

Australian National Audit Office

Chief Financial Officer Forum

30 November 2018

Today's program

- Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2018
- Assurance audit update
- ANAO quality framework
- Data analytics pilot update
- Section 37 Certificates
- Annual Performance Statements audits
- Performance audits: Key learnings and audit insights

Financial Statements Audits for the Period Ended 30 June 2018

Clea Lewis
Executive Director
Assurance Audit Services Group

2017-18 Financial Statements Audits - Report to Parliament

Key Results

- 241 Auditor's Reports issued including CFS
- 90% of auditor's reports issued within three months of year-end (2017 87%)
- 159 audit findings across all categories (2017 -222)

Additional analysis on:

- Timeliness of FS preparation and no. of unadjusted differences
- Tabling of Annual reports
- Financial Sustainability

Quality of FS Preparation

Timeliness

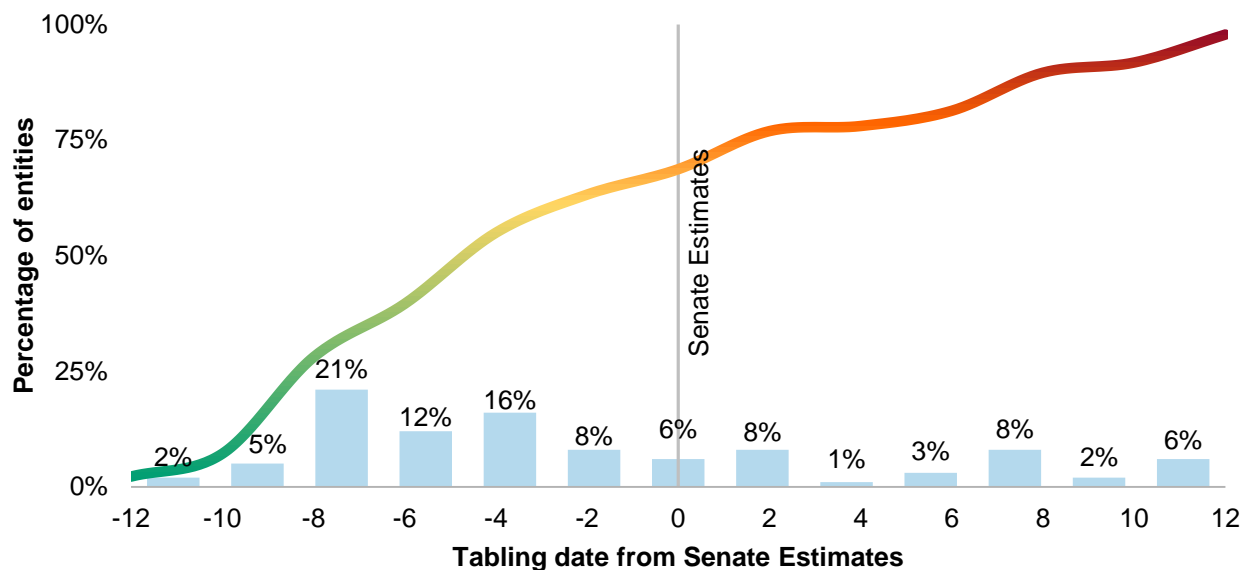
- 82% of entities provided draft financial statements in accordance with the agreed timeline
- Further 9% provided statements within one week of the agreed timeline

Unadjusted audit differences

- The number of unadjusted audit differences considered by the CFS team decreased from 129 in 2017 to 57 in 2018.
- Total number of unadjusted differences across all entities was 91

Tabling of Annual Reports

PGPA Act Review is proposing earlier tabling of annual reports:



Tabling of Annual Reports

Our analysis found:

- 54% of accountable authorities approved their annual report within 10 days of auditor's report being issued (average time for approval was 15 days)
- the average time between the approval of the annual report by the accountable authority and tabling in Parliament was 29 days
- 64% of entities in line with best practice tabled their annual report before their Supplementary Budget Estimates hearing date.

Financial Sustainability

Key points to note:

Consistent with previous years

- Analysis of operating surpluses and deficits -
 - 18% of for profit and 11% NFP large average deficits
 - 40% of NFP large average surpluses
- Analysis of balance sheet strength (gearing and liquidity)
 - Across government 75% of entities have strong balance sheets

Audit Findings

Total findings 159 (2017 - 222)

- 1 significant 18 moderate and 140 minor
(2017 - 2 significant, 20 moderate and 200 minor)
- 85% of significant and moderate findings related to the following categories:
 - IT controls – management of user access and privileged users;
 - Compliance and quality assurance frameworks supporting program payments; and
 - Management of non-financial assets

Assurance audit update

Carla Jago
Group Executive Director
Assurance Audit Services Group

Assurance Audit Update

- Auditing of the Consolidated Financial Statements
- Readiness for new accounting standards
- ANAO Financial Audit Client Survey Results

Consolidated Financial Statements

- Finance Minister signed 15 November 2018
- Auditor-General signed 16 November 2018
 - CFS Auditor's Report includes Key Audit Matters for the first time
- Supplementary Reporting Pack and CBMS data
 - Some quality issues noted
 - Inconsistent and incomplete maturity/ageing and current/non-current data indicating poor quality assurance processes.

