Financial and Performance Reporting Forum

1 December 2023

Welcome and opening remarks

Jane Meade
Group Executive Director
Professional Services and Relationships Group

Performance Statements Audit Update

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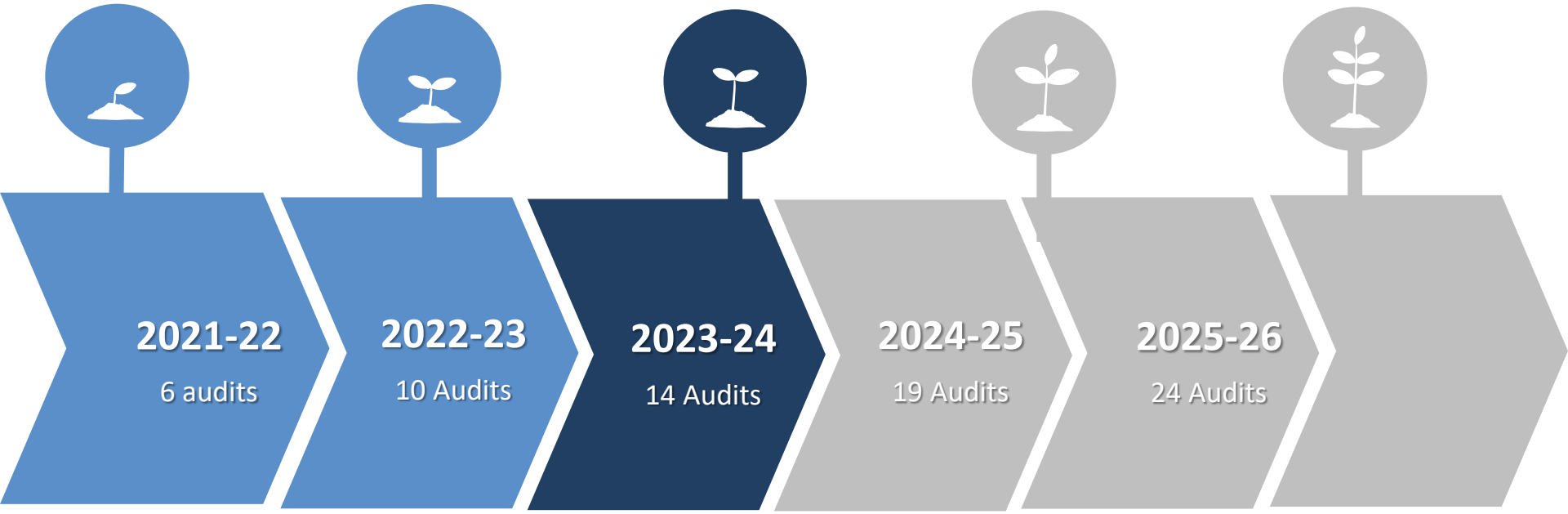
Group Executive Director
Performance Statements Audit Services Group

AUDITING PERFORMANCE STATEMENTS

WHERE WE STARTED AND WHERE WE ARE GOING



KEY OBSERVATIONS FROM 2022-23

WHAT WE ARE SEEING

ENTITY-WIDE PERFORMANCE FRAMEWORK
Identify structure and content of performance information and use it to run the business

COMPLETENESS OF PERFORMANCE INFORMATION
Key activities and measures should tell the story of the achievement of the entity's purposes

RELEVANCE OF PERFORMANCE INFORMATION
Include information that relates directly to the entity's purposes and is important to users

RELIABLE AND VERIFIABLE DATA SOURCES
Supported by complete and accurate data and reliable methodologies

DISCLOSURES, CAVEATS AND LIMITATIONS
Avoid crowding out performance information with disclosures

MATURITY

THE ESSENTIALS TO HIGH-QUALITY PERFORMANCE INFORMATION

1

LEADERSHIP

that demonstrates ownership and commitment to a performance culture.

2

GOVERNANCE

arrangements that integrate performance information into the operation of the entity.

3

DATA & SYSTEMS

that enable reliable and verifiable production of performance information and the performance results to inform entity decision making.

CAPABILITY

with the entity building the knowledge and skills to design, measure and report high quality non-financial performance information on an ongoing basis.

4

RESOURCING

with the sufficient staff who are qualified and trained.

5

LESSONS LEARNED

IMPORTANT ASPECTS FOR US TO CONSIDER

BURDEN OF EVIDENCE

EARLIER FEEDBACK ON INITIAL ASSESSMENTS

ASSURANCE OF THIRD-PARTY DATA

SECTOR ENGAGEMENT

ANAO PRODUCTS

- End of Year Report
- Audit Insights

ENTITY ENGAGEMENT

- Post Audit Roundtable
- Community of Practice

EXPERT ADVISORY PANEL

COLLABORATION WITH DEPARTMENT OF FINANCE

THANK YOU

ANY QUESTIONS?

