



# Welcome

## Financial and Performance Reporting Forum

Hosted by the Australian National Audit Office

7 July 2023



# Welcome and opening remarks

**Rona Mellor PSM**  
Deputy Auditor-General



# ANAO audits of entity Annual Performance Statements

**George Sotiropoulos**  
Group Executive Director  
Performance Statements Audit Services Group

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# Auditing performance statements - Recap



- Pilot of 3 entity performance statements audits over 2 years
  - 2020 and 2021
- 6 audits in first year of rollout – last year
- 10 audits in current audit cycle
- 14 next audit cycle
- 19 in 2024-25 and
- 24 from 2025-26

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# Key observations from Year 1



- Improvement in quality and reliability of performance information
- Statements primarily seen as a compliance exercise
  - Entities looking for path of least resistance
  - Not used to inform decision making or assess performance of the entity
- Audit approach will need to continue to evolve
  - Work closely with the sector to build the methodology

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# Expert Advisory Panel



- Established to help inform ongoing improvement to methodology
- Broad expertise and practical experiences
- Ensure audit methodology complements public sector reforms
  - Stewardship
  - Emphasis on evaluation
  - Impact analysis
  - Measuring what matters initiative

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# Bottom-up v Top-down approach



- Methodology will evolve with experience and data:
  - Last year – provide assurance on the measures/data that supports the performance story
    - Primary focus was s16EA of the PGPA Rule - assess appropriateness of performance measures
    - **Risk - performance measures comply with s16EA but the reader does not find the performance statements useful or meaningful**
  - This year – assess the performance story and provide assurance on the quality, reliability and usefulness of the performance statements
  - Emphasise ss5(b) and (c) and s15(1)(b) of the PGPA Act – assess whether it is meaningful and complete and promotes transparency about the entity's performance

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# What are we looking for?



- **User friendly reporting**
  - Fair, balanced and understandable
  - Focus on material content
  - Think about presentation
    - ❖ Useable and easy to read – does it engage the reader?
- **Clear and measurable purposes and key activities**
  - Legislative responsibilities – e.g. relevant legislation, AAOs, Charter Letters
  - Key activities – specific and uncomplicated
    - ❖ Not necessarily just repeating programs from the PBS
  - Regularly assess completeness
    - ❖ Budget measures, Machinery of Government

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# What are we looking for?



- Relevant, reliable and verifiable performance measures
  - Complete and balanced
  - Contemporary
  - Clear program logic
  - Targets where practicable – performance against expectations
- May need more than one measure for a purpose or key activity
  - Promote transparency and accountability

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# What are we looking for?



- **Governance**
  - Tone from the top
  - Planning and preparation
  - Monitoring and reporting to executive
  - Level of investment
- **An enterprise level performance framework**
  - Rationale for selecting purposes, key activities and measures to demonstrate performance
  - Executive level support
  - Regular executive level review of performance information
  - Clear allocation of responsibilities – owners are clear

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# What does good look like?



- Meaningful and fair reporting that gives the reader a clear sense of the entity's performance in achieving its purposes
  - True and fair view / present fairly – looking at both substance and form
- Parliament and Government understand what they are getting for their investment and can assess the ROI
  - Did the policy, program or budget measure have the intended result?
- For the accountants in the room – think of performance statements as representing your revenue line?
  - How successful are you and what value have you provided to citizens?
  - Revenue = success?

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# Future areas of focus



- Quality of statements as a whole
  - Enable judgements about the performance of the entity in achieving its purposes?
- Efficiency measures
  - Assess productivity of entities?
- Measuring outcome and impact
  - Theory of change and logic models; Impact analysis; Evaluation
- Comparability
  - Trend analysis – understand strengths and weaknesses
  - Understand performance in comparison to other entities?

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# Towards a “Third Way”



- Commitment to transparency and performance (not just compliance)
  - Create the right incentives
- “Right touch” approach
  - Look to pilot for 2023-24 audit cycle
- Audit opinion
  - Technical v meaningful – scope to adjust form and content
- Completeness / Materiality
  - Continue to develop criteria and include in Audit Manual

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- Continue educative approach
  - Work collaboratively with Finance, the policy owner
- End of Year report
  - Lessons learned and areas of focus
  - Identify good-practice examples
- Audit insights series
  - Topic specific



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# ANAO focus on governance and risk – through the lens of ASA 315

