

Report 378

. Defence acquisition projects

. Debt management

. Plasma fractionation

Review of Auditor-General's Reports
1999-2000
Second Quarter

Joint Committee of Public Accounts and Audit

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Foreword

This report is the outcome of the review by the Joint Committee of Public Accounts and Audit (JCPAA) of the Auditor-General's audit reports tabled in the second quarter of 1999-2000. Of the 13 audit reports reviewed, the Committee selected three for further examination and these are discussed in this report.

The main feature of the Committee's review was the conduct of public hearings on 16 May 2000 at which evidence was taken in relation to the three audit reports: *Audit Report No. 13, 1999-2000, Management of Major Defence Acquisition Projects*, *Audit Report No. 14, 1999-2000, Commonwealth Debt Management* and *Audit Report No. 24, 1999-2000, Management and Regulation of Plasma Fractionation*.

Audit Report No. 13 reviewed Defence's management of major equipment acquisition projects. The audit report found that the overall management of acquisition projects had experienced systemic problems arising from Defence's traditional top-down management. The review identified several areas where Defence could improve the management of acquisitions projects through better planning, programming and budgeting.

One area of particular concern to the Committee was in relation to the Defence Audit and Program Evaluation Committee's lack of monitoring or review of ANAO performance audit reports and JCPAA reports. The Committee made a recommendation in relation to this matter to ensure that all ANAO and JCPAA reports are monitored and reviewed in a timely manner.

The Committee also recommends that the Australian National Audit Office (ANAO) consider a follow-up audit on Defence's management of major acquisition projects in the next 18 months to 2 years.

In *Audit Report No. 14* on Commonwealth debt management, the ANAO's objective was to provide enhanced assurance to Parliament about the management of the debt portfolio and to identify opportunities for improvement. While the audit found that Treasury's debt issuance programs had met Budget funding requirements and domestic debt management had been effectively undertaken, it

concluded that the Commonwealth was exposed to a number of significant risks in its debt management operations.

The Committee is concerned about the Australian Office of Financial Management's (AOFM's) ability to retain appropriate in-house expertise, the Commonwealth's foreign currency exposures and Treasury's risk management of derivatives. The Committee makes recommendations in relation to the resourcing of the AOFM and the portfolio benchmark review process.

Audit Report No. 24 reviewed the management and regulation of plasma fractionation and found that there was significant scope for improvement in the Department of Health and Aged Care's (DHAC's) contract management practices in relation to the Plasma Fractionation Agreement (PFA) and in the Therapeutic Goods Authority's (TGA's) regulation of plasma fractionation.

In this report the Committee makes comments on payment control procedures, product safety regulation and the Initial Plasma Fractionation Agreement review. The Committee makes recommendations concerning DHAC's contract management, the PFA extension review and TGA's regulation of plasma fractionation.

Bob Charles MP
Chairman



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Membership of the Committee

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Deputy Chair Mr David Cox MP

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Duties of the Committee

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

Section 8(1) of the Act describes the Committee's duties as being:

- (a) to examine the accounts of the receipts and expenditure of the Commonwealth, including the financial statements given to the Auditor-General under subsections 49(1) and 55(2) of the *Financial Management and Accountability Act 1997*;
- (b) to examine the financial affairs of authorities of the Commonwealth to which this Act applies and of inter-governmental bodies to which this Act applies;
- (c) to examine all reports of the Auditor-General (including reports of the results of performance audits) that are tabled in each House of the Parliament;
- (d) to report to both Houses of the Parliament, with any comment it thinks fit, on any items or matters in those accounts, statements and reports, or any circumstances connected with them, that the Committee thinks should be drawn to the attention of the Parliament;
- (e) to report to both Houses of the Parliament any alteration that the Committee thinks desirable in:
 - (i) the form of the public accounts or in the method of keeping them;
 - or
 - (ii) the mode of receipt, control, issue or payment of public moneys;
- (f) to inquire into any question connected with the public accounts which is referred to the Committee by either House of the Parliament, and to report to that House on that question;

