



**Australian Government**  
**Department of Finance**



# **Australian National Audit Office**

## **Department of Finance**

### **Audit Committee Chairs Forum**

**5 December 2018**



**Australian Government**

**Department of Finance**

# **Welcome and opening remarks**

**Tracey Carroll**  
First Assistant Secretary  
Financial Analysis, Reporting & Management

# Financial Statements Audits for the Period Ended 30 June 2018

## Client Survey Results

**Carla Jago**  
Group 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

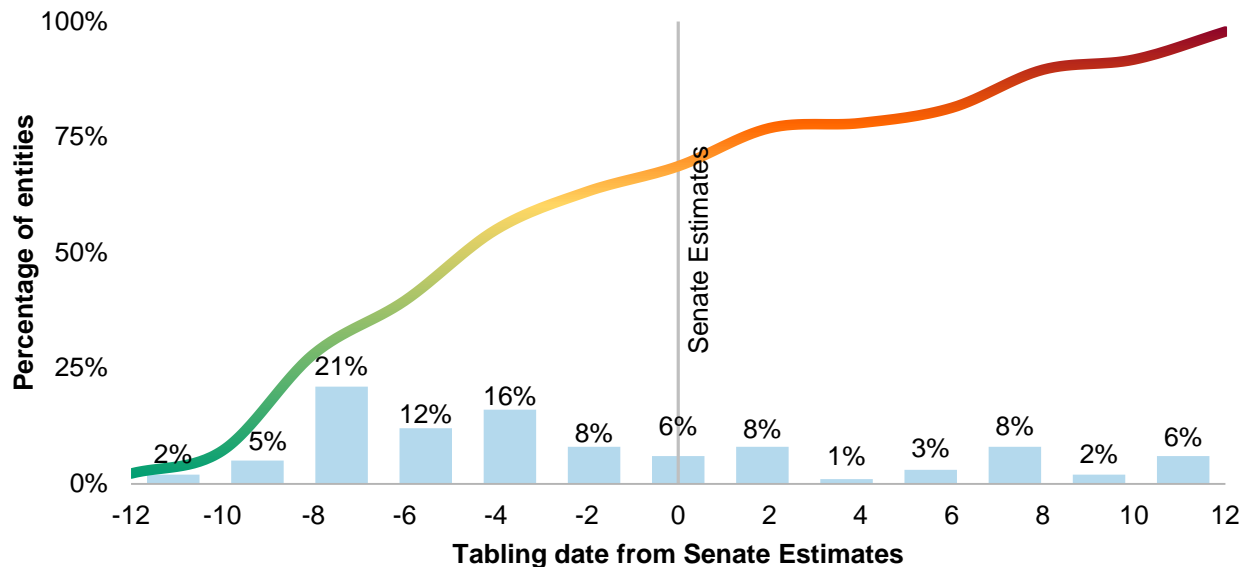
- 82% of entities provided draft financial statements in accordance with the agreed timeline
- Further 9% provided statements within one week of the agreed timeline

## Unadjusted audit differences

- The number of unadjusted audit differences for material entities decreased from 127 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