**Jane Meade**

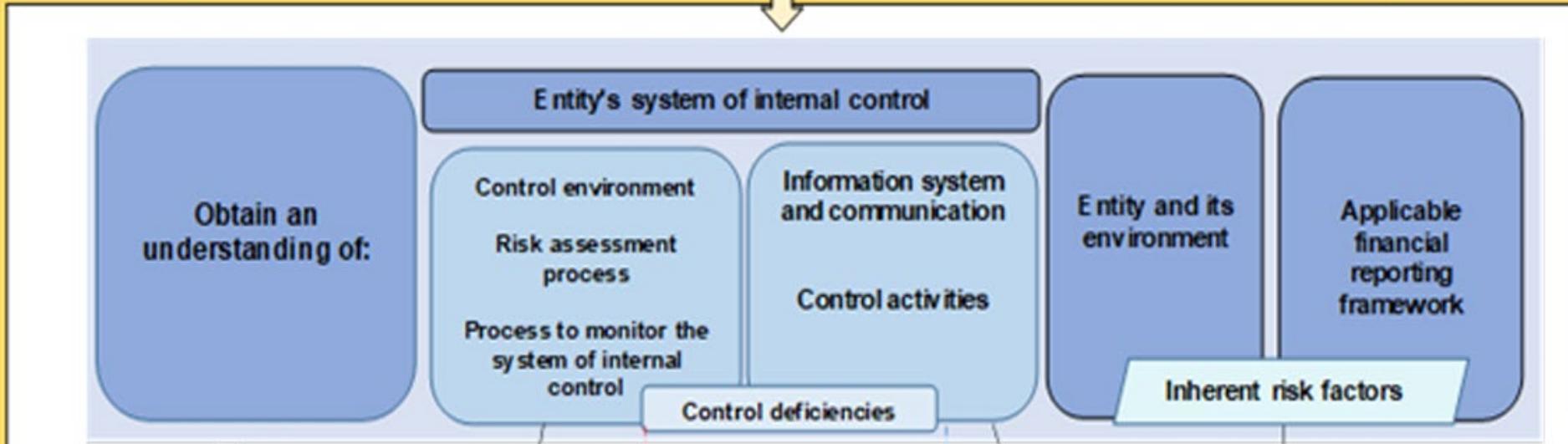
Group Executive Director

Professional Services and Relationships Group

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## Risk assessment procedures







# Understanding of:



The entity and its environment



Financial reporting framework



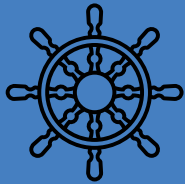
System of internal control

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# Entity and its environment



Structure, governance, use of IT



Industry, regulatory and other external factors

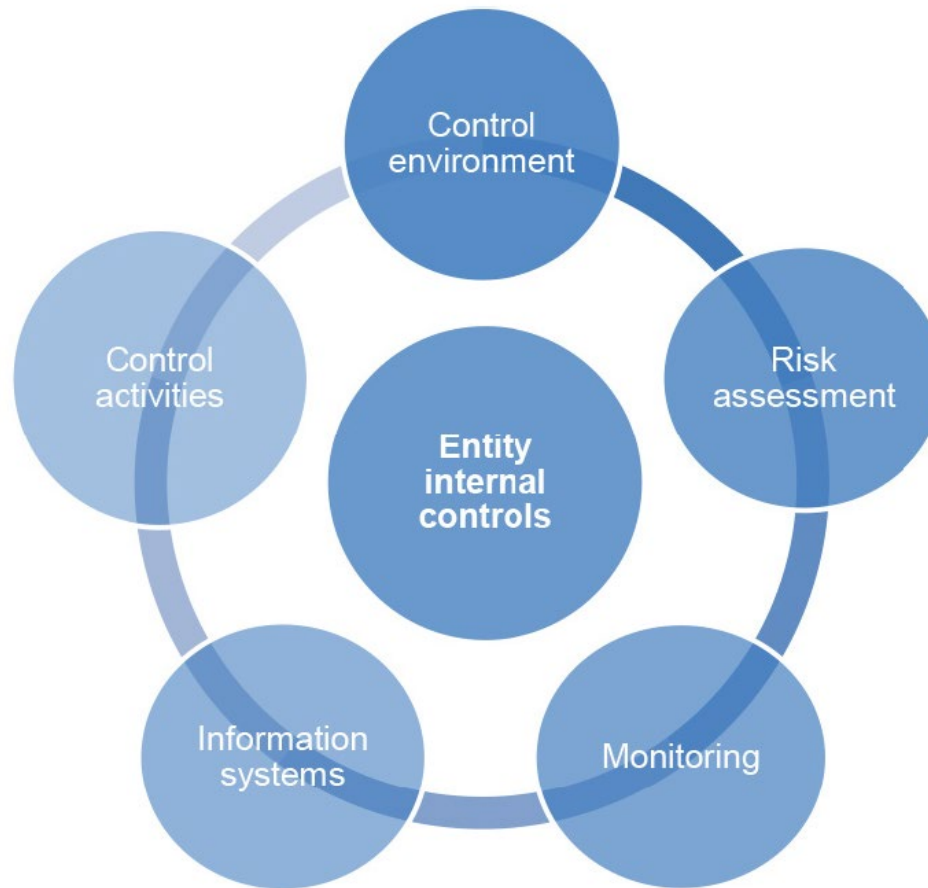


Measurement of financial performance

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# System of internal control