Cyber Security / Data Governance

Lesa Craswell
A/g Group Executive Director
Systems Assurance and Data Analytics Group

Cyber Security

- Cyber Security – are the basics in place?
  - User access management (including user access removal)
  - Privileged user management (including monitoring)
  - Password Management
  - Backup and Recovery
  - Change Management
  - PSPF

Data Governance

- Data Governance
  - What data is held?
  - What data is critical or sensitive?
  - How well is the data documented?
  - Who can access the data?
  - Who is the data custodian?
  - Who is accountable for the data?
  - Is there a data governance framework in place?

Probity management: Lessons from audits of financial regulators

Michelle Page
Senior Executive Director
Performance Audit Services Group

Probity Management: Lessons from audits of financial regulators

- Promote a culture that supports probity
- Identify the probity requirements that apply to your organisation and assess probity risks
- Develop policies and procedures to manage probity risks
- Inform personnel of probity requirements
- Check that internal controls for managing probity risks are effective
- Promote, check and follow-up compliance
- Keep records to demonstrate probity

Probity Management: Lessons from audits of financial regulators

- It is essential that financial regulators uphold high probity standards, to strengthen the legitimacy and integrity of the regulator and support the objectives of the regulatory scheme.

- Strong governance strengthens the legitimacy and integrity of the regulator, supporting the high-level policy objectives of the regulatory scheme and will lead to better outcomes

- Probity is the evidence of ethical behaviour, and can be defined as complete and confirmed integrity, uprightness and honesty in a particular process

Promote a culture that supports probity

- **Providing leadership** – The accountable authority is expected to take responsibility for probity management in an entity.
- **Communicating often** – messaging from senior officers is important to inform personnel of their probity obligations and to set the tone from the top.
- **Modelling good behaviour** — The accountable authority and entity leaders play a key role in setting the ethical tone within their entity.
- **Instilling a probity culture** — An entity's internal policies should be aligned to the desired culture, and leaders should clearly communicate that probity is about more than compliance.
- **Reporting regularly** — Regular reporting can help keep the accountable authority and senior leadership informed about the effectiveness of probity management within the entity.

Promote a culture that supports probity

Case study 1. Examples of reporting to senior officers

ASIC had an Integrity Committee (a sub-committee of its Executive Risk Committee) to oversee its Integrity Framework. The Integrity Committee received monitoring and reporting on compliance with probity requirements.

The Australian Prudential Regulation Authority's (APRA's) Board received a variety of reporting on compliance with probity requirements (training and awareness activities, code of conduct, conflict of interest declarations and gifts register). There was also quarterly reporting to APRA's Audit and Risk Committee.

Identify the probity requirements that apply and assess probity risks

- The specific probity and ethical requirements applying to the personnel of your entity will depend on:
  - what type of entity it is
    - PGPA Act and PGPA Rule: framework for probity and ethical behaviour.
  - the legislation applying to it
    - *Public Service Act 1999*, including the APS Values and APS Code of Conduct.
    - an entity's statutory/enabling legislation may set out requirements relating to probity. For example, the *Australian Prudential Regulation Authority Act 1998* requires that the APRA Chair 'must determine, in writing, the APRA Values' and that 'the Chair must uphold and promote the APRA Values'.

Identify the probity requirements that apply and assess probity risks

- The government policies and framework applying to it
  - grants administration, government procurement, government advertising, protective security, appearing before the Parliament, engaging with lobbyists, caretaker conventions, risk management and fraud control.
- The internal policies and frameworks it has put in place.
  - entity may have specific internal frameworks (internal policies and guidance)

Identify the probity requirements that apply and assess probity risks

Examples

- ASIC, APRA and ACCC all identified risks around personnel trading in financial instruments (eg. shares) when in possession of market-sensitive information. Controls are much tighter than for most public servants:
  - pre-approval required prior to trades and time limited (eg. must be within 3 business days, APRA and ASIC only).
- ASIC had explicitly identified risk of regulatory capture as a risk at an entity-level.

Develop policies and procedures to manage probity risks

- Policies and procedures should be **risk-based**:
  - Risk-based policies and procedures support an entity to comply with requirements and manage the probity risks that are heightened for that entity.
  - For example, if there are specific procurement risks for the entity, such as a limited number of potential suppliers in specialised markets, the policies and procedures should include additional controls to manage that risk.