Consolidated Financial Statements

- Supplementary Reporting Pack and CBMS data (cont..)
 - Our 2019 audit expectations
 - Audit teams likely to ask for more supporting information/reports for data in the SRP and CBMS.
 - Improved quality assurance processes and audit focus
- Unadjusted differences
- Opening balance adjustments
 - Entities need to talk to Finance on these
- New entities, including Snowy Hydro

Readiness for new standards

- Readiness for new standards
 - AASB 9 *Financial Instruments* – effective for years ended 30 June 2019
 - AASB 15 *Revenue from Contracts with Customers* – effective for years ended 30 June 2020 (not for profit entities) or 30 June 2019 (for profit entities)
 - AASB 16 *Leases* – effective for years ended 30 June 2020
 - AASB 1058 *Income of Not-for-Profit Entities* – effective for years ended 30 June 2020

Client Survey – FS audits

- Thank you to those who completed the survey
- Response rate 79% (down from 84% in prior year)
- We are reviewing the consolidated results and the individual surveys where consent provided for the ANAO to receive them

Client Survey – FS audits

- Positive results:
 - The value provided by ANAO services – 94% agreed
 - The ANAO staff had the professional skills and understanding of their organisation required to conduct the audit – 95% agreed
 - The auditors explained the audit approach – 96% agreed
 - The auditors conducted themselves professionally – 99.3% agreed

Client Survey – FS audits

- Areas for improvement:
 - Timely consultation and liaison between auditors and the organisation was timely – 8.7% disagreed
 - Our organisation was informed on a timely basis of significant issues or problems identified during the audit – 9.3% disagreed
 - The auditors met agreed financial statements deadlines – 8.1% disagreed (however only 2.1% disagreed that the audit opinion was issued in a timely manner)
 - There was adequate continuity of auditors on our audit – 8.8% disagreed

ANAO Quality Framework

Jane Meade
Group Executive Director
Profession Services and Relationships Group

Quality in the ANAO

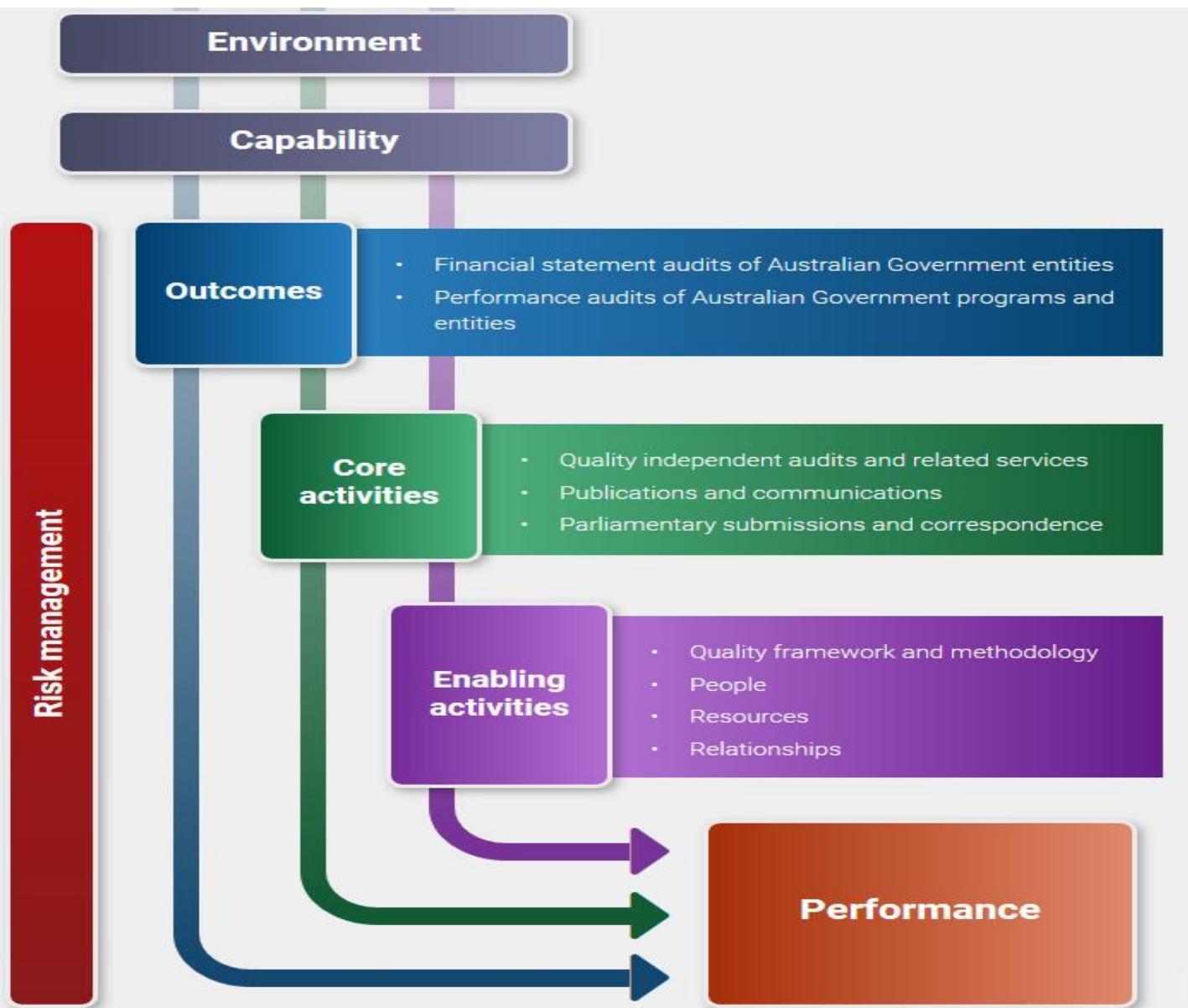
- Quality is a core business investment for the ANAO
- Audits conducted by the ANAO are conducted to the same standards required of the auditing profession in Australia and consistent with the international public sector auditing community

