

Australian National Audit Office Chief Financial Officers Forum

5 December 2017

Welcome and opening

Rona Mellor PSM

Deputy Auditor-General

- **Financial Statements Audits for the Period Ended 30 June 2017**
- **Entity survey results**

Serena Buchanan

Senior Executive Director, ANAO

2016-17 Financial Statements Audits - Report to Parliament

- 87% of auditor's reports issued within three months of year-end
- Financial statements and auditor's reports signing dates, and tabling of annual reports
- Financial sustainability of material entities
- Executive Remuneration reporting
- Audit findings:
 - Improvement in number of moderate audit issues
 - Majority of findings continue to be in IT control environment (approximately 40%) and compliance and quality assurance frameworks (approximately 20%)

2015-16 Entity survey results

144 respondents (2015: 144)

- The ANAO achieved the target of > 90% satisfaction rating from entities for:
 - acknowledgement of the value added by ANAO services (91%); and
 - the professional skills and organisational understanding of ANAO staff (95%)
- Impact of resourcing challenges in 2015-16 and 2016-17
- Average rating of the value of the CFO forum was 7.7 (target 8)

Audit update

Jane Meade

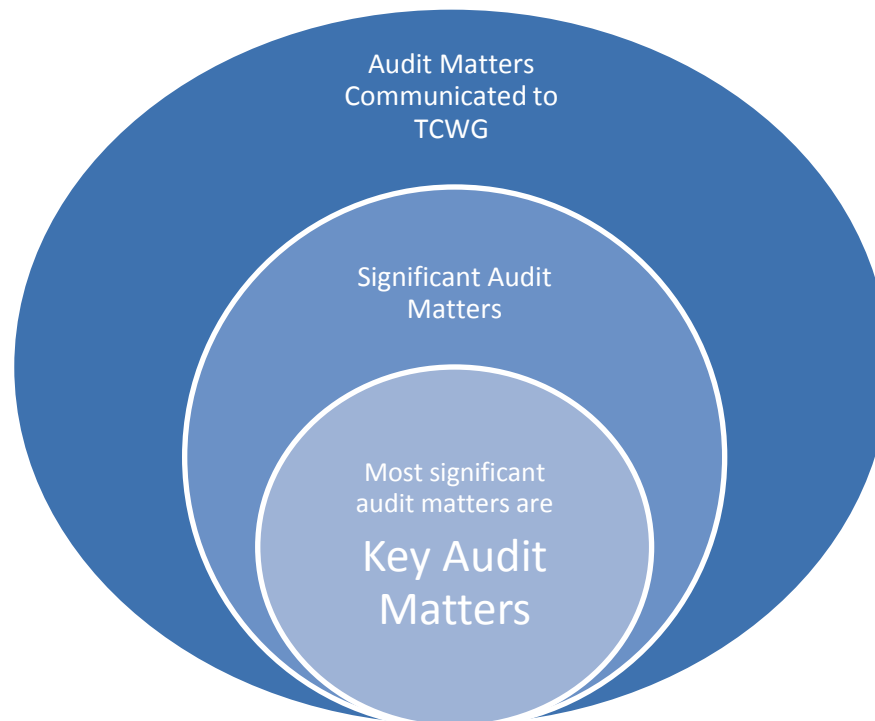
Group Executive Director, ANAO

JCPAA Inquiry

- JCPAA inquiry into the Commonwealth financial statements - based on Audit Report No. 33 (2016-17), Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2016
- Report August 2017 – financial statement audits:
 - critical role in ensuring accountability to the Parliament and the Australian public for the expenditure of public funds
 - provide independent assurance that this information is accurate and that the financial management of Commonwealth entities is effective

Key Audit Matters

- New auditing standard *ASA 701 Communicating Key Audit Matters in the Independent auditor's report*



Key Audit Matters

- New auditing standard *ASA 701 Communicating Key Audit Matters in the Independent auditor's report*
 - Limited trial in 2015-16 – not published
 - 2016-17 - Auditor-General voluntarily adopted reporting of KAM for 25 entities - published in audit reports to Minister
 - Purpose of KAM – increase transparency about audit performed
 - Matters of most significance in the audit
 - KAM is not a separate conclusion on matter described
 - Majority of KAM reported related to valuation

Key Audit Matters

- 25 entities:
 - 57 KAM
 - Number of KAM per entity ranged from 1 - 4
 - Top 5 KAM:
 - Valuation of liabilities – financial, provisions, superannuation
 - Valuation of financial assets – investments, loans
 - Valuation of non-financial assets – PPE, intangibles
 - Completeness and accuracy of revenue
 - Accounting for personal benefits

Key Audit Matters

- Private sector – required for listed entities only.
- Public sector – 2016-17 – adopted by Tasmania, Victoria (KAM only published for CFS), Queensland, WA
- KPMG top 5 KAM – goodwill, revenue, taxation, acquisitions, inventory
- VAGO - The two KAMs for the 2016–17 AFR were:
 - valuation of the State’s defined benefit superannuation liability;
and
 - valuation of provision for insurance claims

Auditing standards

- Revised standards effective 1 January 2018:
 - ASAE 3100 *Compliance Engagements*
 - ASAE 3500 *Performance Engagements*
- Standards revised to conform with revised ASAE 3000 framework
 - minimum content requirements for performance audit reports (including compliance audits) include a number of matters not currently included in our reports
 - while these could be included, they are not consistent with the audit and reporting approach of Supreme Audit Institutions

Auditing standards

- ISSAI 3000 Standard for Performance Auditing issued by INTOSAI, contains reporting requirements more consistent with reporting on performance audit engagements in the public sector.
- ANAO Audit Standards approach from 1 January 2018

