

## PART 3: MANAGEMENT AND ACCOUNTABILITY

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## MANAGEMENT AND ACCOUNTABILITY

### Corporate governance

The Secretary to the Treasury exercises general oversight of the AOFM's activities and is responsible for advising the Treasurer on government policy relating to debt management and investment. The Secretary approves detailed debt management and investment policies, sets operational limits and addresses any breaches of limits. In discharging his responsibilities, the Secretary is advised by the AOFM Advisory Board.

The Chief Executive Officer (CEO) of the AOFM is responsible for the day to day management and direction of the AOFM. The CEO exercises powers delegated by the Treasurer and the Secretary for debt issuance, investment, portfolio management and management of the AOFM's staff. The CEO has final responsibility for all aspects of the financial management of the Agency (which is separate from that of the Treasury as the AOFM is a prescribed agency under the *Financial Management and Accountability Act 1997*). The AOFM reports regularly to the Treasurer on its portfolio, prepares an annual report for presentation to Parliament and releases information about its activities on its website.

### *AOFM Advisory Board*

The AOFM Advisory Board provides advice to the Secretary on debt management policy and the operational strategy and performance of the AOFM. The Board does not possess executive powers or decision making authority. The Advisory Board members at 30 June 2008 were:

- Dr Ken Henry AC, Secretary to the Treasury (Chair);
- Tony Cole AO, Head of Mercer Investment Consulting – Asia Pacific;
- Dr Paul Grimes, General Manager, Budget Group, Department of Finance and Deregulation;
- Neil Hyden, Chief Executive Officer, AOFM;
- Greg Maughan, consultant;
- Nigel Ray, Executive Director, Fiscal Group, Treasury; and
- Peter Warne, Chairman of Next Financial Limited, Australian Leisure & Entertainment Property Group, Teys Limited and St Andrews Cathedral School Foundation Limited. He is also a Director of ASX Limited and subsidiary companies,

Macquarie Group Limited, WHK Group Ltd, Capital Markets Cooperative Research Centre Limited Ltd and a number of other unlisted companies.

The Advisory Board met on four occasions in 2007-08.

### ***Senior management committees***

Several senior management committees operate to assist the CEO in the management of the Agency and to facilitate communication and coordination.

#### **Executive Committee**

The Executive Committee coordinates the overall management of the Agency, including consideration of strategic issues, coordination of priorities, financial management, organisational arrangements and resource management. Its membership comprises the CEO, the Head of Compliance and Reporting, the Chief Finance Officer, the Director of Financial Risk and the Head of Treasury Services.

#### **Liability Management Committee**

The Liability Management Committee advises the CEO on operational debt policy and financial risk management issues. The committee reviews policy and operational settings, deal execution and market conditions. Its membership comprises the CEO, the Head of Compliance and Reporting, the Director of Financial Risk and the Head of Treasury Services, together with other senior staff with relevant functional responsibilities.

#### **Operational Risk Committee**

This committee manages operational risks. It recommends and determines compliance priorities and control procedures and oversees the identification, categorisation and prioritisation of operational risks. Its membership comprises the CEO, the Head of Compliance and Reporting, the Chief Finance Officer, the Director of Financial Risk and the Head of Treasury Services, together with other senior staff with relevant functional responsibilities.

#### **Human Resources Committee**

This committee advises on the management of human resources, including employment policies, training and development, recruitment, performance management and remuneration. It consists of members of the Executive Committee and the Human Resource Manager.

#### **Information Technology Steering Committee**

This committee oversees current and planned information technology projects and operations. Its membership comprises the CEO (Chair), the Chief Finance Officer and the IT Manager.

## Investment Committee

This committee oversees the AOFM's operational management of the Communications Fund and gives advice on eligible investments. Its membership comprises the CEO, the Head of Compliance and Reporting, the Chief Finance Officer, the Director of Financial Risk and the Head of Treasury Services, together with other senior staff with relevant functional responsibilities.

