

# Audit Committee Chairs Forum - Speaking Notes for Acting Deputy Auditor-General

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## Introductory comments

- Good morning everyone, and thank you George for the introduction.
- We have previously spoken about how we are in an environment of mixed trust in the public sector, and that audit committees play a pivotal role in the assurance and compliance activities of Commonwealth entities.
- In response to this environment today's forum will feature an in depth look at fraud and corruption in the Commonwealth public sector. The ANAO has a unique role within the Commonwealth public sector. The ANAO does not have powers to undertake investigatory or anti corruption activities, but it does audit against public sector frameworks, including matters related to of probity, governance arrangements, risk, ethics, and fraud control arrangements to provide independent assurance to Parliament and to provide accountability over government activities.
- Later today, there will be a presentation and then a panel discussion on fraud and corruption in the Commonwealth public sector.
- Earlier in the year, the Commonwealth Fraud and Corruption Control Framework came into effect and it is designed to support entities to effectively manage the risks of fraud and corruption. The changes within the framework, which you will hear more about from Joanna, are a part of integrity reforms aimed at improving standards of integrity across the public sector and trust in government.
- It is important to remember that that entities shouldn't simply add "and corruption" to their plans and risk assessments but implement the required changes and meaningfully engage with the risks of corruption.
- The ANAO has completed a series of audits in select Commonwealth agencies on fraud control arrangements, and as part of the panel discussion Michelle will speak to some of the findings from the series we completed in 2020 and more recently tabled audits this year.
- As my colleagues mentioned earlier, the ANAO and audit committees can serve complementary roles, and one area in particular is in promoting a culture of integrity. Audit Committees can play a role in examining an entities' culture regarding probity, ethics, fraud and corruption. I encourage you to engage with the discussion this afternoon and think about the integrity culture within the entities which you serve as Audit Committee Chairs.
- Today, I will be speaking to you about key themes and emerging lessons from the ANAO's audit program from across all aspects of our audit work: performance audit, performance statements audit, and financial statements audit.
- I will also speak about some of the ANAO's recent publications and what we are doing to better communicate the findings of our audit work to the public sector and I will also touch on our engagement with the parliament.

## Emerging lessons from ANAO's audit program

### Performance audit

- We are well underway on the 2024-25 Annual Audit Work Program – we have tabled 13 performance audits since the beginning of the financial year, and we are expecting to table a total of 48 performance audits this financial year.
- We have commenced the planning for next year's Annual Audit Work Program and we expect to commence our broader consultation with entities and the Joint Committee of Public Accounts and Audit (JCPAA) in approximately March 2025.
- This year, we have also published two new information reports.

### Performance Audit Outcomes Information Report

- First, in October 2024, we published the 2023-24 Performance Audit Outcomes Information Report. This is the first tabled report on this topic and follows a similar approach to a mid-term report that was produced by Grant Hehir in 2020 and published on our website. This most recent report analyses performance audit outcomes from 2019–20 to 2023–24 with a particular focus on 2023-24.
- The areas analysed in the report include: audit activity, audit objectives, and stage of delivery against portfolios and audit conclusions; entity responses to recommendations, including their implementation; and improvements made by entities during audits.
- Key themes and issues emerging from the performance audits we undertook in this period included planning and implementation, evaluation, procurement and contract management, and cyber security. Findings from these performance audits can provide indicators of areas of risk to integrity, probity and ethics, including where action may be necessary to avert systemic issues.
  - We tabled six performance audit reports in the Parliament that focused on compliance with selected public service legislative and policy requirements for credit cards and gifts, benefits and hospitality. We emphasised in these reports that it is critical that senior executives set the tone for the entity. Preventative and detective controls must be in place to ensure compliance with the respective whole-of-government frameworks, rules, policies and guidelines.
  - There were 36 performance audits of procurement and contract management conducted over the period from 2019–20 to 2023–24, with 53 per cent found to be either 'not effective' or 'partly effective'. Key lessons include using appropriate expertise; being transparent in decision making; demonstrating value for money; acting ethically; and maintaining good records.
  - In the report we reviewed the lessons from our first management of cyber security incidents performance audit (tabled in June 2024). One of the emerging themes was that entities are expected to be 'cyber exemplars' as they process and store some of Australia's most sensitive data to support the delivery of essential public services.
  - Low levels of cyber resilience make entities more susceptible to cyber-attack and reduce business continuity and recovery prospects following a cyber security

incident. Preparedness to respond to and recover from a cyber-attack is a key part of cyber resilience.