- (g) to consider:
 - (i) the operations of the Audit Office;
 - (ii) the resources of the Audit Office, including funding, staff and information technology;
 - (iii) reports of the Independent Auditor on operations of the Audit Office;
- (h) to report to both Houses of the Parliament on any matter arising out of the Committee's consideration of the matters listed in paragraph (g), or on any other matter relating to the Auditor-General's functions and powers, that the Committee considers should be drawn to the attention of the Parliament;
- (i) to report to both Houses of the Parliament on the performance of the Audit Office at any time;
- (j) to consider draft estimates for the Audit Office submitted under section 53 of the *Auditor-General Act 1997*;
- (k) to consider the level of fees determined by the Auditor-General under subsection 14(1) of the *Auditor-General Act 1997*;
- (l) to make recommendations to both Houses of Parliament, and to the Minister who administers the *Auditor-General Act 1997*, on draft estimates referred to in paragraph (j);
- (m) to determine the audit priorities of the Parliament and to advise the Auditor-General of those priorities;
- (n) to determine the audit priorities of the Parliament for audits of the Audit Office and to advise the Independent Auditor of those priorities;
and
- (o) any other duties given to the Committee by this Act, by any other law or by Joint Standing Orders approved by both Houses of the Parliament.



List of abbreviations

ANAO	Australian National Audit Office
AOFM	Australian Office of Financial Management
AQIS	Australian Quarantine Inspection Service
ARCBS	Australian Red Cross Blood Service
CEO	Chief Executive Officer
CSL	Commonwealth Serum Laboratories
DAO	Defence Acquisition Organisation
DAPEC	Defence Audit and Program Evaluation Committee
DCC	Defence Capability Committee
DHAC	Department of Health and Aged Care
JCPAA	Joint Committee of Public Accounts and Audit
PFA	Plasma Fractionation Agreement
PFI	private finance initiatives
RBA	Reserve Bank of Australia
SCA	Support Command Australia
TGA	Therapeutic Goods Administration



List of recommendations

Chapter 2

Audit Report No. 13 Management of Major Equipment Acquisition Projects, Department of Defence

Recommendation 1

The Committee recommends that the Defence Audit and Program Evaluation Committee ensure that Australian National Audit Office and JCPAA recommendations are monitored and reviewed in a timely manner. (Paragraph 2.27)

Recommendation 2

The Committee recommends that the Australian National Audit Office consider carrying out a follow-up audit, in the next eighteen months to two years, on the management of major Defence acquisition projects. (Paragraph 2.69)

Chapter 3

Audit Report No. 14 Commonwealth Debt Management

Recommendation 3

The Committee recommends that the Australian Office of Financial Management take action to obtain and maintain the high level of in-house expertise required to enhance its own management and to retain control and exercise judgment over external adviser inputs. (Paragraph 3.22)

Recommendation 4

The Committee recommends that the Australian Office of Financial Management put processes in place to monitor risks and identify weaknesses which may impact on the appropriateness or timing of the portfolio benchmark review process. (Paragraph 3.37)

Recommendation 5

The Committee recommends that the Australian Office of Financial Management move as quickly as possible to implement all of the Australian National Audit Office recommendations. (Paragraph 3.82)

Chapter 4**Audit Report No. 24 Commonwealth Management and Regulation of Plasma Fractionation****Recommendation 6**

The Committee recommends that the Department of Health and Aged Care's Audit Committee conduct regular internal audits of the Therapeutic Goods Administration's performance, and provide to the Committee by December 2001 an updated status report of the effectiveness of the Therapeutic Goods Administration's implementation of its auditing program of Commonwealth Serum Laboratories' compliance with the Code of Good Manufacturing Practice, including the extent to which the Therapeutic Goods Administration is complying with its own procedures and practices for undertaking these audits. (Paragraph 4.30)

Recommendation 7

The Committee recommends that Commonwealth Serum Laboratories be required on a regular basis to provide positive declarations to the Therapeutic Goods Administration regarding the volume, source and final destination of all foreign plasma imported into Australia by the company and processed at its Broadmeadows fractionation plant. (Paragraph 4.31)

Recommendation 8

The Committee recommends that agencies implement administrative arrangements to ensure that the Therapeutic Goods Administration is notified of all Quarantine Entries made by the Australian Quarantine Inspection Service of human blood and blood products imported into Australia. (Paragraph 4.32)

Recommendation 9

The Committee recommends that the Chief Executive Officer of the Department of Health and Aged Care assess the skill base and training needs of its contract managers, and ensure that appropriate legal and technical advice is readily available to them. (Paragraph 4.56)

Recommendation 10

The Committee recommends that the Australian National Audit Office undertake a timely performance audit of the Department of Health and Aged Care's handling of the Plasma Fractionation Agreement extension review. (Paragraph 4.57)