## *Other elements of the governance framework*

Other elements of the AOFM's governance framework include:

- formal delegations and authorisations from the Treasurer of powers under various Acts that provide the legal authority for the AOFM's debt management and investment activities;
- policies, including a Balance Sheet Policy, Credit Policy and Liquidity Policy, and operational limits, that are approved by the Secretary to the Treasury;
- Chief Executive Instructions and internal financial delegations, which establish an administrative framework for the delegation of the Chief Executive's powers under the *Financial Management and Accountability Act 1997*;
- a Contract Management Policy, which establishes guidelines for managing contractual relationships with suppliers of goods and services based on Australian Government legislative requirements and best practice principles;
- a fraud risk assessment and Fraud Control Plan which comply with the Commonwealth Fraud Control Guidelines and include appropriate fraud prevention, detection, investigation and reporting procedures;
- Business Continuity and Pandemic Plans to maintain the Agency's critical activities in the event of a major disruption to the office or influenza pandemic; and
- an Information Technology Disaster Recovery Plan relating to servers, system databases and key software applications which establishes the processes required to restore critical IT-reliant functions in the aftermath of a significant disruption.

## Audit

### *Audit Committee*

The AOFM Audit Committee is a forum for review of audit and related issues. It approves the AOFM's internal audit plan, reviews audit reports and advises on action to be taken on matters

raised in them, advises on the preparation and review of the AOFM's financial statements, reviews operational risks and oversees development of the Fraud Control Plan.

The Audit Committee membership at 30 June 2008 comprised:

- Peter Warne, independent member of the AOFM Advisory Board (Chair);
- David Lawler, former Group Auditor, Financial Controller of Institutional Banking and Executive General Manager of the Commonwealth Bank of Australia, Audit Committee member of the Defence Materiel Organisation, the Australian Trade Commission, the Australian Agency for International Development, the Australian Sports Anti-Doping Authority and National ICT Australia;
- Neil Richardson, Manager, Asset and Liability Analysis Unit, the Treasury; and
- Andrew Johnson, the Head of Compliance and Reporting, AOFM.

Invited attendees included the Australian National Audit Office (ANAO), the AOFM internal auditor (PricewaterhouseCoopers) and the AOFM Chief Finance Officer. The Committee met on four occasions during 2007-08.

### ***Internal auditor***

PricewaterhouseCoopers undertook a substantive program of internal audit activities during 2007-08. In addition to the regular annual audit review of internal operational controls and information technology controls, it completed three major reviews in 2007-08.

- Compliance function review – a review of the AOFM's compliance function. The review found evidence of a sound compliance culture and made recommendations for the development of the compliance work program, updating policies and procedures, improved linkages with internal audit and improved staff training.
- Communications Fund review – a review of the framework for the AOFM's management of investments for the Communications Fund, including the legal framework, policies and procedures.
- GST and FBT review – this reviewed the AOFM's compliance with GST and FBT legislation.

### ***Australian National Audit Office reports***

The Australian National Audit Office's annual report on *Interim Phase of the Audit of Financial Statements of General Government Sector Entities for the Year Ending 30 June 2008* identified no risk issues in relation to the AOFM and concluded, based on the audit work performed, that internal

controls were operating satisfactorily to provide a reasonable assurance that AOFM could produce financial statements free of material misstatement.

During 2007-08, the ANAO did not conduct any other cross-agency audits which involved the AOFM.

## **Judicial decisions**

In 2007-08, no matters relating to the AOFM were the subject of judicial proceedings, tribunal hearings or consideration by the Ombudsman.

## **Management of human resources**

### ***Meeting workforce needs***

The AOFM aims to meet its workforce needs primarily through the recruitment of recent graduates and their subsequent development through on the job experience, mentoring, assistance with further academic studies and in-house training. This approach is designed to maintain the core professional strength of the AOFM on a continuing basis. It allows people with strong academic achievements to develop specialised skills and experience related to the AOFM's work requirements, expanding their knowledge of financial markets and debt management, and also of public policy and administration.

The AOFM aims to attract and retain staff by providing challenging and interesting work in a professional work environment with opportunities for learning and career development. A broad-banded classification structure allows staff to advance between work levels within classification grades subject to work availability and performance without formal competitive selection processes. This encourages staff to build their career within the AOFM. Promotions across grades are made via merit selection. This strategy has been successful in attracting and retaining highly qualified professional staff. The annual retention rate has averaged 74 per cent over the seven years since 2001-02. The retention rate for 2007-08 was 82 per cent.

### ***Training and development***

The AOFM encourages staff to participate in training and development activities to develop their work skills and enhance their career prospects. While a significant proportion of development occurs through knowledge transfer in on-the-job training, staff also draw on external courses, conferences, workshops and seminars for development opportunities. During 2007-08 the AOFM offered in-house programs to supplement individual external programs, and conducted an internal seminar series. In addition to all-office briefings, this series included presentations by:

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- Australian Transaction Reports and Analysis Centre on Anti-Money Laundering and Counter Terrorism;
- Australian Prudential Regulation Authority on supervisory oversight; and
- Commonwealth Bank of Australia Debt Research Unit on the sub-prime mortgage issue and its impact on banks and financial markets.

