

PART 3: MANAGEMENT AND ACCOUNTABILITY

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MANAGEMENT AND ACCOUNTABILITY

Corporate governance

The Secretary to the Treasury provides 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 Office (which is separate from the financial management 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 provides 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 as at 30 June 2009 were:

- Dr Ken Henry AC, Secretary to the Treasury (Chair);
- Tony Cole AO, Executive Director of Mercer (Australia) Pty. Ltd., Director of the Northern Territory Treasury Corporation and Chairman of the Melbourne Institute Advisory Board;
- 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, Non-Executive Director of Next Financial Limited and the Securities Industry Research Centre of Asia Pacific. Chairman of the Australian Leisure &

Entertainment Property Group 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 2008-09.

Senior management committees

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

Executive Committee

The Executive Committee coordinates the overall management of the Office, 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.

Asset & Liability Committee

The Asset and Liability 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 Director of Financial Risk, the Head of Compliance and Reporting 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 of the CEO (Chair), the Chief Finance Officer and the IT Manager.

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 Director of Financial Risk, the Chief Finance Officer 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; and
- 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.

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 the development and implementation of fraud controls and awareness training.

The Audit Committee membership at 30 June 2009 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;

- Michelle Stone, Manager, Government Investment, Risk and Debt Policy 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 2008-09.

Internal auditor

In addition to the regular annual audit review of internal operational controls and information technology controls, the internal auditor, PricewaterhouseCoopers, completed the following reviews in 2008-09:

- a review of the AOFM's Anti-Money Laundering and Counter-Terrorism Financing program found that the AOFM's Part A Program is consistent with the overall requirements of the AML/CTF Act and Rules;
- a review of the processes, content and format of AOFM risk reporting and the associated governance framework found that the control environment is robust due to appropriate levels of segregation, system controls and oversight controls. It recommended some improvements in tailoring the reporting to AOFM objectives; and
- a follow-up review of Business Continuity & Disaster Recovery (IT) found that AOFM has a comprehensive Business Continuity and Disaster Recovery Plan, which is supported by satisfactory business continuity and disaster recovery training and education documentation.

Australian National Audit Office reports

The ANAO's annual report on the *Interim Phase of the Audit of Financial Statements of General Government Sector Entities for the Year Ending 30 June 2009* 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 the Office could produce financial statements free of material misstatement.

During 2008-09, the ANAO did not conduct any other cross-agency audits which involved the AOFM.

Operations

During 2008-09, the AOFM expanded its range of activities as the Government introduced a number of initiatives designed to address issues in Australian financial markets. The year began with the AOFM continuing issuance of Government debt in order to support the Treasury Bond and Treasury Bond futures markets. During the year, the AOFM embarked on a program of additional Treasury Bond issuance in response to investor demand, the proceeds of which were used to purchase semi-government and Kangaroo bonds. The AOFM also began using additional cash balances in the Official Public Account to invest in short-term money market instruments. In November of 2008, the AOFM acted as a cornerstone investor in AAA-rated residential mortgage-backed securities for the first time. With the shift in the Government's budgetary position in late 2008-09, the AOFM scaled back its investment activities in order focus on debt issuance. Systems and procedures for the Compliance, Reporting and Settlements Units evolved to incorporate the new functions and the increased level of activities. AOFM staff in the aforementioned units received training relating to the new systems and procedures.

In the 2009-10 Federal Budget, the AOFM received an increased level of funding. This will enable to the Office to employ extra resources to assist in the new and increased functions of the Agency. The funding will also allow the AOFM to ensure that the risk framework around the activities remains robust.

Business continuity arrangements

The AOFM has business continuity and pandemic plans which are aimed at ensuring the Agency's critical activities are able to continue to be performed in the event of a major disruption to the Office or influenza pandemic. These include the provision of back up arrangements that can be implemented when the AOFM's office accommodation is not able to be used or when staff are immobilised. There is also an information technology (IT) disaster recovery plan which sets out the processes required to restore critical IT-reliant functions in the aftermath of a significant disruption. During the year, business continuity plans were updated and tested.

In response to the initial stages of the outbreak of Pandemic (H1N1) 2009, action was taken in accordance with the Office's pandemic plan to strengthen back-up arrangements for essential functions and additional training for staff to undertake them. Arrangements for staff working from home were also reviewed. Key staff have been provided with the capability to dial-in to the IT network, giving them the capacity to work from home if necessary. The pandemic plan provides for a range of other measures, depending of the severity of the pandemic. These measures were not needed in 2008-09.

Judicial decisions

In 2008-09, 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.

Other staff are recruited to meet specific staffing needs, particularly for positions that require specialised skills and experience that are not currently available within the Office. During the year, a new position of Manager, Residential Mortgage-backed Securities and a vacancy for the Compliance Manager role were filled by the recruitment of staff with extensive relevant work experience.

The Office provides 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. Promotions across grades are made via merit selection. This strategy has been successful in attracting and retaining highly qualified professional staff. The retention rate for 2008-09 was 91 per cent, with an average of 74 per cent over the previous five years.

Training and development

Eighty-three per cent of AOFM staff have degree qualifications, with 14 per cent holding higher degrees and 28 per cent double degrees. Twenty-five percent have professional qualifications. Staff are encouraged to participate in training and development activities to develop their work skills and enhance their career prospects. Learning is fostered through on-the-job training, external courses, conferences, workshops and seminars.

Over the last five financial years, an average of 75.1 per cent of staff have participated in training or development supported by the Office. During this period, training averaged 3.8 days per full-time equivalent staff member (FTE) per year and the direct costs of training (paid to

external parties) averaged \$2,377 per FTE per year. In 2008-09, 75 per cent of employees participated in training, 3.5 days per FTE were invested in skill development and \$1,949 per FTE was paid to external providers. Payments for training and development activity over the year amounted to 2.6 per cent of direct salary costs.