Quality in the ANAO

- ANAO quality framework is based on ASQC1
- Objective: to provide the ANAO with reasonable assurance that:
 - ANAO complies with the ANAO standards, including relevant ethical requirements, and applicable legal and regulatory requirements
 - Reports issued by the ANAO are appropriate in the circumstances.

Quality in the ANAO

*“Audit quality is the provision of **timely, accurate and relevant** audits, performed independently in accordance with the **Auditor-General Act, ANAO auditing standards and methodologies** which are **valued by the Parliament**. Delivering quality audits results in improved public sector performance through accountability and transparency.”*



Quality in corporate plan

- Implementation of a revised quality framework:
 - incorporating independent quality reviews
 - development of methodology to support the implementation of new accounting and audit standards, performance statements audits, data assurance activities
 - new workflow systems for all audit types.

Elements of ANAO Quality Framework



Monitoring Audit Quality

- Internal annual QA program:

Quality reviews of
completed audits –
financial and
performance audit

‘Hot’ reviews of in-
process in-house
financial statement
audit files

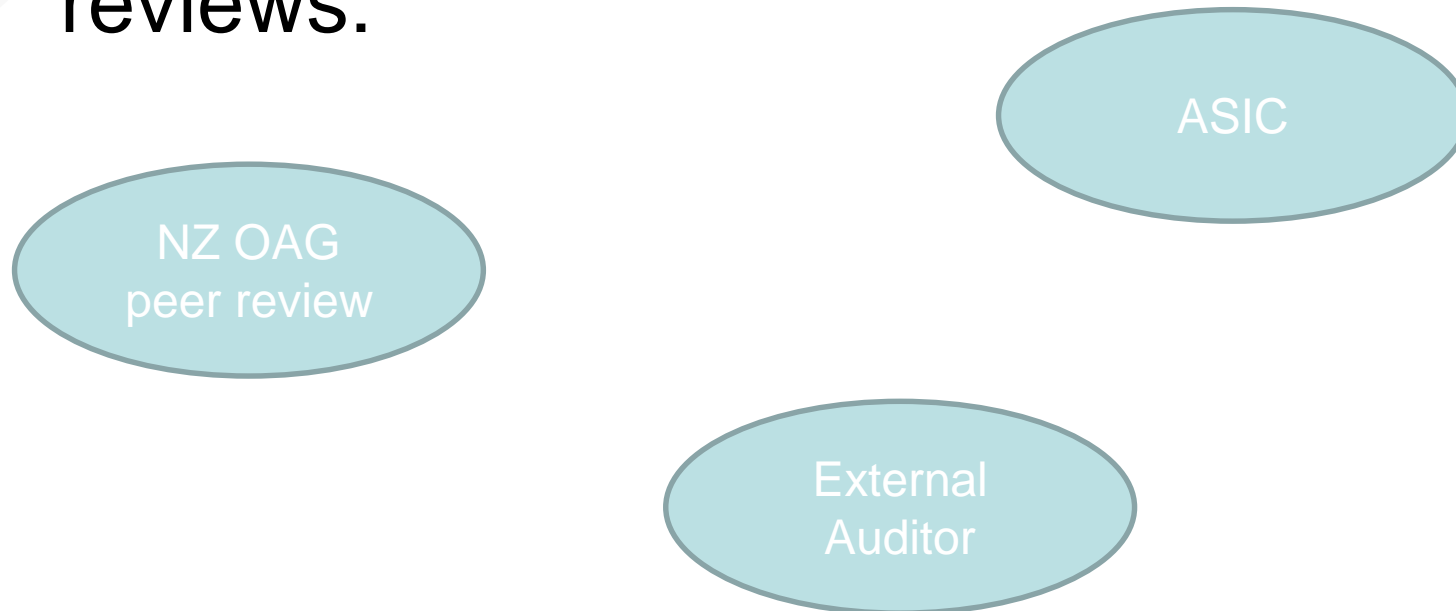
- To assess whether audit conclusions are appropriate and supported by sufficient appropriate audit evidence

