater coordination and consistency of CDDA administration across agencies.

An audit, or series of audits, would examine selected agencies administration of the CDDA Scheme.

Agencies' Management of Discounts for Prepayment and Early Payment

Suppliers or contractors often offer a discount to an agency for paying for a good or service up-front before the goods or services are provided. Examples of prepayments commonly include registration fees for training courses and seminars; rental payments in advance; and airline and hotel bookings.

As the goods or services have not been delivered, these arrangements may create additional costs and risks for agencies. In assessing whether a prepayment represents an efficient, effective, economical and ethical use of Australian Government resources and represents value for money, agencies should ensure that the benefits of prepayment outweigh all costs, including all associated risks.

If agencies pay suppliers or contractors earlier than required, the interest on the Australian Government's money held centrally with the Reserve Bank of Australia is reduced. Finance Circular No. 2004/14 *Discounts for prepayment and early payment*, issued by the Department of Finance and Deregulation, provides that agencies should take this whole-of-government impact into consideration when assessing prepayments and early payments.

An audit would examine the management of discounts for prepayment and early payment by a selection of agencies, in accordance with Finance Circular No. 2004/14.

Management and Implementation of Ministerial Directions

The legislation establishing certain Australian Government entities will often include Ministerial direction-making powers, enabling ministers to provide written directions to the entity on specified matters. To promote transparency, legislation may also establish specific process requirements for such requests, including reporting and publication requirements.

Ministers will generally be supported by their departments when exercising direction-making powers, and in these circumstances departments will have a role in advising ministers on compliance with legal requirements.

Entities should adopt appropriate processes for the management and implementation of Ministerial directions. These will include processes to properly consider, implement, document and report on their handling of such directions.

An audit would examine the management and implementation of Ministerial directions by a selection of Australian Government entities subject to the *Financial Management and Accountability Act 1997* and/or the *Commonwealth Authorities and Companies Act 1997*.

Agencies' Preparation of Budget Estimates

The estimates process for expenditure and for non-tax revenue is a collaborative effort between the Department of Finance and Deregulation (Finance) and other agencies (with the Department of the Treasury separately being responsible for estimates of taxation revenue). Agencies prepare estimates, often with the help of models in the case of major programs, and are responsible for the timely entry of accurate and up-to-date data into the Budget Estimates and Actuals Module (BEAM) of the Central Budget Management System, the main source of financial information used to brief ministers. Finance is responsible for the validation of agency estimates in BEAM based on information provided by agencies and Finance's own knowledge and judgement.

The accuracy and timeliness of the budget expense and non-tax revenue estimates are influenced by a number of key factors. These include: the estimates process model used for the construction, validation and approval of the estimates; the performance of roles and

responsibilities by the central agencies and the spending agencies in the processes; the financial framework within which the estimates processes are undertaken; and the technical systems used by the central and spending agencies to support the estimates processes.

In the context of recent work within government to improve the accuracy and reliability of the preparation of budget estimates, an audit would involve a comparative examination of practices and processes within a selection of spending agencies, including the extent and effectiveness of collaboration between these agencies and Finance in the preparation of estimates. The audit sample will be focused on those agencies that have contributed significantly to the trend of overestimating/underspending and/or that have had large variations to estimates within the month prior to final system close.

Better Practice Guides

Guides for publication in 2012–13

Public Sector Internal Audit Update

Internal audit is a key component of an entity's governance framework, and plays a critical role in providing assurance regarding the conformance and performance of the entity's control systems and administrative processes.

While many of the principles remain the same, the role of internal audit has continued to evolve over time. In this context, the ANAO is updating its 2007 Better Practice Guide—*Public Sector Internal Audit* to provide contemporary guidance relevant to public sector entities operating under both the *Financial Management and Accountability Act 1997* and the *Commonwealth Authorities and Companies Act 1997*.

Public Sector Governance Update

In June 2003, the ANAO released the Better Practice Guide—*Public Sector Governance*. The guide aimed to help Australian Government entities implement better public sector governance arrangements by discussing the overarching public sector governance framework and proposing processes and practices to address commonly encountered governance problems.

A number of important developments in public sector governance have occurred since the release of that guide. To continue supporting good governance of Australian Government entities, the ANAO is updating the 2003 Better Practice Guide.

Human Resource Information Systems Risks and Controls—SAP, Peoplesoft and Aurion

In March 2011 the ANAO released a Better Practice Guide—*Human Resource Information Systems Risks and Controls*. The Guide aimed to help agencies improve systems processes, security and control over Human Resource information by identifying common risks and controls.

The update would provide detailed guidance on the specific controls available in three of the Human Resource Information Systems most commonly used by Australian Government agencies.

Preparation of Financial Statements by Public Sector Entities Update

Financial statements are an important means of demonstrating how the public sector, both at individual entity and whole-of-government levels, meets its financial management responsibilities. An important aspect of financial management and stewardship, and the primary mechanism by which entities meet their financial accountability obligations, is the preparation and publication of annual audited financial statements in annual reports.

In June 2009, the ANAO published an updated Better Practice Guide that was designed to assist entities with their financial reporting responsibilities. It was aimed at general purpose financial statements prepared by public sector entities that are normally prepared and presented at least annually. The guide included a discussion on a range of issues affecting the integrity of financial reporting and the efficiency of the preparation of financial statements by public sector entities.

In updating the Better Practice Guide, the ANAO will reflect changes to accounting and auditing standards since 2009 and provide enhanced guidance in a number of areas identified during consultations with Chief Financial Officers and other stakeholders.

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