- Finally, we made observations that all 45 performance audits tabled in the Parliament in 2023–24 show that getting the ‘basics right’ in terms of records management processes continues to be a challenge across the public sector as we identified record-keeping issues in all 45 reports.

## **COVID-19 – ANAO Audit Activity Information Report**

- The other information report that we tabled consolidates the lessons from the 13 performance audits and reviews undertaken by the ANAO under our COVID-19 multi-year audit strategy. It includes a span of 12 entities across 10 portfolios with 41 recommendations made.
- The COVID-19 pandemic resulted in significant disruptions to people’s lives. As of 31 May 2024, Australia recorded 17,920 COVID-19 related deaths nationally. Worldwide, 7.05 million COVID-19 deaths were reported to the World Health Organization from 227 countries as of 30 June 2024.
- The COVID-19 pandemic led to an increase in government spending, as the Australian Government introduced measures to safeguard public health, protect critical infrastructure and support the economy through the global health crisis.
- According to the Australian Institute of Health and Welfare (AIHW), over the period 2019–20 to 2021–22, an estimated \$47 billion was expended by the Australian Government in health-related COVID-19 activities.
- The COVID-19 pandemic also had an impact on the risk environment faced by the Australian public sector. From the onset of the COVID-19 pandemic in Australia, the Australian Public Service (APS) had to adapt within a short timeframe to a new operating environment and position itself to handle a surge in demand for government services. This included monitoring and reporting on the evolving situation around the country as well as globally; establishing arrangements to ensure business continuity while deploying staff on a large scale to support critical government functions; and rapidly designing and implementing a new suite of government policies announced during the COVID-19 pandemic. This evolving operating environment was taken into account in the ANAO’s audit work.
- The ANAO responded to the emerging sector-wide risks for public administration by developing a strategy for a program of audits examining the delivery of the Australian Government’s COVID-19 pandemic response (COVID-19 audit strategy) and as I mentioned earlier, this included 13 performance audits and reviews.
- The key themes and lessons that emerged from the audits:
  - emphasised the importance of everyday fundamentals such as establishing appropriate governance arrangements and proactively managing risks;
  - highlighted that systems and controls that were considered sufficient for business-as-usual were often not adequate to deal with the demands of rapid implementation during the COVID-19 pandemic, and necessitated a more

disciplined approach to adapt to and manage changes to ensure effective program delivery;

- emphasised the need for comprehensive and up-to-date crisis management frameworks; and
  - the importance of incorporating and actioning lessons learned from the experience.
- The report also mentions the limited assurance reviews conducted by the ANAO over the Advances to the Finance Minister from April 2020 to October 2020. We examined a total advance of \$1.974 billion issued in 2019–20 and \$1.673 billion issued in 2020–21 to 30 October 2020. The Auditor-General issued unmodified conclusions for all seven assurance reviews.

### **Implementation of Parliamentary Committee and Auditor-General Recommendations**

- I would also like to draw your attention to sector-wide observations that were made in the audit we tabled on 20 November 2024 on the Implementation of Parliamentary Committee and Auditor-General Recommendations – Indigenous Portfolio.
- You as Audit Committee Chairs, play an important role in supporting the government to meet its responsibilities to the Parliament and this is an important element of public sector integrity.
- Parliamentary committee and Auditor-General recommendations seek to address risks identified through inquiries and audits. Audit committees are required to provide independent advice on entities' systems of risk oversight and management and internal controls. Complete and regular reporting to audit and risk committees, including by providing evidence-based closure packs for completed parliamentary committee and Auditor-General recommendations, gives audit and risk committees visibility over how risks are being managed. This assists audit and risk committees to perform their functions.
- Some aspects you may wish to consider with recommendations addressed to your entity include:
  - For parliamentary committee recommendations, Australian Government entities can support government by: advising ministers on requirements and better practice for the form and timing of responses to parliamentary committee reports; and monitoring compliance with required timeframes; and
  - For parliamentary committee and Auditor-General recommendations, Australian Government entities can support accountability and integrity by: establishing fit-for-purpose and proportionate implementation planning for agreed recommendations; monitoring implementation; and closing recommendations on the basis of robust evidence that the intent of the recommendation has been met.

### **Financial statements – end of year report**

- Our 2023–24 financial statements audit end of year report is expected to be tabled in the next couple of weeks.