Auditing of the Consolidated Financial Statements

Jocelyn Ashford
Senior Executive Director, ANAO

Consolidated Financial Statements

- Supplementary Reporting Pack
 - Updated in 2017 to.....
 - provide relief to non-material/small entities;
 - support the reduce disclosure regime at the entity level; and
 - support the collection of relevant information for CFS reporting purpose.
 - Quality issues noted.....
 - Inconsistent and incomplete maturity/ageing data indicating poor quality assurance processes.
 - Our 2018 audit expectations
 - Minimal changes to SRP and the collection process.
 - Changes resulting from the GFS Manual update i.e. concessional loans.
 - Improved quality assurance processes and audit focus

Systems Assurance and Data Analytics (SADA) – Data analytics strategy

Jocelyn Ashford

Senior Executive Director, ANAO

Responding to change

- Drivers of change
 - a change in the way entities transact and undertake services in the Government sector.
 - International, Federal and State Auditor-Generals recognise the need to increasingly use the data collected to improve audit quality, productivity, transparency and accountability.

@ANAO we.....

- have created a dedicated Data and Analytics (D&A) capability to support all types of audits.
- will continue to conduct large scale data analytics in our Performance Audits.
- will continue to increase the level of collaboration across our audits to provide increased quality and efficiencies using data that is collected.

Using our knowledge of the APS – Focus Areas

- Increased use of:
 - publically available data.
 - other non-public data-sets including data collected by other entities.
- Increased availability and ease of use of data and information for all auditors.

To identified risk areas in planning and support targeted testing.

It's all about continued audit quality and improving the efficiency of our audits.

Data and Analytics (D&A) Capability

- Continuing to expand the level of data awareness and expertise of our auditors through:
 - The greater use of existing tools.
 - use of more advanced/specialised tools and programming languages by the D&A Team.
- Two year Roadmap

Challenges

- Negotiating and agreeing protocols with entities for the collection and storage of data.
- Investment in ANAO's IT infrastructure that is scalable for the growth in use of data and data analytics.

Implementation of the Annual Performance Statements Requirements 2015-16

Criteria, Scope, Observations, Key Learnings
and Looking Forward.

Michael White

Executive Director, ANAO

Criteria

- Did entities publish annual performance statements and comply with the PGPA Act 2013;
- Did entities establish effective supporting frameworks and processes for preparation and assurance;
- Were performance criteria appropriate (relevant, reliable and complete); and
- Were reported results complete and accurate - supported by sufficient records.

Scope

- We reviewed one purpose from each entity's performance statements and all related performance criteria for a strategic objective for AFP and Agriculture.
- We reviewed Department of Finance's role in the whole-of-government administration, including guidance (RMGs) and support through Communities of Practice and tailored advice.

NB: The PGPA Act is currently subject to the independent review (<http://www.finance.gov.au/pgpa-independent-review/#tor>).

Observations

- **Processes & Compliance**
 - Entities met the minimum requirements for the preparation and publication of annual performance statements.
 - Entities largely adapted existing systems and processes to meet the requirements of the PGPA Act and maintained sufficient records (completeness and accuracy).
- **Appropriateness**
 - Performance criteria were **mostly relevant** to the activities under taken by the selected entities.
 - Performance criteria **mostly** provided a **reliable** method of assessing progress in fulfilling the entity's purpose.
 - Performance criteria were **substantially complete**.

Key Learnings for all Entities

- Appropriateness
 - **Relevant** performance criteria should clearly align to an entity's purpose and activities, indicate who will benefit from the related activity and how, and be understandable to readers.
 - **Reliable** performance criteria should be measurable, disclose the method or basis for assessment including a target or benchmark, and not lead to biased or misleading results.
 - **Complete** performance criteria should collectively address the entity's purpose, and provide a balanced examination of the entity's effectiveness and efficiency across the different forms of performance information and their timeframes.

Key Learnings for all Entities

- Assurance Processes:
 - A check list is a useful tool to assist entity management representatives to understand the detailed considerations expected, including the level of evidence required, to support a certification of performance criteria and accompanying results.
 - An audit committee's charter, and any certification by the audit committee to an accountable authority discharging their performance reporting function, should clearly reflect the PGPA Rule and its intent.

NB: The functions [of an audit committee] must include reviewing the appropriateness of the accountable authority's performance reporting.

Looking Forward

- JCPAA report due to table December 2017
- 2016–17 performance statements audit
 - Environment , Employment, Austrade and Australian Sports Commission
 - Due to table March 2018
- 2017–18 performance statements audit
 - Planned to commence April 2018
 - Due to table December 2018
- Focus will be on major entities/departments; audits will be conducted if requested by the responsible Minister or the Finance Minister; and continued focus at the program level through the current performance audit program.

- **Performance audits: Key learnings for all Government entities**
- **Audit insights**

Lisa Rauter

Group Executive Director, ANAO

Performance audits: Key learnings

- A feature of our audit reports since July 2017
- Will be aggregated into a quarterly insights report
- Replaces Better Practice Guides
- Extracted where audit findings – positive and areas for improvement – are relevant to a broader government audience

Audit Insights

- First Quarterly Audit Insights Report will be published Mid December 2017
- Themes emerging to date:
 - Consistent application of policies and frameworks
 - Measuring performance and impact
 - Use of data and evidence
 - Risk management
 - Learning organisations
 - Flowing corporate level performance indicators, frameworks and risk management down to project level

Forum close

Rona Mellor
Deputy Auditor-General