Internal reviews

- Selection of files for inspection:
 - Rotation of engagement executives
 - performance audits - at least one audit every two years
 - financial statement audits –one in-house and one project managed audit every three years
 - Rotation of contract firms
 - Consideration for audit selection include level of risk; size and findings from previous inspections.
 - Deputy Auditor General approves selections

External reviews

- Current program of independent external reviews:



Peer review

- External peer review of performance audits
 - New Zealand Office of the Auditor-General
 - Every second year
 - Report from NZ Auditor-General is published on ANAO website

ASIC review

- Review of Quality Framework and two financial statement audits
- Used same program as they use for private sector firms
- Reported findings and recommendations – on ANAO website

Independent auditor

- Recent performance audit:
 - Review of Cyber-Security
- Current performance audit:
 - Review of the ANAO's methodology to audit performance statements
- Reports on ANAO website

Future directions

- Increase external reviews in both financial and performance audit
- Continue ASIC reviews annually
- Performance audit
 - panel reviews of quality of reports
 - external reviews of reports and compliance

Systems Assurance and Data Analytics (SADA)

Jocelyn Ashford
Senior Executive Director
Systems Assurance and Data Analytics Branch

Audit Analytics



Current



Objectives....Quality & Efficiency

- **Leverage** the data already collected to identify key risks to be addressed through the audit plan
- Plan and scope the audit to focus on high risk areas or newly identified risks
- Discover, analyse, quantify impact more efficiently across populations
- Target risk based audit procedures
- Report results quickly

Reduced or more effective audit foot print

Who:



What:

Trial Balance, G/L Accounts; Reports; files; Selected transactions

Through:



Multiple File Formats

Collected:

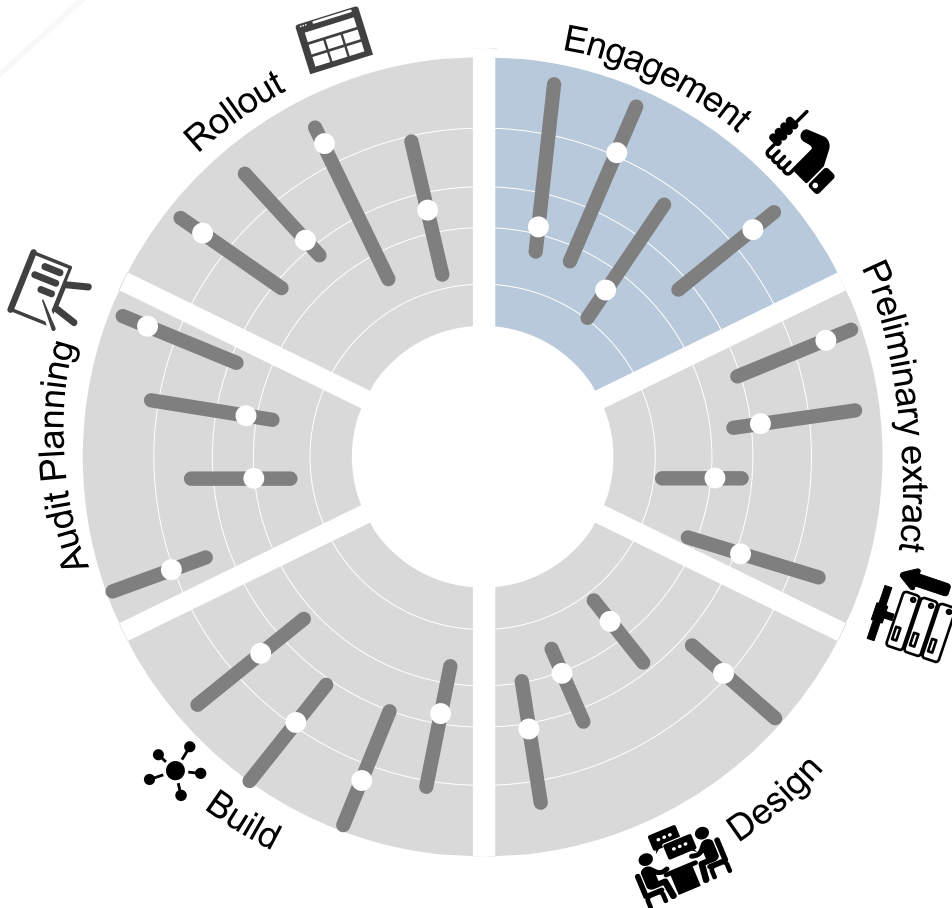


When:

Multiple times, periodic



Engagement



Collaboration

- Audit Team (FS & IT)
- ANAO and Auditee (CFO, SAP Teams, IT)