- This report highlights that while controls supporting financial reporting were generally sound there was room for improvement in relation to the robustness of IT controls, assurance over cloud computing arrangements, policies and reporting of official hospitality and artificial intelligence.
- For cyber security and IT controls, our reporting continues to draw attention to low levels of maturity in relation to IT controls, particularly related to IT security and the Protective Security Policy Framework. Entities and audit committees could consider what additional action is required to monitor and improve an entity's control environment, particularly given the cyber threat environment.
- For our financial statements end of year report this year we look a closer look at official hospitality. We found that some entities did not have policies or procedures, most entities do not report to senior management on hospitality or have specific compliance measures in place. Entities with higher levels of exposure to the provision of official hospitality could consider implementing or enhancing compliance and reporting arrangements
- After first looking at it in last year's end of year report, we again took a look at the adoption of artificial intelligence (AI) by entities. Adoption has increased – there are now 62 agencies deploying this emerging technology. Around half of these entities had established AI policies and procedures, with around 20 per cent specifying whether any additional assurance mechanisms were required. The Digital Transformation Agency has recently released the policy for the responsible use of AI in government, which establishes requirements for accountability and transparency on the use of AI within non-corporate entities. If you haven't had a chance to look at this yet, I would recommend you add it to your Christmas reading list.
- In relation to audit committees, we observed that audit committee member rotation could be more closely considered – most entities rotated members, but this was not formalised in policy or the audit committee charter. A policy should balance the need for continuity and experience against the need for objectivity of membership.
- We also identify in the report that fifty-three per cent of legislative breaches identified by the ANAO in 2023–24 relate to incorrect payments of remuneration to key management personnel (KMP) and/or non-compliance with determinations made by the Remuneration Tribunal. It is important that entities have a robust framework in place to govern payments made to KMP to ensure that payments are consistent with policy or legal requirements. There is an ANAO Insights product on Executive Remuneration that has further information that may assist.
- A final area I will touch on from this report is cloud computing. We identified that most entities have now adopted cloud computing arrangements in their IT environment. While services may be outsourced, the ISM and PSPF indicate that mitigating risks and oversight of effectiveness of controls remain in the purview of the entity. We found that about a quarter of entities were in the practice of receiving Service Organisation Control certificates (commonly called SOC certificates) for all cloud services, and most entities did not have a policy to review or obtain these certificates. SOC certificates can provide assurance over the operating effectiveness of IT controls at a cloud provider and there are opportunities for entities to further consider their use in managing cloud providers.

## Performance statements audit work

- The 2024–25 reporting period marks the tenth year of the requirement for the Accountable Authority of a Commonwealth entity to prepare annual performance statements. The ANAO has audited the implementation of this requirement initially through a series of performance audits (2016–2018), then a pilot program of three entities (2020–2021) and now the performance statements audit program.
- In 2024, the ANAO completed the audits of 14 entities' performance statements. As in previous years, these audits further tested the ANAO's performance statements audit methodology. Entities have generally engaged well with the audit process with first year auditees better prepared for the audit than in previous years.
- The ANAO's audit of performance statements has seen improvement in the quality of entities' performance statements. Entities that have been in the program in prior years are most mature in their performance planning and reporting processes.
- An area of ongoing challenge for entities is to devise and to implement an entity-wide performance framework. This framework will assist entities to structure their performance information—purposes, key activities and performance measures—and determine how this structure should change over time.
- The ANAO continues to build its program of work in auditing performance statements with 21 entities audited in 2024–25 and we will continue to refine our performance statements audit approach and relationship with audited entities.

## Public sector engagement

- As we have previously mentioned, the ANAO has sought to improve the way it communicates with public sector entities and provide greater insights into our work.
- We have developed a new quarterly ANAO newsletter - Audit Matters. The purpose of Audit Matters is to inform those like yourselves of updates on the ANAO's work and provide insights on what we are seeing in the Australian Government sector.
- The inaugural edition of Audit Matters was published on the ANAO website and distributed on 2 September 2024. This edition provided a summary of recent ANAO audit work, including on integrity, probity and ethics; grants administration; and performance measurement and reporting.
- Audit Matters also contains useful information for entities about audit readiness and what to expect from an audit.
- For example, one thing worth considering when you read audit topics in the Annual Audit Work Program is how your entity would prepare for an audit in that topic area. A good 'readiness' exercise might be for audit committees to ask questions about record keeping, governance documentation and practices, and the completeness and security of entity data. You might also want to look at the sorts of criteria we use in audits to help you think about how programs or activities in the entity 'stack up' to audit criteria in similar areas.
- Reading a recent audit report on a topic relevant to your entity's area of public administration might be a good idea, along with asking the entity's staff: 'could that happen here?' and 'how do we know how we are going?'.