Develop policies and procedures to manage probity risks

- **Clear and comprehensive** policies and procedures mean that staff need to apply less discretion in probity matters, which decreases the chances of them engaging in conduct that is, or is perceived to be, inappropriate.
- **Regularly review and update** policies and procedures — an enterprise framework for designing and reviewing internal policies can provide a structured approach to ensure that policies and procedures are up to date.

Develop policies and procedures to manage probity risks

Tips to enhance probity for procurement and gifts, benefits and hospitality

- **Procurement**: greater probity controls for higher risk procurements (eg. ASIC for procurements that were high value, high profile, high complexity).
- **Gifts, benefits and hospitality**
  - Have a clear guiding principle for officials to generally avoid the acceptance of gifts, benefits or hospitality
  - Review any historical differences in policy between senior leaders and other personnel
  - Ensure policies include timeframes for reporting any offers
  - Have a register, at the enterprise level, for recording all offers of gifts, benefits and hospitality – and a policy for acceptance – and publish for transparency

Inform personnel of probity requirements

- The effectiveness of an entity's arrangements for managing probity risks is dependent on personnel being effectively informed of the requirements with which they are required to comply.
- The provision of accurate and accessible information is particularly important if requirements change.

Inform personnel of probity requirements

- **Accessible and current information**
  - Information about probity issues and requirements should be accessible by personnel (for example on an entity's intranet site).
  - Policies and procedures should be easy for personnel to locate, and personnel should feel assured that they are looking at up to date and approved policies and procedures.
- **Expert assistance**
  - There should be contact details for specialist officers who can provide guidance and assistance.
- **Training**
  - Training can be used to inform personnel about probity issues and requirements.
  - Each of the financial regulators examined in recent ANAO performance audits had training to address probity risks.

Inform personnel of probity requirements

Box 2: Some factors to consider when developing training

- Decide whether training will be mandatory or optional.
- Decide if there will be a requirement to periodically complete the training (refreshers).
- Establish an approach to assessing the effectiveness of the training.
- Establish arrangements to monitor compliance with training requirements.
- Set out arrangements for dealing with non-compliance with mandatory training.

Check that internal controls for managing probity risks are effective

- **Information on the effectiveness of internal controls can provide confidence that risks are being effectively controlled or identify when controls are ineffective or absent.**

- **System of internal control** — A system of internal control for managing probity risks can include: policies and procedures; internal audits and reviews; training; and executive review and oversight.
- **Monitoring internal controls** — A risk-based framework for monitoring the effectiveness of internal controls can provide assurance to an entity's accountable authority that the system of control is working effectively to manage probity risks.

Check that internal controls for managing probity risks are effective

- **Internal audit** — Internal audit provides a structured mechanism for assessing the effectiveness of controls for probity risks. Internal audit can undertake audits, advisory reviews or other tasks. Internal audits or reviews might be cyclical / periodic or one-off. Internal audit should also ensure that the audit committee has the information needed to perform its functions.
- **Audit committees** — In discharging its duties, an audit committee should ensure that it has sufficient visibility over the management of probity risks. APRA identified in October 2021 that its audit committee did not have sufficient information regarding internal controls. As a result, the internal audit area modified its reporting to provide this information to the committee. The audit committee should provide written advice to the accountable authority about the appropriateness of the accountable authority's system of internal control for the entity.

Check that internal controls for managing probity risks are effective

Case study 2. ASIC's approach to assessing the effectiveness of internal controls

ASIC's framework for monitoring the effectiveness of internal controls and providing assurance to the accountable authority in relation to probity included:

- cyclical internal audits and reviews into probity related topics;
- a central compliance function which undertakes a program of control assessments, including of controls relating to probity obligations; and
- an Audit and Risk Committee that reviewed and provided advice to the accountable authority on ASIC's systems of risk oversight and management and internal control.

Promote, check and follow-up compliance with probity requirements

- Entities which have arrangements to support staff to comply with probity requirements are more likely to have better outcomes.
- Checking compliance with arrangements provides information about probity and provides the basis to respond to instances of non-compliance in a timely and appropriate manner.
- Probity is best achieved when it is a part of the fabric of an entity — ASIC's Compliance Policy states 'compliance is sustained by embedding it in the culture, behaviour and attitude of our staff members, Senior Executives and Commission members'.
- A documented approach for assessing compliance with probity requirements increases the chance of identifying non-compliance.