Requires lead time to discuss what's different in the execution of the audit

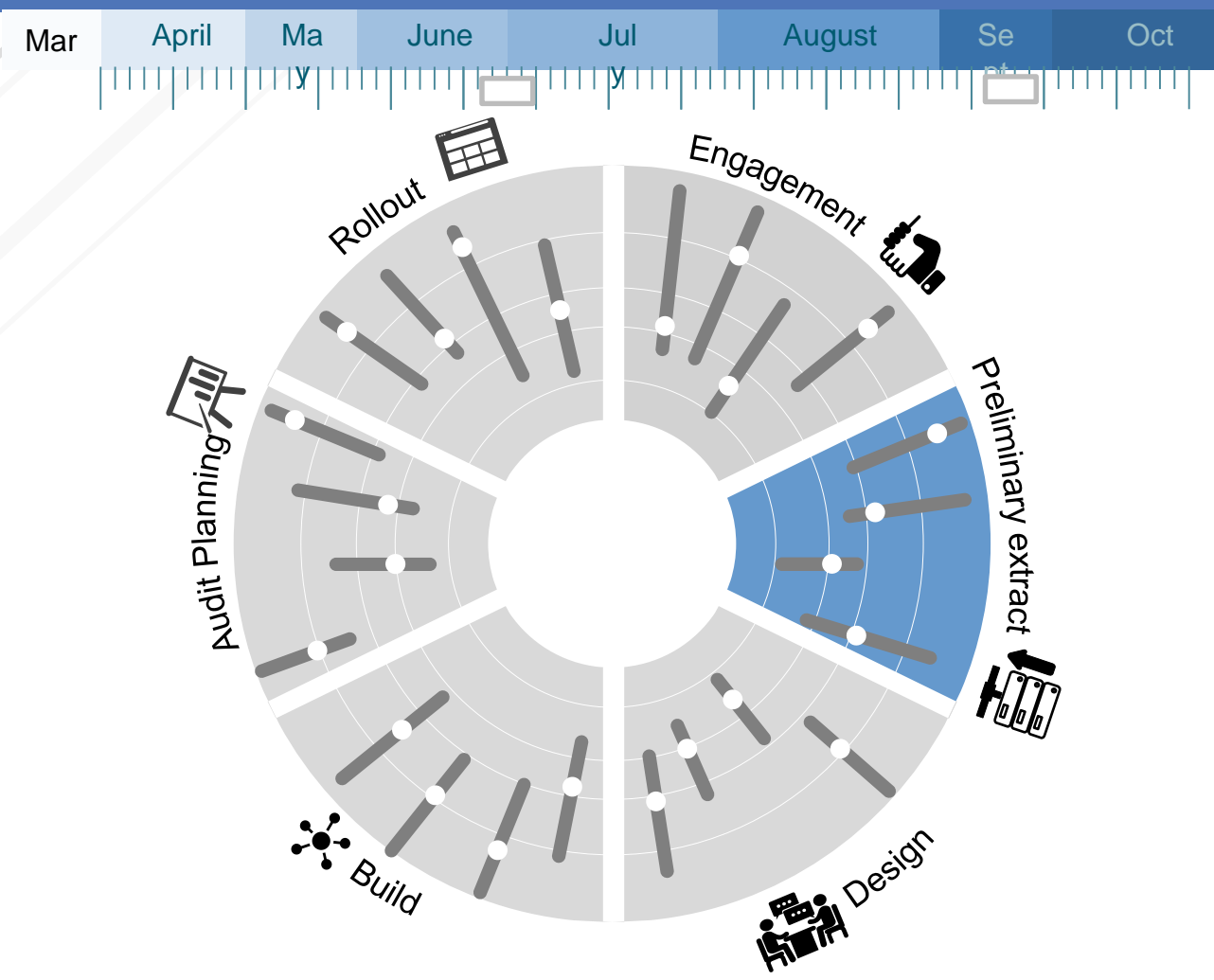


Data security – comfort that nothing has changed



Initial investment for future benefits

Extract



- Predefined data script/extract (access) for procurement and journals
- SAP assure (security and configuration checks)
- Quality checks over data (completeness and accuracy checks)
- Understand nuance of the process flow in data (Data Discovery)



