
The Parliament of the Commonwealth of Australia

Report 396

**Review of Auditor-General's Reports
2002-2003
First, Second & Third Quarters**

Joint Committee of Public Accounts and Audit

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Foreword

Report 396 is the outcome of the review by the Joint Committee of Public Accounts and Audit of the Auditor-General's audit reports tabled in the first, second and third quarters of 2002–2003. Of the 29 audit reports reviewed, the Committee selected 11 for further examination at three public hearings.

Included in the 11 audit reports was a performance audit of the management by the Department of Transport and Regional Services of its responsibility to oversee aviation security in Australia. Following the Committee's examination of the audit report there were three serious aviation security incidents in Australia. The Committee subsequently extended its review under expanded terms of reference. The Committee will report the outcome of this review in a separate report.

The Committee's review of *Audit Report No. 2, 2002–2003, Grants Management* ATSIC has in part been overtaken by the establishment on 1 July 2003 of the Aboriginal and Torres Strait Islander Services agency (ATSIS). ATSIS now administers the Aboriginal and Torres Strait Islander Commission's (ATSIC's) grants program.

The management of the grants program faces a range of difficulties. These include the sheer number of organisations that receive funding, their geographical isolation, and the difficulty in attracting and retaining skilled staff to manage funded projects. The Committee was pleased that, at the time of the hearing, ATSIC was exploring various options to address these difficulties.

Grants project officers are required to identify alternative sources of funding for applicants. The Australian National Audit Office (ANAO) found that the outcome of this strategy was heavily dependent on the knowledge of regional staff. The Committee considers that if ATSIC Regional Councils could better access and distribute information about alternate source of funding, it would considerably lighten ATSIC's funding load.

The Committee has recommended that AT SIS investigate cost-effective methods of compiling and publishing information about alternative sources of funding from the three levels of government. The information should be provided to AT SIC Regional Councils on a regular basis.

During its review of *Audit Report No. 3, 2002–2003, Facilities Management at HMAS Cereberus* the Committee was advised of serious deficiencies in the use of Defence's Audit Recommendations Management System (ARMS). Many of Defence's actions in response to the Committee's and ANAO's recommendations were being marked off by Defence personnel as 'complete' simply because the due date for action had been reached.

This potentially compromises the veracity of Defence's advice concerning its progress in implementing the recommendations to which it had agreed. The Committee has recommended that Defence immediately update ARMS and provide advice on the current status of all Committee and ANAO recommendations.

Audit Report No. 7, 2002–2003 was a follow up to a previous ANAO audit of client service in the Child Support Agency (CSA). The Committee had also reviewed this previous audit and made three recommendations when it reported to Parliament in 1999.

The ANAO audit, and subsequent evidence at the public hearing, revealed that the CSA had re-interpreted a Committee recommendation. The CSA had completed action in regard to the re-interpreted recommendation and reported to the Committee in an *Executive Minute* that the recommendation had been agreed to.

The Committee considers that its recommendations are sufficiently well-thought out and considered to warrant full implementation. If an agency disagrees with the recommendations of external reviewers it should make its concerns explicit to both its Minister and those reviewers. To do otherwise potentially misleads its Minister and (when parliamentary committee recommendations are involved) the Parliament.

The Committee has recommended that the CSA advise the Committee of progress towards implementing recommendations directed to it in the Committee's 1999 report.

The Committee reviewed CSA's debt management and acknowledges the ANAO's finding that debt management had improved. Debt management is an issue with broad financial and social implications. Child support debt means that CSA resources are required to pursue debt. As well, there is a potential impact on social security payments for carer benefits. The social impact of child support debt

means that children are not being adequately supported by their parents, which may have implications for the health, housing and education of these children.

The Committee has recommended that the CSA make a detailed report to the Committee on progress made in implementing new strategies to address debt management for its clients.

During its review of *Audit Report No. 18, 2002–2003, Management of Trust Monies* the Committee's attention was drawn to the management by Comcare of employee compensation payments. The ANAO noted that Comcare's treatment of such money, although less onerous, was not in accord with the correct treatment of special public monies. This issue has also been raised in a separate Committee inquiry. A submission to that inquiry by the Department of Finance and Administration indicated that amendments to the *Safety, Rehabilitation and Compensation Act 1998* would be included in the *Financial Framework Legislation Amendment Bill*.

Audit Report No. 19, 2002–2003 focused on the Australian Taxation Office's (ATO's) management of its relationship with tax agents. Tax agents form the core of the tax practitioner group and have a fundamental role in the effective operation of the tax system.