Promote, check and follow-up compliance with probity requirements

APRA's Compliance Management Policy comprised the following:

- a register of external compliance obligations
- incident reporting and escalation standards
- conflicts of interest framework (including for gifts and hospitality)
- compliance monitoring
- compliance training
- compliance reporting and management oversight
- actions management

Promote, check and follow-up compliance with probity requirements

- Each of the three financial regulators had central **compliance teams**, responsible for delivering compliance frameworks.
- **Attestation** increases compliance with entity declaration requirements by requiring staff to state that they have read, understood and complied with entity policies.
- Probity arrangements are strengthened when they are **clear arrangements** for following up instances of non-compliance and when consequences are clear.

Promote, check and follow-up compliance with probity requirements

Case study 4. ASIC's attestation and compliance process

ASIC had an internal attestation process which required all personnel to attest that they had complied with requirements to make declarations relating to ASIC's policies on:

- disclosure of interests and conflicts;
- trading in exchange-related financial products;
- gifts, benefits and hospitality;
- security responsibilities;
- changes in circumstances; and
- overseas travel.

Keep records to demonstrate probity

- Record keeping is a fundamental of public sector administration and records are kept for a variety of purposes. Probity is the evidence of ethical behaviour. In this context, records should be created to provide evidence of probity in processes.

- There is no one-size fits all approach for record keeping on probity. Record keeping arrangements should be **commensurate** with the activity.

- Effective record keeping is best supported by clear **guidance and templates**.

Keep records to demonstrate probity

- **Early consideration** — Record keeping arrangements are best thought about early on. Records and information should be kept to:
  - support the assessment of probity risks;
  - support the assessment of the effectiveness of internal controls and compliance with probity requirements;
  - measure performance;
  - document follow-up action regarding non-compliance; and
  - demonstrate probity of a process.
- **Communicate record-keeping requirements** — Personnel should be made aware of record keeping obligations.

Questions?

Key themes from the Financial Statements audits of Australian Government Entities for the Period Ended 30 June 2023

Bola Oyetunji
Group Executive Director
Financial Statements Audit Services Group

Discussion Topics

- Auditor's reports issued
- Audit outcomes/findings
- Timeliness of auditor's report
- Internal audit
- Intangible assets
- Cost recovery
- Future focus

2022-23 Financial Statements Auditor's Reports Issued

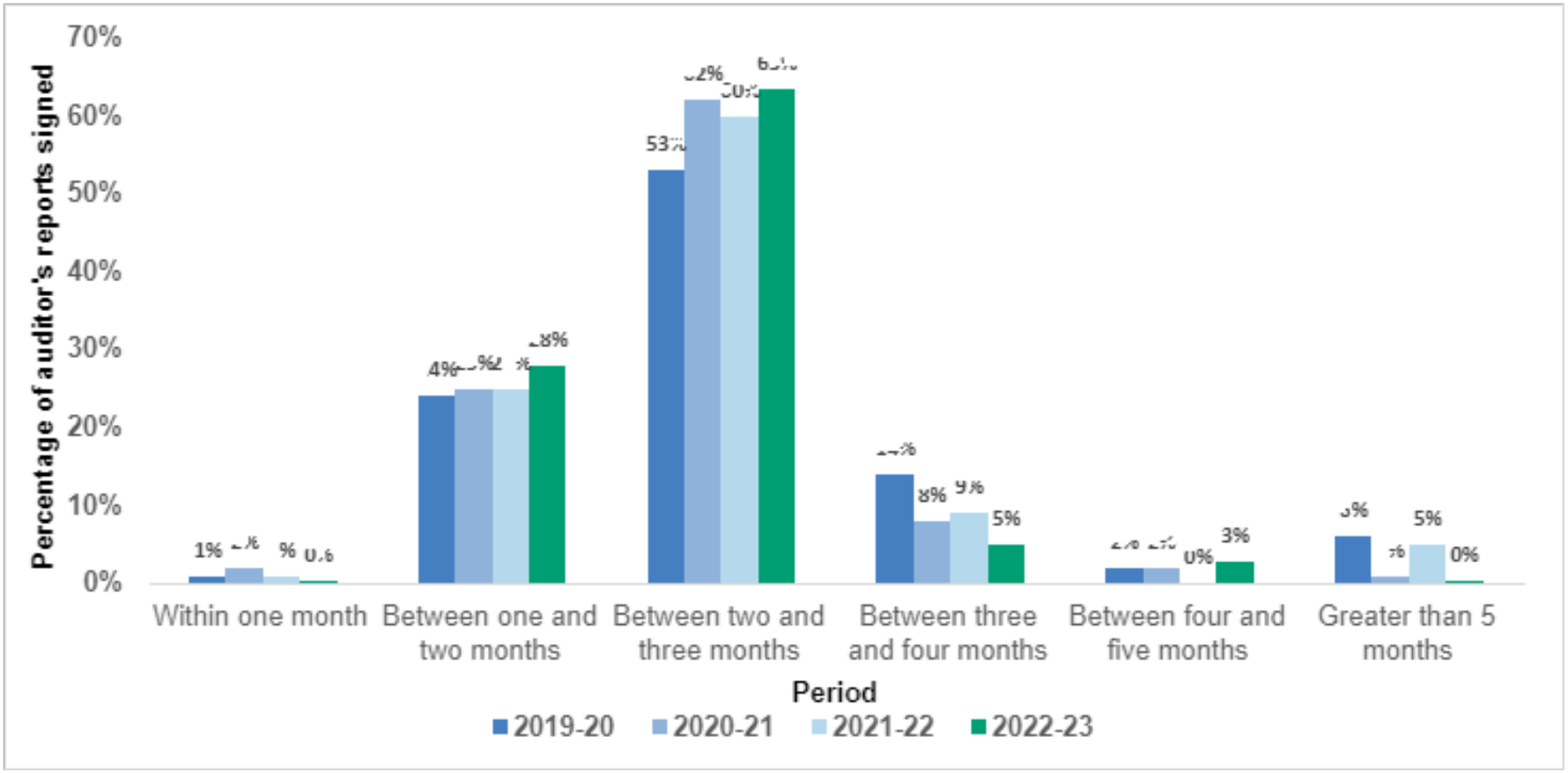
Auditor's report	2022–23	2021–22
Unmodified	236[a]	237
Included an emphasis of matter	15[a]	6
Included a Report on other legal and regulatory requirements	0	0
Modified	0	1
Auditor's reports issued	236	238
Not yet issued	8[b]	10[c]
Total number of financial statements audits [e]	**244[e]**	**248[e]**