Data discovery – understanding your process in the data – most time consuming

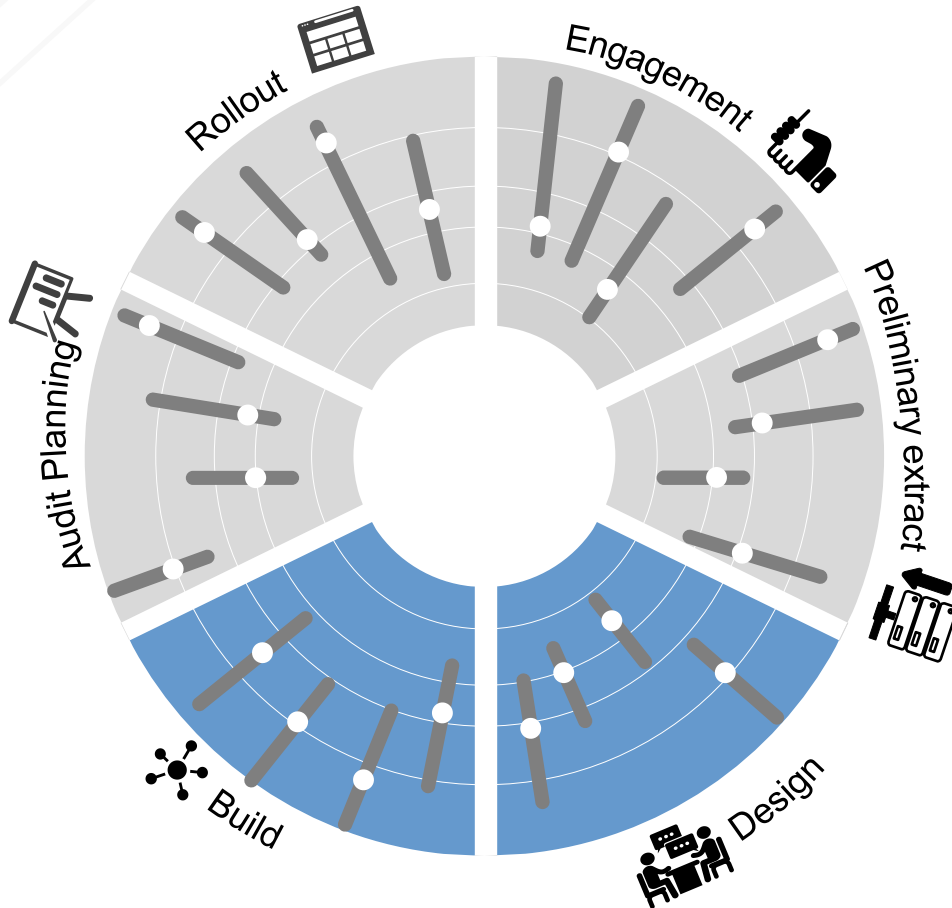
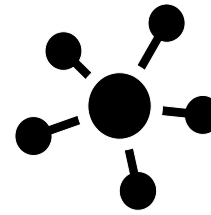


Extract relatively easily/and not time consuming.

Easily repeatable



Design & Build



- Co-design between FS (the end user) /IT
- Agile development – interactive
- Repeatable functions (entity & tool agnostic)
- Ability to customise for each entity