The AOFM workforce

As at 30 June 2009, the AOFM employed 32.8 full-time equivalent staff under the *Public Service Act 1999*. Table 1 shows this workforce by broadband classification.

Table 1: Operative and paid inoperative staff as at 30 June 2008 and 2009

| Classification | Ongoing | | | | Non-ongoing | | | | Total |
|----------------|-----------|----------|-----------|----------|-------------|----------|-----------|----------|-----------|
| | Full-time | | Part-time | | Full-time | | Part-time | | |
| | Male | Female | Male | Female | Male | Female | Male | Female | |
| 2009 | | | | | | | | | |
| AOFM1 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 2 |
| AOFM2 | 16 | 6 | 0 | 2 | 1 | 0 | 0 | 0 | 25 |
| AOFM3 | 4 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 5 |
| AOFM4 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| CEO | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| Total | 22 | 9 | 0 | 2 | 1 | 0 | 0 | 0 | 34 |
| 2008 | | | | | | | | | |
| 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 |
| Total | 18 | 9 | 1 | 3 | 3 | 0 | 0 | 0 | 34 |

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.

Two staff were located overseas during the year to support capacity building in sovereign debt management in Papua New Guinea and the Solomon Islands under the Strongim Gavman Program and the Regional Assistance Mission to the Solomon Islands respectively.

Changes to senior management

There were no changes to senior management during the period.

Other staffing changes

Five ongoing employees and one non-ongoing employee were recruited during 2008-09 to the AOFM2 level. They included four graduates who joined in the middle of the financial year. There were three staff departures during the year, two of whom were non-ongoing employees. For ongoing employees, departures represented 3.4 per cent of average staffing levels in 2008-09 (20.5 per cent in 2007-08).

Employment arrangements

Most staff are employed under Australian Workplace Agreements with the AOFM that were executed prior to the change in Government policy in February 2008. The Office is working towards establishing a collective agreement to cover all staff other than the CEO. As an interim arrangement new staff recruited during the year were employed under common law contracts. Section 24(1) determinations under the *Public Service Act 1999* have been used to supplement terms and conditions for staff deployed overseas.

Individual workplace agreements and contracts specify employment terms and conditions, with remuneration outcomes based on job classification and performance

The CEO is employed under an Australian Workplace Agreement with the Treasury.

Remuneration

Staff remuneration (Table 2) is reviewed annually, taking account of 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.

Table 2: AOFM salary ranges

| Classification | 30 June 2009 | |
|----------------|-----------------|------------------|
| | Base Rate \$ | Grade Rate \$ |
| AOFM1 | 38,825 | 63,857 |
| AOFM2 | 60,502 | 123,046 |
| AOFM3 | 141,766 | 177,208 |
| AOFM4 | 190,671 | 238,339 |

Remuneration within the range for the classification depends on individual performance ratings. Performance appraisals assess outputs achieved and behaviours in producing those outputs. However, performance-linked bonuses are not paid.

Non-salary benefits provided to staff 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. Executive remuneration is reported in Note 12 of Part 4: Financial statements.

Occupational health and safety

Occupational health and safety services are provided by the Treasury under a Service Level Agreement. The Office 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*.

Staff members have access to a number of ongoing health activities, including posture and flexibility, yoga, Tai Chi, Pilates and aerobics classes. Flu vaccinations, health assessments, health information, and dietary assistance were also provided in 2008-09. To prevent injuries in the workplace and to enhance the safety of staff, workplace assessments were conducted for all new starters. Counselling and other support is available under an Employee Assistance Program provided by Davidson Trahaire.

There were no compensable injury claims in 2008-09 and no accidents, injuries or dangerous occurrences were reported. The Office was not the subject of any directions under section 45 of the *Occupational Health and Safety Act 1991* and received no notices 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 comply with legislative requirements and Government policy, in particular the requirements in the Commonwealth Procurement Guidelines (December 2008).

Consultants

During 2008-09, 5 new consultancy contracts were entered into involving total actual expenditure of \$20,994. In addition, 2 ongoing consultancy contracts were active during the 2008-09 year, involving total actual expenditure of \$131,336.

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 2008-09 are provided in Table 4.

Table 3: Consultancy contracts

| | 2006-07 | 2007-08 | 2008-09 |
|--|-----------|-----------|-----------|
| Number of consultancy contracts | | | |
| New Contracts | 7 | 8 | 5 |
| Ongoing contracts | 2 | 2 | 2 |
| Expenditure (including GST) | | | |
| New Contracts | \$59,483 | \$69,885 | \$20,994 |
| Ongoing contracts | \$154,184 | \$130,289 | \$131,336 |

Table 4: Consultancy contracts of \$10,000 or more let during 2008-09

| Consultant name | Description | Price |
|-----------------|-------------|------------|
| Nil to report | | |
| Total | | \$0 |

ANAO access clauses and exempt contracts

Only one 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. This was an agreement to allow the AOFM to participate in the Austraclear System, which is an electronic depository and settlement system for Commonwealth Government Securities, semi-government securities and private-sector debt securities, including residential mortgage-backed securities. It is a licensed clearing and settlement facility under the *Corporations Act 2001* and each participant must comply with the Austraclear System Regulations, which represent a legally binding contract between each participant and Austraclear Limited (the owner of the Austraclear System and a subsidiary of the Australian Securities Exchange). The Austraclear System Regulations represent formal 'Operating Rules' under the *Corporation Act 2001*. The contract let during the year provides for AOFM participation for the period 2009-12 at a cost of \$492,810.

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*.