Audit outcomes/findings

- Total findings 191 (2021-22: 205)
  - 8 significant (2021-22: 2)
  - 36 moderate (2021-22: 35)
  - 134 minor (2021-22: 144)
  - 13 Legislative Breaches (20212-22: 21)

- Significant audit findings relate to:
  - Governance of legal and other matters impacting Financial Statements; and
  - IT General Controls.

Timeliness of auditor's report

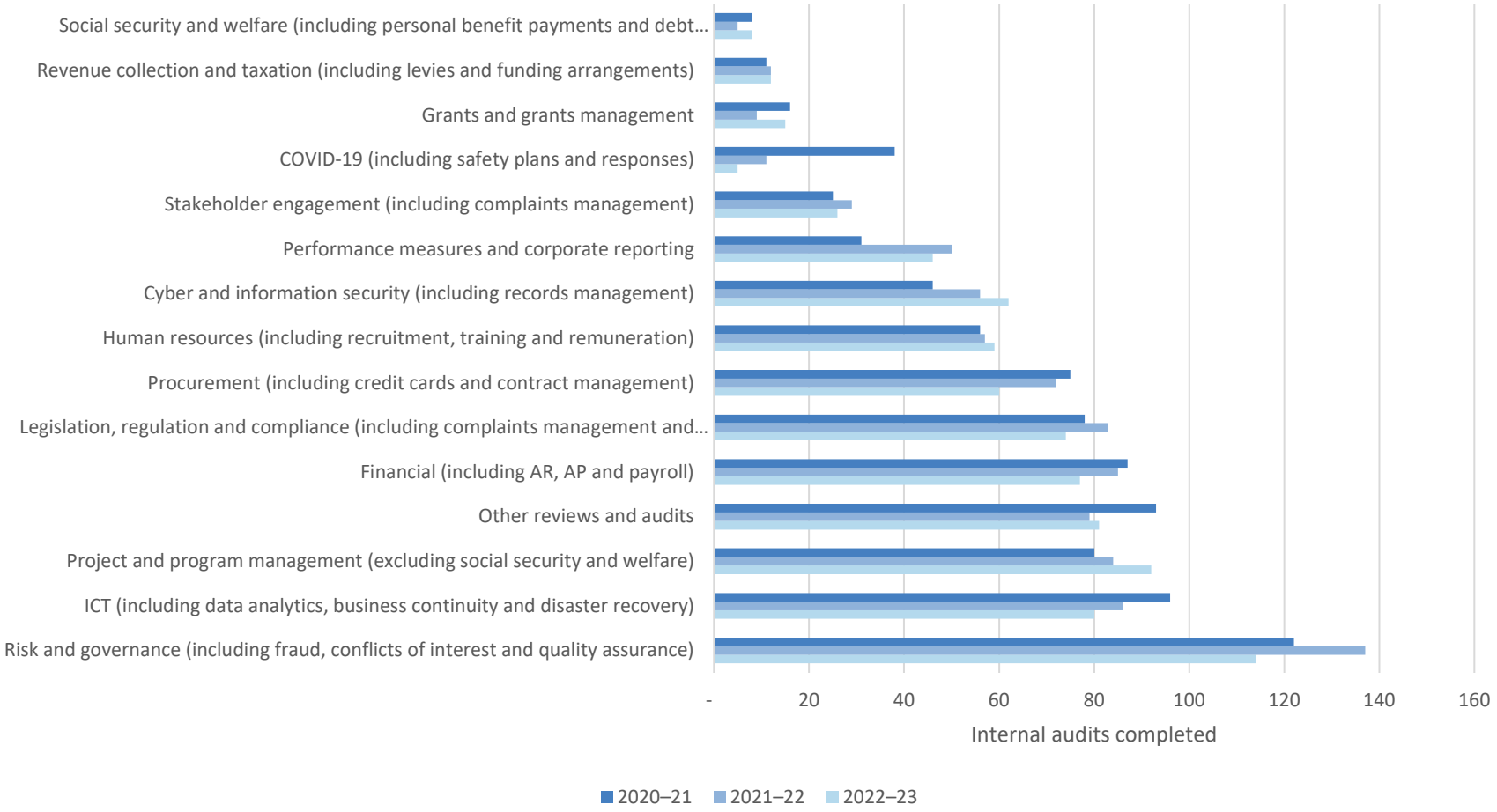


Internal audit

- The ANAO has analysed the design, independence and coverage provided by internal audit functions.
- 22% per cent of entities did not have an internal audit function during 2022–23.
- 57% of the entities with an internal audit function have an internal audit charter in place.
- 24% per cent of entities with an internal audit function had appointed a dedicated Chief Audit Executive