Integrated teams essential

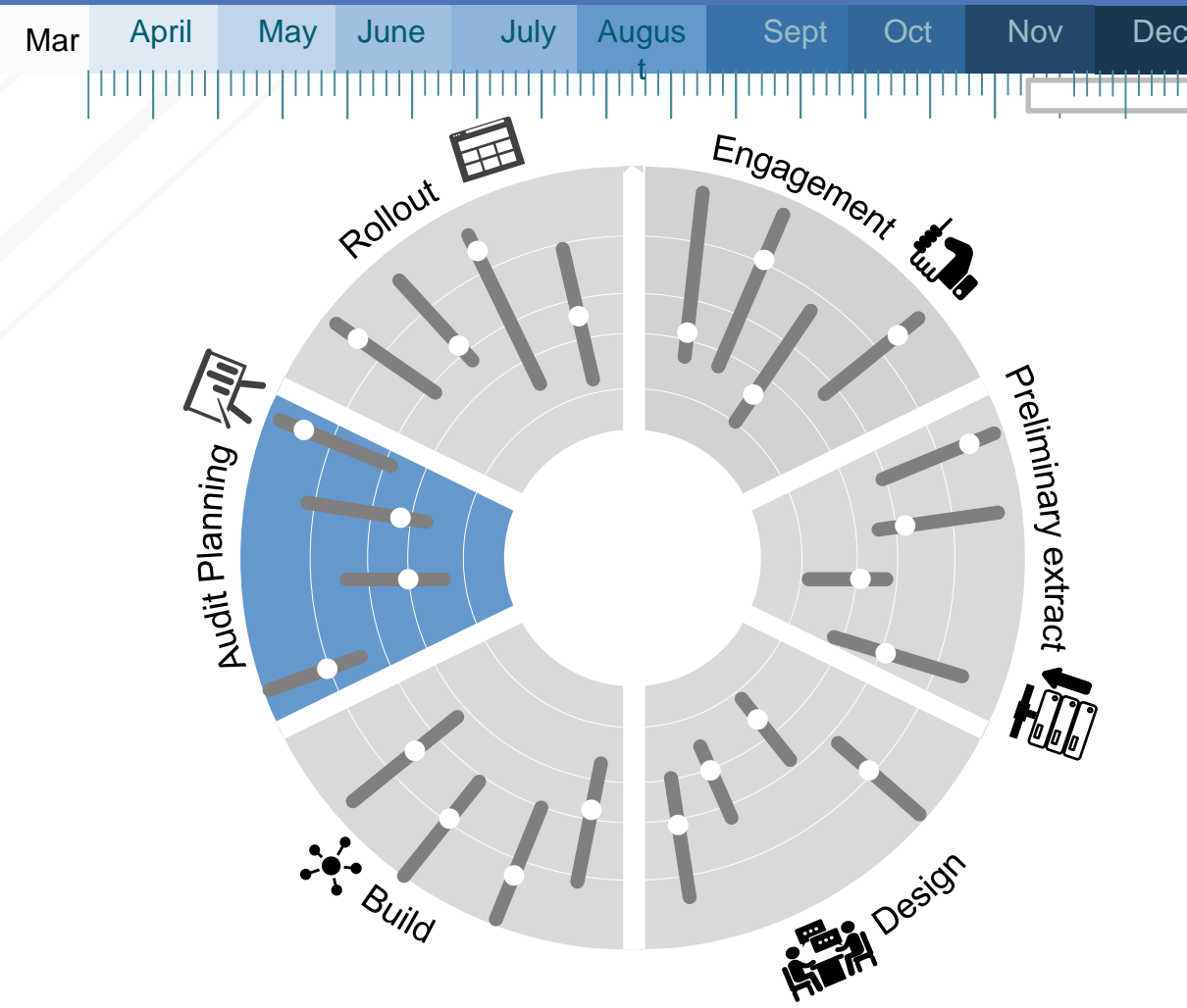


Time to integrate

Traditional discovery/analysis relatively easy to automate



Discover, insight and risk assessment



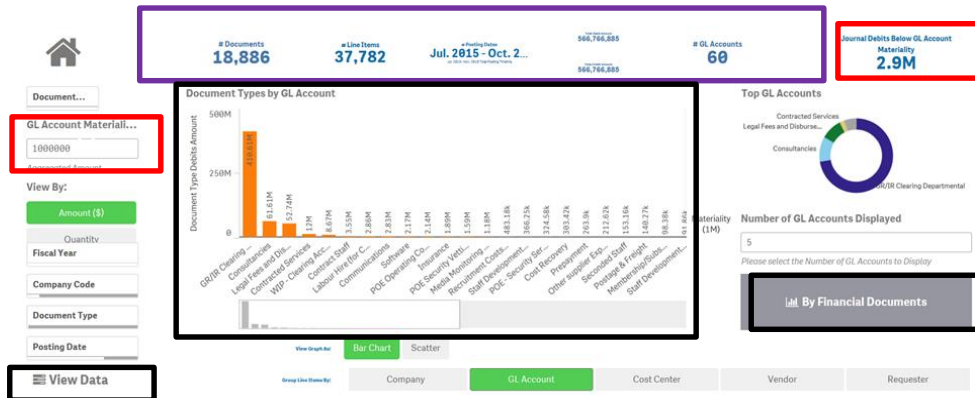
- Being used now in the audit
- Efficiency and quality success criteria being tested

Evaluate, Audit Risk and Response

Process mapping



Interactive discovery and risk assessment

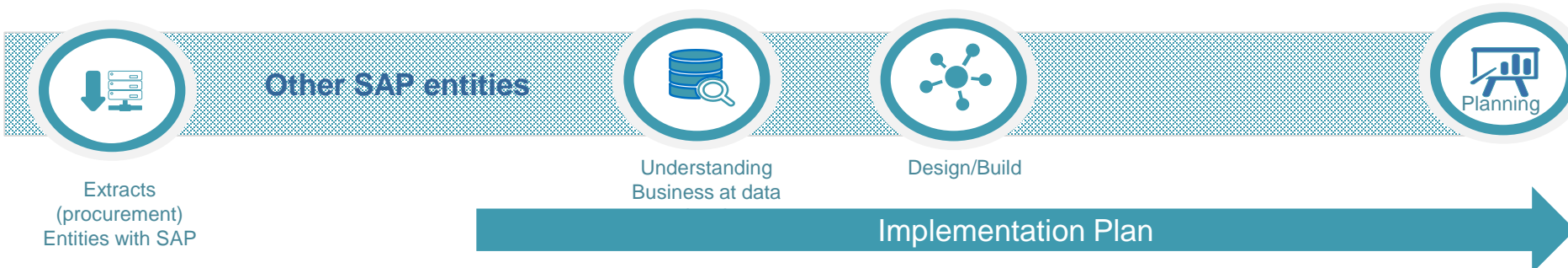


Experience

- Intensive to develop (ANAO)
- Clear understanding/ visualisation of process.
- Easier to confirm against expectation (AAI).
- Target questions in walkthrough/process confirmation
- Snapshot information.
- Filters to quickly discover and analyse
- Quickly understand materiality of transactions.
- Ability to quickly drill down to actual transactions



Way forward



Break

Section 37 Certificates

Tom Ioannou
Group Executive Director
Performance Audit Services Group

First Certificate

- Issued by Attorney-General
- s 37(1)(b) *Auditor-General Act 1997*
- 28 June 2018
- Auditor-General Report No. 6 2018-19
Army's Protected Mobility Vehicle—Light (Hawkei)

Section 37

- Auditor-General must not include particular information in public report if Attorney-General has issued a certificate stating that, in his opinion, disclosure of the information would be contrary to the public interest for any of the reasons set out in the Act.
- The reasons include:
 - prejudice to security, defence or international relations of Commonwealth;
 - disclosure of deliberations or decisions of the Cabinet or Cabinet Committees;
 - prejudice to Commonwealth—State relations;
 - unfair prejudice to the commercial interests of any body or person.