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# Key themes emerging from Performance Audits

**Carla Jago**

Group Executive Director  
Performance Audit Services Group

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# Performance audit update



## Topics to be covered today

1. Key governance messages from recent audits and some questions to consider in your entity
2. Recent JCPAA reports
3. ANAO Audit Insights publications

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## Governance



A number of recent audits covered governance matters including:

- series on probity management in financial regulators (ASIC, APRA and ACCC);
- series on governance of indigenous land councils (TLC, ALC, CLC (and NLC to table shortly)); and
- administration of the Community Health and Hospitals Program.

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## Governance – some questions to ask in your entity



- Are those who are elected or appointed to perform a governance role in your entity familiar with and understand the requirements of that role?
- Is there formal training, documentary guidance or regular discussion of responsibilities to assist with this?

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## Governance – some questions to ask in your entity



- Are staff clear on the entity's policies and procedures? Can they easily be located by staff and are they finalised/approved and not in draft?
- How do you know your internal controls and compliance with probity requirements are working and how can you assure your accountable authority on this? e.g. acceptance and recording of gifts, benefits and hospitality; use of credit cards; mandatory training

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## Governance – some questions to ask in your entity



- How does your entity consistently identify and manage probity risks in procurement?
- How does your entity manage disputes and complaints? Is dispute and complaint information collated and used to identify risks and address stakeholder concerns?
- Does your entity have a policy for senior executive remuneration?

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## Governance – some questions to ask in your entity



- How does your organisation manage positional authority risk?
  - Who approves the expenses/credit card acquittal of the accountable authority?
  - Do EAs use their credit cards to make purchases on behalf of their manager that the manager then approves?

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## Governance – some questions to ask in your entity



- If you saw an attempt to “pre-approve” non-compliance with the law, would you question it?
  - Would you consider this a significant non-compliance that needs to be reported to the Finance Minister?
- If you receive legal advice raising concerns about whether a program or payment has a constitutional or legislative basis would you inform the decision-maker?

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## Recent JCPAA Reports



On 29 June 2023 the JCPAA released three reports:

- Report 495 *Inquiry into Commonwealth grants administration*
- Report 496 *Inquiry into the Defence Major Projects Report 2020-21 and 2021-22 and Procurement of Hunter Class Frigates - Interim Report*
- Report 497 *Inquiry into Commonwealth Financial Statements 2021–22*

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## Recent JCPAA Reports



- Grants Report 495 *Inquiry into Commonwealth grants administration*
  - included 8 recommendations:
    1. an eighth principle is added to the CGRGs that decision makers should adhere to the guidelines;
    2. RMG No. 412 - Australian Government Grants –Briefing, Reporting, Evaluating and Election Commitments is amended to clarify the definition of an election commitment for the purpose of delivering grants programs;
    3. the CGRGs be amended to require that, among other things, competitive, merit-based processes be adopted by default with program design guidelines or decision makers required to document appropriately detailed reasons when a non-competitive approach is utilised;

**All entities could incorporate Recommendation 3 into its practices now, in advance of any CGRG changes.**

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# Recent JCPAA Reports



- Recommendations continued:
  4. Finance develops 'good practice' examples of record-keeping templates with an accompanying checklist that give effect to the rules and principles of the CGRGs that all Commonwealth entities be strongly encouraged to use for any grants or 'grants-like' programs;
  5. the ANAO considers a future audit of the process by which the Finance Minister is informed of grant approvals against the recommendation of the awarding agency;
  6. amendments be made so that the CGRGs to apply to corporate Commonwealth entities by default unless exceptions are made by the Minister for Finance;
  7. Finance reports back to the JCPAA on its progress in implementing the recommendations of the audit into the grants hubs by the ANAO within 12 months of the date of this JCPAA report; and
  8. The ANAO conduct another information report on Australian Government Grants Reporting in 2024.

**All entities could incorporate Recommendation 3 into its practices now, in advance of any CGRG changes.**

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## Recent ANAO Audit Insights Publications



Four ANAO Audit Insights products released since the last forum:

- Procurement and contract management
- Cyber security
- Executive remuneration
- Reporting meaningful performance information

Aiming to communicate lessons from our audit work to make it easier for people working within the Australian public sector to apply those lessons.

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# Questions?