AOFM staff are highly qualified with 82 per cent holding degree qualifications (9 per cent have higher degrees and 26 per cent hold double degrees). Twenty-one per cent have professional qualifications in their field.

Over the last four financial years, an average of 74.5 percent of AOFM employees have participated in training or development supported by the AOFM. During this period, training averaged 3.5 days per full-time equivalent staff member (FTE) per year and the direct costs of training (paid to external parties) averaged \$2,190 per FTE per year. In 2007-08, 81.0 per cent of employees participated in training, 3.9 days per FTE were invested in skill development and \$2,713 per FTE was paid to external providers. The AOFM invested 3.6 per cent of direct salary costs in payments for training and development activity over the year.

#### ***The AOFM workforce***

As at 30 June 2008, the AOFM employed 27.8 full-time equivalent staff under the *Public Service Act 1999*. Table 1 provides a summary of the AOFM workforce by broadband classification.

**Table 1: Operative and paid inoperative staff as at 30 June 2007 and 2008**

Classification	Ongoing				Non-ongoing				Total
	Full-time		Part-time		Full-time		Part-time		
	Male	Female	Male	Female	Male	Female	Male	Female	
<b>2008</b>									
AOFM1	0	2	0	0	0	0	0	0	2
AOFM2	12	7	1	3	1	0	0	0	24
AOFM3	4	0	0	0	2	0	0	0	6
AOFM4	1	0	0	0	0	0	0	0	1
CEO	1	0	0	0	0	0	0	0	1
<b>Total</b>	<b>18</b>	<b>9</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>34</b>
<b>2007</b>									
AOFM1	2	2	0	0	0	0	0	0	4
AOFM2	11	8	1	2	0	0	0	0	22
AOFM3	5	0	0	0	2	0	0	0	7
AOFM4	1	0	0	0	0	0	0	0	1
CEO	1	0	0	0	0	0	0	0	1
<b>Total</b>	<b>20</b>	<b>10</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>35</b>

Note: AOFM broadband classifications are nominally linked to Australian Public Service classifications as follows: AOFM1 corresponds to APS1 to APS4, AOFM2 corresponds to APS5 to EL1, AOFM3 corresponds to EL2 and AOFM4 covers higher level EL2.

AOFM staffed two overseas posts during the year to support capacity building in sovereign debt management in Papua New Guinea and the Solomon Islands.

AOFM established a workforce plan during the period and this was promulgated to all staff. The plan has assisted AOFM in retention and recruitment.

### Changes to senior management

There were no changes to senior management during the period.

### Other staffing changes

Six ongoing employees were recruited during 2007-08 – four to the AOFM2 level and two to the AOFM1 level. They included three graduates who joined in the middle of the financial year. The graduates participated in various training programs relevant to their roles within the public sector. There were a total of six staff exits during the year – all were ongoing employees. For ongoing employees, departures represented 20.5 per cent of average staffing levels in 2007-08 (28.5 per cent in 2006-07).

### Industrial Arrangements

Until the change in government policy on 13 February 2008, AOFM employees were employed under Australian Workplace Agreements (AWAs). The AOFM is working towards establishing a collective agreement. As an interim arrangement two new employees were employed during the year under common law contracts. AWAs and contracts specify employment terms and conditions, with remuneration outcomes based on performance, position and level within the

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AOFM. They also refer to the Australian Public Service Values in the context of setting out expected performance and behaviour.

The CEO of the AOFM is engaged under an AWA with the Treasury.

#### Remuneration

Staff remuneration (Table 2) is reviewed annually, with adjustments effective as at 1 July. Under the arrangements in place during 2007-08, salary ranges are set to reflect market rates for conservative financial services organisations, using data provided by the Financial Institutions Remuneration Group. This data covers a wide range of public and private sector financial institutions, including banks, corporate treasuries and State debt management agencies. Mercer Human Resource Consulting provided independent advice in applying the data to the AOFM.

Executive remuneration is reported in Note 12 of Part 4: Financial statements.