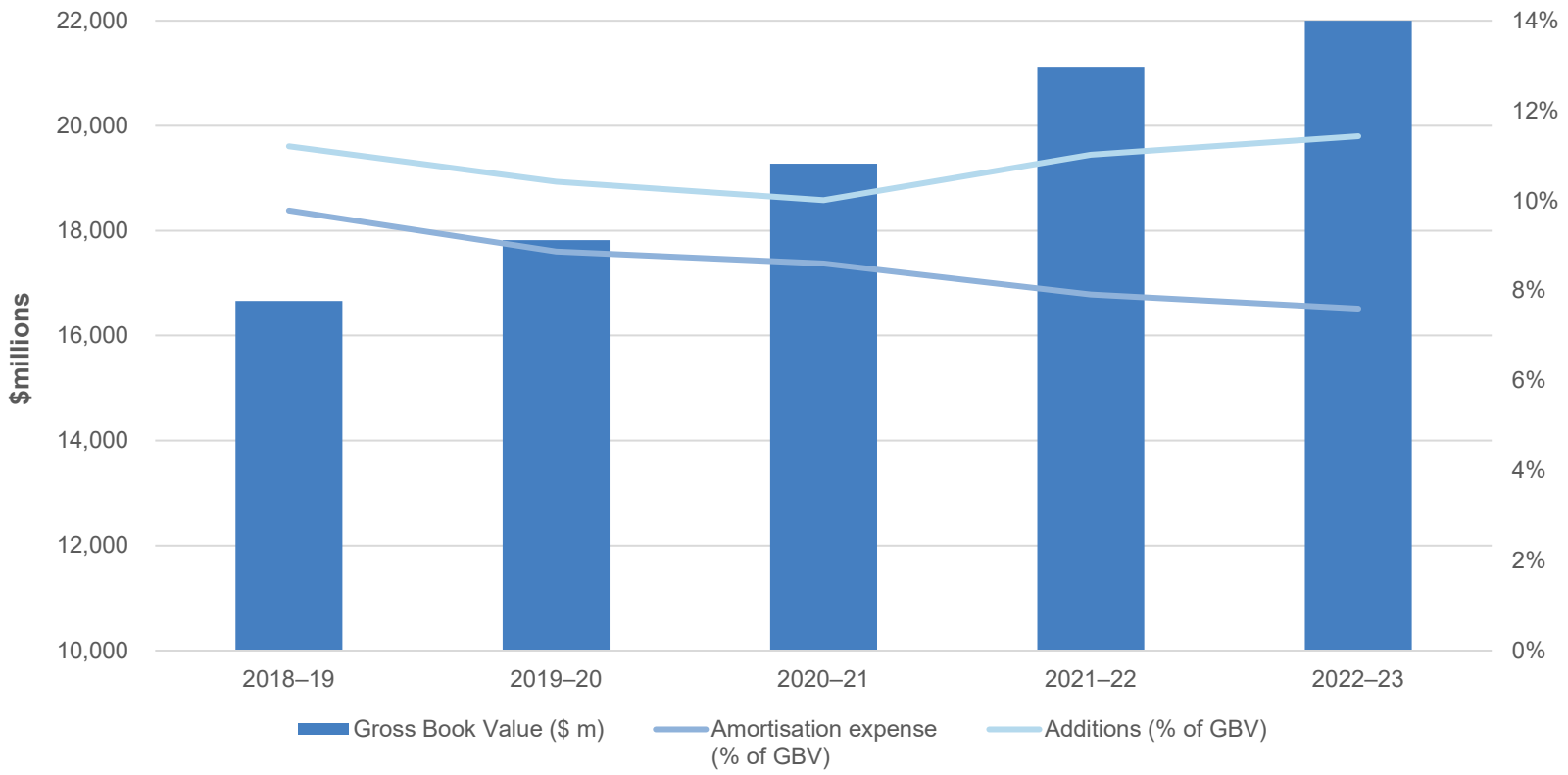
Internal audit

Internal audits completed during the period 2020–21 to 2022–23 by category