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

# 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

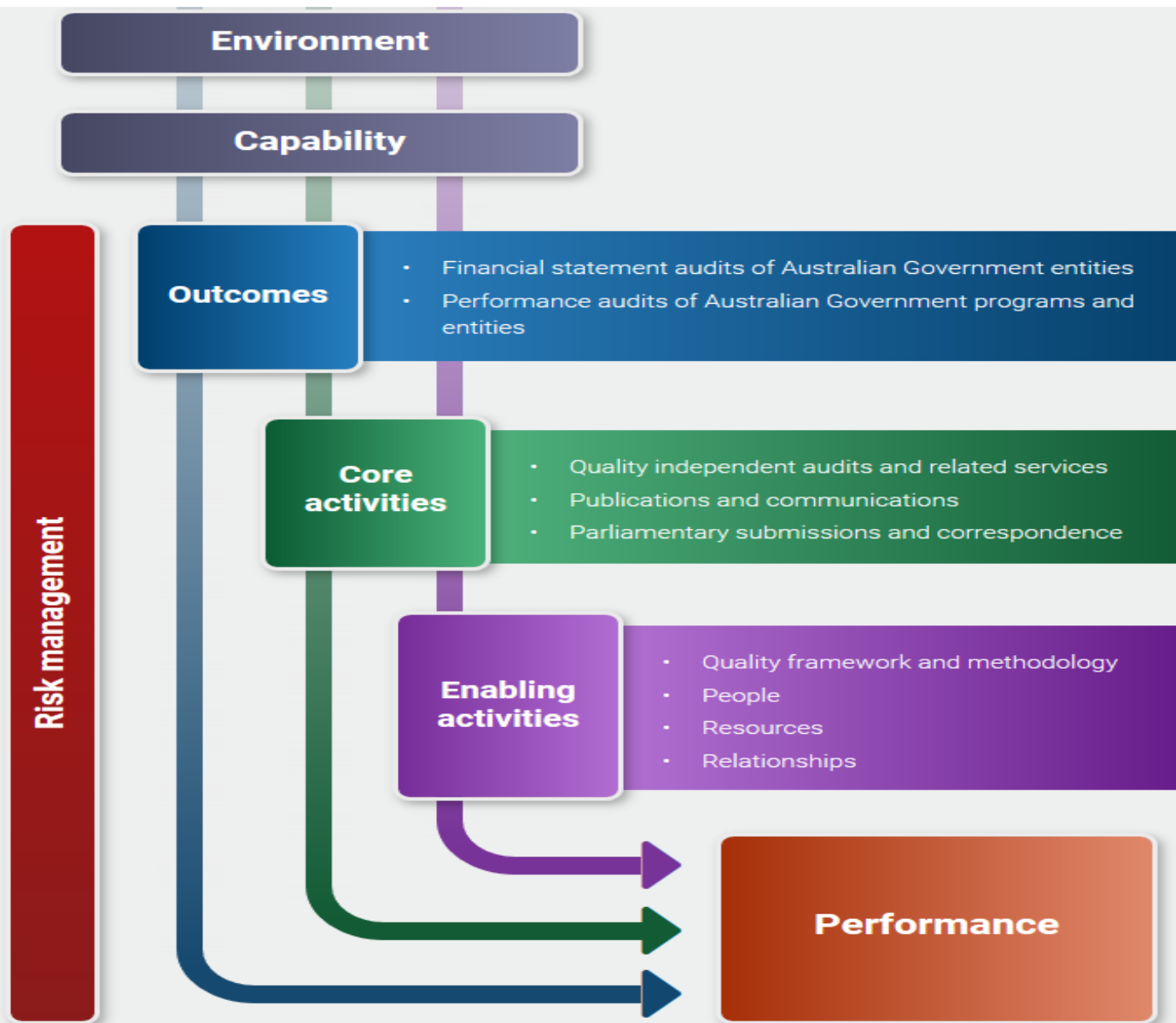
# Quality in the ANAO

- 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

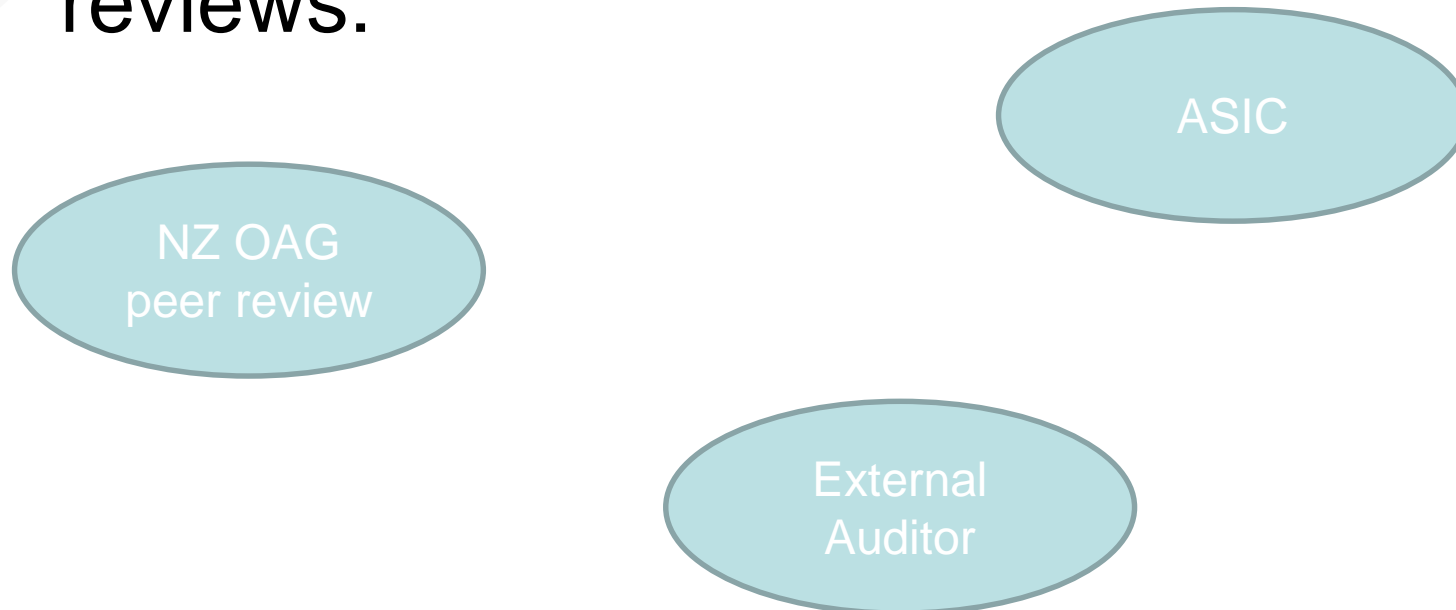
- To assess whether audit conclusions are appropriate and supported by sufficient appropriate audit evidence