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# Interim report on key financial controls of major entities

**Bola Oyetunji**  
Group Executive Director  
Financial Statements Audit Services Group

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# Revised ASA 315



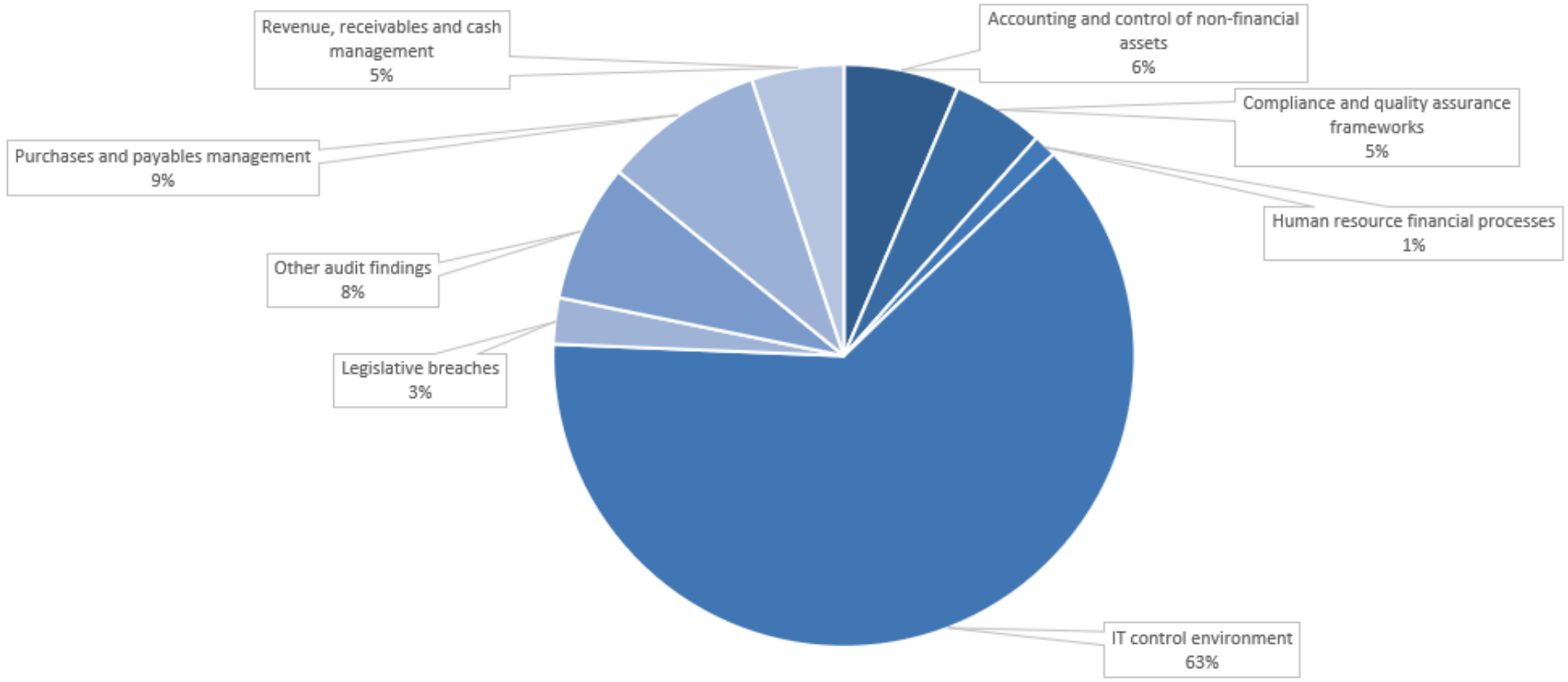
- The revised standard, new in 2022-23 audit cycle, responds to changes in the financial reporting environment including:
  - more complex financial reporting frameworks
  - technology being used to a greater extent
  - entities and their governance structures becoming more complex
- What are the key changes
  - Greater understanding of overall control environment and deeper understanding of the entity
  - a more robust approach to risk assessment including Information Technology risks and related ITGC
  - Identify cybersecurity risks related to financial statements audit for the first time

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# 2022–23 interim audit findings – by category



Source: ANAO compilation of interim findings.





# Addressing Existing Findings



- Have a plan to address the findings with time lines and the responsible official
- Prepare closing pack early and not wait until the visit of the auditor for the following stage of the audit
- Discuss with ANAO planned approach
- Position Papers - Test operating effectiveness of the controls designed to address finding

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# Year end



- Quality of financial statements:
  - Financial statement workplan
  - Prepare and review workpapers
  - Quality assure the financial statements
  - Provide when ready to external audit

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## Year end cont.



- Estimates and Valuations:
  - Determine early if use of expert
  - Understand key assumptions and movements
  - Discount rate
  - Review and document
- Other matters:
  - Remuneration
  - Assets Under Construction/Impairment

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# Questions and Answers



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# General questions and closing remarks

**Carla Jago**

Group Executive Director  
Performance Audit Services Group