The Committee acknowledges the ATO's work on gathering information on the tax agent population. Currently such information concerns the demographics of tax agents, indicators of their business success, and factors which motivate and frustrate them. While the compliance profile of tax agents is part of future phases of the research, the Committee believes this important aspect of profiling should not be overlooked.

The Committee endorses the ATO's endeavour to improve its communication with tax agents through the introduction of the ATO internet tax agent portal. The Committee expects this system to be continually reviewed to take advantage of advances in information technology.

As part of its review of *Audit Report No. 25, 2002–2003, Financial Statements of Commonwealth Entities for 2001–02* the Committee revisited its recommendation in an earlier report that the Final Budget Outcome (FBO) be audited. The Committee notes the two significant impediments to achieving this goal: the need to determine which audit standards to use, and the difficulty in preparing and auditing the FBO within the three months specified by the *Charter of Budget Honesty*.

The Committee is encouraged by the move to harmonise Australian and international reporting standards, and the move to progressively bring forward the provision of financial information by agencies. While the Government has not agreed to the recommendation that the FBO be audited, the Committee still

believes in the merits of its recommendation. The Committee recognises, however, that the goal of the issuing of audited FBOs is achievable only in the medium term.

The financial statements of the ATO have been qualified by the ANAO for several years running. This was because the ATO's lease of its computer equipment had been recognised in the accounts as an operating lease, rather than as a finance lease in accordance with Australian accounting standards. The Committee notes that the leasing contract is due to expire and has recommended that the ATO review the terms of its leasing arrangements. The nature of the lease should be clarified so that the subsequent accounting treatment does not attract an audit qualification.

Audit Report No. 47, 1997–98, Management of Commonwealth Guarantees, Indemnities and Letters of Comfort drew attention to the parliamentary accountability procedures for the issuing of indemnities adopted by the United Kingdom Parliament. The Committee notes that the UK model provides the opportunity for the UK Parliament to become involved at an early stage in the creation of contingent liabilities. This contrasts with the system in Australia where contingent liabilities are reported after the event.

The Committee supports the earlier involvement of the Parliament in the creation of the Commonwealth's contingent liabilities. The Committee has recommended that the Commonwealth adopt procedures for notifying the Parliament of the issuing of indemnities based on the procedures used by the UK Parliament.

Audit Report No. 20, 2002–2003 reviewed the management of two employee entitlements support schemes by the Department for Employment and Workplace Relations (DEWR). The Committee notes that the administration of both the Employee Entitlements Support Scheme (EESS) and the General Employee Entitlements and Redundancy Scheme (GEERS) has been a major challenge for DEWR because these schemes were the first of their kind in Australia.

The Committee commends DEWR on its positive response to suggestions for improvement from both the ANAO and a consultant engaged by DEWR. The Committee notes that many of the suggestions and recommendations have already been partially or fully implemented.

The Committee recognises that insolvency practitioners have a substantial and essential role in the successful operation of EESS and GEERS. Consequently, DEWR's management of its relationship with insolvency practitioners will have a significant impact on the management of both EESS and GEERS. The Committee has recommended that DEWR examine ways in which it can monitor interactions between insolvency practitioners and individual claimants for the quality and accuracy of information provided to claimants.

As well, the Committee believes DEWR could take a more active role in promoting awareness of the schemes and has recommended that DEWR also examine ways in which it can improve claimants' awareness of the scheme, their eligibility for benefits under the scheme, and changes in the interpretation of the operational arrangements.

The Committee's review of *Audit Report No. 23, 2002–2003, Physical Security Arrangements in Commonwealth Agencies* revealed the different constraints faced by the sample of agencies called to the public hearing. Each agency must look for ways to address the security framework in the most effective and efficient way for the organisation involved. It is incumbent upon agencies, however, to ensure that training is relevant, accessible to all staff and maintains staff knowledge to current security standards.

The Committee notes that the agencies examined were aware of the importance of a thorough and timely response to security breaches and the importance of incorporating lessons gained from breaches into current security controls.

The final audit report examined in detail is *Audit Report No. 28, 2002–2003, Northern Territory Land Councils and the Aboriginals Benefit Account*. The Committee is pleased to note that all of the Land Councils subject to the audit have understood and acted upon the recommendations regarding risk assessment, management and accountability; and regarding the collection and use of performance information.

The Committee commends the Land Councils for having accepted the advice of the ANAO in a responsive and proactive manner and for having acted quickly to apply the advice to their organisational practices.