Parliamentary interest

- Joint Committee of Public Accounts and Audit – ongoing inquiry
- Interest at Senate Estimates
- Two entities have flagged potential applications for certificates since June 2018 – at early stage in audit process

Performance Audit Process

- Planning
- Designation
- Fieldwork
- Report Preparation Papers from ANAO
- Proposed Report under section 19 of Act
 - release authorised by Auditor-General – 28 days to comment
- Final report prepared
 - reviewed by Auditor-General
- Tabling

Report Preparation Papers

- Generally include more information than appears in proposed audit report – may include sensitive information
- To assist entities' understanding of audit evidence
- Transparent approach – consistent with auditing standards, procedural fairness principles and 'no surprises' approach
- Unhelpful to flag potential application for a certificate at this early stage in audit process – before relevant issues fully worked through with ANAO
- Engage the audit team and responsible ANAO SES in first instance

If concerns remain

Better approach:

- If concerns over disclosure of sensitive information remain following receipt of proposed (section 19) audit report
- Accountable authority should bring concerns to Auditor-General's attention
- Section 37 of Act – Auditor-General must not include particular information in public report if Auditor-General of the opinion that disclosure would be contrary to public interest for any of the reasons under the Act
- Auditor-General welcomes entity advice

Performance Audit update

Implementation of the Annual Performance Statements Requirements 2017-18

Michael White
Senior Executive Director
Performance Audit Services Group

Background and status

Objective

To continue to examine the progress of the implementation of the performance statements requirements under the PGPA Act and the PGPA Rule.

Entities

- Attorney-General's Department;
- Department of Education and Training;
- Department of Finance (framework);
- Department of Foreign Affairs and Trade; and
- Department of the Prime Minister and Cabinet.

Rationale

- Third audit of entities' progress in implementing the requirements.
- F more policy/coordination entities and qualitative measurement.

Status

Expected to table December 2018.

Key learnings for all entities

1. Improving the ‘set-up’ of performance information in corporate plans

Corporate plans are expected to ‘set the foundations upon which a reliable performance narrative can be built’ *Finance, Corporate Plans Lessons Learned 2017-18*

To support this an entity should:

- **Avoid using technical terms and/or internally-focussed language** – or make sure they’re clearly defined.
- **Clearly describe the method of assessment and information sources** – ensure these are underpinned by documented internal processes.
- **Include a target or benchmark** – a reader should be able to form an expectation of performance that can be compared to reported results.
- **Focus on the quality of measures, rather than quantity.**

Key learnings for all entities

2. Use of case studies

To serve as reliable measures of performance, case studies should:

- **be planned upfront** – that is, at the beginning of the reporting period (included in the corporate plan) and prior to information/data collection and analysis;
- **articulate an agreed objective**;
- **have a defined scope/parameters**, including identifying the relevant (statistically representative) population and timeframe for the results;
- **provide a clear target, baseline or standard** that would enable an objective assessment of whether the measure has been met once reported; and
- **include a clear methodology** for information/data collection, measurement and assessment.

Case studies that may not reflect all of the above characteristics can still be used to provide context to results in the performance statements.

Key learnings for all entities

3. Quality of analysis

The analysis in performance statements should:

- **Provide an assessment of overall progress against the purpose**, rather than only providing a summary of performance criteria results, or activities carried out during the period;
- **Explain to a reader the connection between:**
 - **the performance criteria results presented;**
 - **internal or external environmental influences that affected those results; and**
 - **how these informed the overall assessment of progress against the purpose.**

Looking forward

- PGPA Review has recommended the Finance Minister request the ANAO 'pilot' assurance audits of performance statements. Government is yet to respond.
- Until such a request is made, the ANAO will continue its current program of performance audits of performance statements as outlined in the Auditor-General's *Annual Audit Work Program 2018-19*.

Performance Audit Insights

Lisa Rauter
Group Executive Director
Performance Audit Services Group

Recent Insights Publications

- Efficiency
- Performance Statements
- Cyber Security
- Next proposed topic – quality frameworks

What else are we seeing

- Better practice in governance – clear accountability lines, but quality and transparency of reporting could be improved.
- Risk management – greater awareness of risk, but more active management still needed
- Performance measurement – more steps taken to develop measures, but transparency and ‘completeness’ could still improve

What else are we seeing

- Report Preparation Papers
- Use of data
- Record keeping and capturing and using lessons learned
- Quality
- GBEs

Assessing Efficiency

- Identify efficiency measures (at entity or subject matter level)
- Compare the measures against suitable comparators (or over time to establish a benchmark)
- Analyse the results of the comparison

Cyber Resilience

- Governance and Risk Management
- Roles and Responsibilities
- Technical Support
- Monitoring Compliance

Forum close