**Table 2: AOFM salary ranges**

Classification	30 June 2008	
	Base Rate \$	Grade Rate \$
AOFM1	37,082	60,990
AOFM2	57,786	117,522
AOFM3	135,402	169,253
AOFM4	182,112	227,640

To be eligible for a remuneration review, employees must have completed a performance review. Remuneration within the relevant range for the classification depends on the individual performance ratings received. Performance appraisals assess outputs achieved and behaviours exhibited in producing those outputs. There is no performance pay and performance-linked bonuses are not paid.

Non-salary benefits provided to AOFM employees principally comprise superannuation and support for professional development through studies assistance, short courses and payment of job-relevant professional society membership fees. A mobile phone or laptop computer may be provided where there is a business need.

#### ***Occupational health and safety***

Occupational health and safety services are provided to the AOFM under a Service Level Agreement with the Treasury. The AOFM has one Health and Safety Representative who assists employees in accord with Health and Safety Management Arrangements and the *Occupational Health and Safety Act 1991*.

AOFM staff had access to a number of ongoing health activities in 2007-08, including posture and flexibility, yoga, Tai Chi, Pilates and aerobics classes. Flu vaccinations, health assessments, health information, and dietary assistance were also provided. To prevent injuries in the workplace and to enhance the safety of staff members, workplace assessments were conducted for all new starters. Counselling and other support is available to staff under an Employee Assistance Program provided by Davidson Trahaire.

There were no compensable injury claims in 2007-08. There were no accidents, injuries or dangerous occurrences reported in 2007-08. The AOFM was not the subject of any directions under section 45 of the *Occupational Health and Safety Act 1991*. No notices were given to AOFM under this Act.

### **Australian Government Disability Strategy**

The AOFM follows the Treasury's Workplace Diversity Program and Disability Action Plan in line with the Australian Government Disability Strategy to help eliminate, as far as possible, discrimination on the grounds of disability.

### **Assets management**

The physical assets of the AOFM are managed in accordance with policies and procedures set out in the AOFM's Chief Executive Instructions. The assets are predominantly computers, equipment and leasehold improvements.

### **Purchasing**

The AOFM's policy and procedures on purchasing goods and services are consistent with the requirements of the Commonwealth Procurement Guidelines (January 2005) and are outlined in the Chief Executive Instructions.

### **ANAO access clauses and exempt contracts**

No contract for \$100,000 or more was let during the reporting period that did not provide for the Auditor-General to have to access the contractor's premises. No contract in excess of \$10,000 (including GST) or standing offer has been exempted from being published in the Purchasing and Disposals Gazette on the basis that it would disclose exempt matters under the *Freedom of Information Act 1982*.

## Consultants

The AOFM has policies and procedures to ensure that its procurement activities comply with legislative requirements and government policy, in particular the Commonwealth Procurement Guidelines (2005). The AOFM's Chief Executive Instructions contain additional requirements in relation to the engagement of consultants. These cover the circumstances under which a consultant may be engaged, require that consultancies must be formalised in contracts and provide for appropriate documentation.

During 2007-08, eight new consultancy contracts were entered into involving total actual expenditure of \$69,885. In addition, two ongoing consultancy contracts were active during the 2007-08 year, involving total actual expenditure of \$130,289.

The numbers for new and ongoing consultancy contracts over the last three years, and expenditure on them, are summarised in Table 3. Details of consultancy contracts of \$10,000 or more let during 2007-08 are provided in Table 4.

**Table 3: Consultancy contracts**

	2005-06	2006-07	2007-08
<b>Number of consultancy contracts</b>			
New Contracts	11	7	8
Ongoing contracts	0	2	2
<b>Expenditure (including GST)</b>			
New Contracts	\$251,850	\$59,483	\$69,885
Ongoing contracts	0	\$154,184	\$130,289

**Table 4: Consultancy contracts of \$10,000 or more let during 2007-08**

Consultant name	Description	Price	Selection process (a)	Justification (b)
University of Technology Sydney	Research Project	\$25,000	Select Tender	C
Finance and Statistical Consultants	Research Project	\$25,000	Select Tender	C
<b>Total</b>		<b>\$50,000</b>		

(a) Select Tender is a procurement process by which the procuring agency selects which potential suppliers are invited to submit tenders under conditions specified in the Commonwealth Procurement Guidelines (January 2005).

(b) Justification for decision to use consultancy:  
 A — skills currently unavailable within agency  
 B — need for specialised or professional skills  
 C — need for independent research or assessment