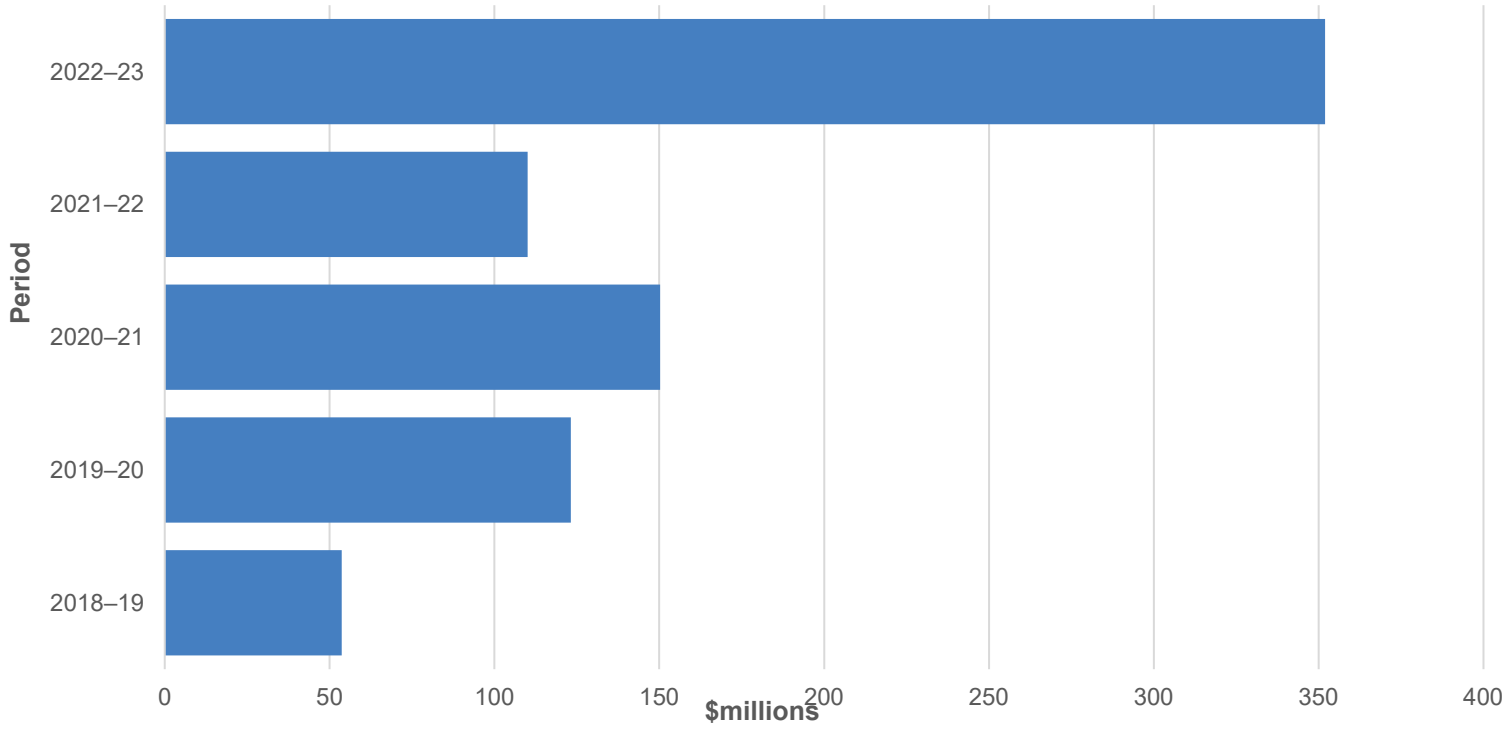
Intangible assets

Australian Government computer software (in use and under construction)