- The next edition is scheduled for December 2024. If you would like to subscribe please visit the ANAO website or get in touch with us after today's forum.
- You can also find our other 'Insights' (including audit lessons, audit opinion, and audit practice) publications on the ANAO website.
- On 29 October, we published a new Audit Lessons on 'Gifts, Benefits and Hospitality'. As you may be aware, the ANAO has recently conducted audits of compliance with gifts, benefits and hospitality requirements within selected Commonwealth entities.
- The ANAO found that 95% of entities had gifts and benefits registers on their websites, 64% of entities were up to date with quarterly reporting requirements, and that 3% of entities required all gifts to be declared. Other entities had various thresholds before gifts were required to be declared (10% of entities did not define a threshold 86% stipulated a threshold of \$100 and 1% of entities had a \$50 threshold).
- This Audit Lessons publication provides seven lessons aimed at improving Australian Government entities' compliance with gifts, benefits and hospitality requirements, including establishing guiding principles and preventative and detective controls, developing clear internal policies, reporting all gifts and benefits, and the accurate valuation of gifts to increase transparency. You can read about these lessons in more detail on the ANAO's website.
- On 6 November 2024, we released an Insights Practice product called 'Performance Audit Process'. This edition of Practice aims to provide entities with information about how the ANAO plans for and conducts its performance audit activities.
- It describes the planning processes as part of developing the AAWP, and the stages of an audit an entity can expect to occur during an audit. I encourage you all to read this piece to help build your understanding of our audit activity.

## Parliamentary engagement

- Moving now to recent work of the Parliament, and in particular, the Joint Committee of Public Accounts and Audit (JCPAA).
- The JCPAA has commenced an inquiry into the use and governance of artificial intelligence systems by public sector entities and the Committee will specifically examine the adoption and use of AI systems and processes by public sector entities to conduct certain functions, including the delivery of services.
- The use of AI systems has been at the forefront of the public sector in recent years and we are experiencing an increase in the use of automated technologies to deliver public services. There are various frameworks that the Australian Government has introduced regarding the governance and assurance requirements.
- The ANAO has made a submission to this inquiry. As technologies, including AI, continue to evolve there will be a need for entities to consider the scale and focus of governance, controls and assurance mechanisms to ensure that risks are appropriately mitigated.
- The ANAO has begun research activities into what audit methodology, audit tool changes and skills may be required to support audit work in this area. For the ANAO, there is an opportunity to explore how automation can improve the audit process. While audit

standards require human judgement, decision-making and scepticism, the ANAO has identified audit processes that can be automated. The ANAO has developed tools to achieve this, with oversight by the ANAO's Quality Committee, to ensure adherence to the ANAO auditing standards and our audit methodology.

- The ANAO's previous reporting on the adoption of emerging technologies by entities has drawn attention to the opportunities for improvement and innovation that can be harnessed by entities, as well as the potential for increased risk and unintended consequences. Risks that could be faced by entities include a lack of transparency in decision making or processing, bias and discrimination, security and privacy concerns, legal and regulatory challenges, misinformation, manipulation and unintended consequences.
- Rapid developments and the evolving nature of emerging technologies, including AI, could further heighten these risks. These rapid changes and risks highlight the importance on the control frameworks required to ensure that there are appropriate governance, minimum standards, or requirements for auditability or traceability, on the process and output of or decisions made through AI.
- Within the ANAO, work is underway to govern the use of emerging technology within our business, recognising that information collected for audit purposes is the subject of strict confidentiality provisions in the *Auditor General Act 1997*. We will continue to monitor the use of emerging technologies through our audit work.
- In February 2024, we commenced a performance audit relating to the Australian Taxation Office's adoption of Artificial Intelligence. The objective of this audit is to assess whether the ATO has effective arrangements in place to support the adoption of AI. The audit is scheduled to be tabled in the Parliament in early 2025.
- Other inquiries, such as the inquiry into contract management frameworks operated by Commonwealth entities and the inquiry into the administration of Commonwealth regulations are ongoing. I encourage you to watch the progress of all of these inquiries and read the final reports when the inquiries are concluded. The reports of JCPAA often have implications and recommendations that are relevant and applicable across all public sector entities.

## Closing comment

- That is everything I wanted to cover off today from the ANAO's audit program.
- Thank you again for your attention.