Bob Charles MP

Chairman

Membership of the Committee

40th Parliament

Chairman Mr Bob Charles MP

Deputy Chair Ms Tanya Plibersek MP

Members	Senator Richard Colbeck (until 25/03/03)	Mr Steven Ciobo MP
	Senator Stephen Conroy (until 10/09/03)	Mr John Cobb MP
	Senator John Hogg (from 10/09/03)	Mr Petro Georgiou MP
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	Senator Claire Moore (until 19/11/02)	Ms Catherine King MP
	Senator Andrew Murray	Mr Peter King MP
	Senator Nigel Scullion	The Hon Alex Somlyay MP
	Senator John Watson	

Membership of the Sectional Committee

40th Parliament

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Mr Steven Ciobo MP

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List of abbreviations

AAS31	Australian Accounting Standing 31
ABA	Aboriginals Benefit Account
ABC	Australian Broadcasting Corporation
AFP	Australian Federal Police
AGS	Australian Government Solicitor
ALC	Anindilyakwa Land Council
ALRA	Aboriginal Land Rights Act
ANAO	Australian National Audit Office
ANSTO	Australian Nuclear Science & Technology Organisation
ARMS	Audit Recommendations Management System
ASC	Australian Submarine Corporation
ASIO	Australian Security Intelligence Organisation
ATO	Australian Tax Office
ATSIC	Aboriginal and Torres Strait Islander Commission
ATSIIS	Aboriginal and Torres Strait Islander Services agency
BAS	Business Activity Statement

CAC	Commonwealth Authorities and Companies Act, 1997
CDEP	Community Development Employment Projects
CFS	Consolidated Financial Statements
CHIP	Community Housing and Infrastructure Program
CLC	Central Land Council
CMC	Comprehensive Maintenance Contract
COAG	Council of Australian Governments
CSA	Child Support Agency
Defence	Department of Defence
DEMS	Defence Estate Management Systems
DEO	Defence Estate Organisations
DEWR	Department of Employment and Workplace Relations
DoTARS	Department of Transport and Regional Services
EESS	Employee Entitlements Support Scheme
ETM	Economic Transactions Method
EWA	Employer Withholding of Arrears
HMAS	Her Majesty's Australian Ship
FBO	Final Budget Outcome
Finance	Department of Finance and Administration
FMA	Financial Management and Accountability Act
GEERS	General Employee Entitlements and Redundancy Scheme
GFS	Government Finance Statistics
GST	Goods & Services Tax
ID	Infrastructure Division

IGD	Inspector-General Division
IT	information technology
JCPAA	Joint Committee of Public Accounts and Audit
MOU	Memorandum of Understanding
NLC	Northern Land Council
OEC	Organisation for Economic Co-operation and Development
PM&C	Department of Prime Minister and Cabinet
PSCC	Protective Security Coordination Centre
PSM	Protective Security Manual
SDSS	Standard Defence Supply System
SEESA	Special Employee Entitlements and Redundancy Scheme for Ansett group employees
SFPALC	Senate Finance and Public Administration Legislation Committee
SRC	Safety, Rehabilitation and Compensation ACT, 1998
TABs	Tax Agent's Boards
TLC	Tiwi Land Council
TLM	Taxation Liability Method
TPG&A	Tax Practitioner and Alliances Branch
UMP / AMIL	United Medical Protection Ltd / Australasian Medical Insurance Ltd

List of recommendations

Recommendation 1

- 2.39 The Aboriginal and Torres Strait Islander Services agency should investigate cost- effective methods of compiling and publishing information about alternative sources of funding from the three levels of government. This information should be provided to Aboriginal and Torres Strait Islander Commission Regional Councils on a regular basis.

Recommendation 2

- 3.33 The Department of Defence should immediately update its Audit Recommendations Management System and provide the Committee and the Australian National Audit Office with a report on the current status of all Committee and Audit Office recommendations.

Recommendation 3

- 4.32 The Child Support Agency should advise the Joint Committee of Public Accounts and Audit of the Agency's progress towards implementing the recommendations directed to it in *Report 367, Review of Auditor-General's Reports 1997–98, Third Quarter*.

Recommendation 4

- 4.67 The Committee recommends that the Child Support Agency make a detailed report to the Committee on progress made in implementing new strategies to address debt management for clients of the Child Support Agency.

Recommendation 5

- 7.66 The Australian Taxation Office should review the terms of its information technology outsourcing contract when the contract is renewed so that the nature of the lease is clarified and the subsequent accounting treatment does not attract an audit qualification.

Recommendation 6

- 8.39 The Commonwealth should adopt procedures for notifying the Parliament of the issuing of indemnities based on the procedures used by the United Kingdom Parliament.

Recommendation 7

- 9.62 The Department of Employment and Workplace Relations examine ways in which it can:
- improve claimants' awareness of the scheme, their eligibility for benefits under the scheme, and changes in the interpretation of the operational arrangements; and
 - monitor interactions between insolvency practitioners and individual claimants for the quality and accuracy of information provided to claimants.