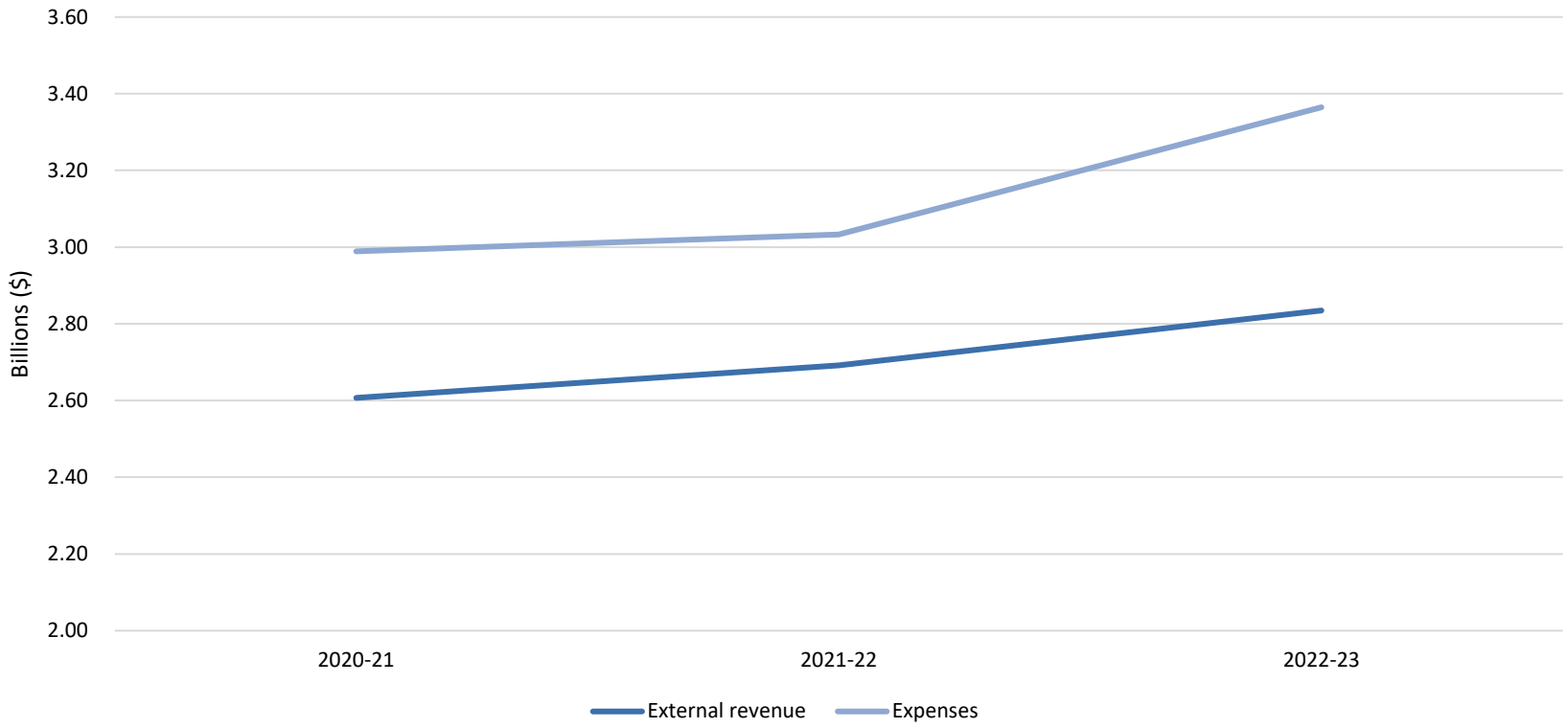
Intangible assets

Balance of the Australian Government's expenses for write downs of computer software



Cost recovery

External revenue and expenses incurred in delivery of cost recovered activities for the period 2020–21 to 2022–23



Future focus

- Digital auditing – data acquisition.
- Emerging technologies – design and implementation.
- Second year of ASA 315 – lines of enquiries to capture governance oversight.
- Intangibles – what is next.

General questions and closing remarks