# 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 Data Analytics



Current Quality & Efficiency

Who:

Multiple people | **Target** the data already collected to identify risks to be addressed through the audit

What:

Trial Balance; G/L Account **extracts**; Reports; files; **Selected tables**  
 • Plan and scope the audit to focus on high risk areas; newly identified risks

Through:

Discover, analyse, quantify impact more **efficiently across populations**

In:

Multiple File Formats

Collected:

risk based audit procedures

When:

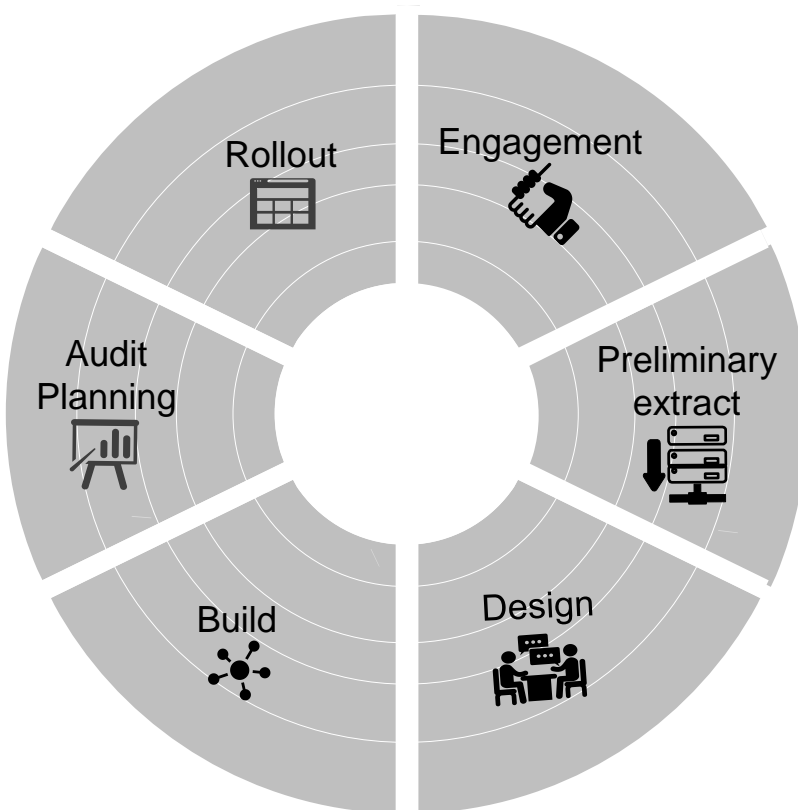
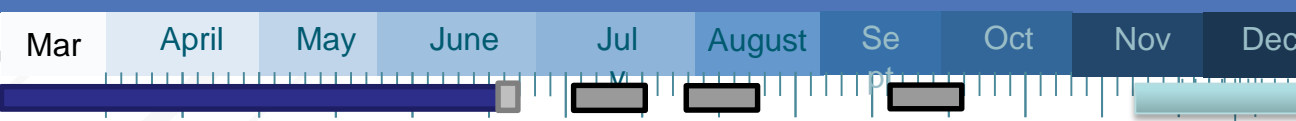
Multiple times, periods  
 • Report results quickly

Single defined data collection  
 Multiple uses in the audit process



More effective audit ....reduced foot print-

# Department of Infrastructure, Regional Development and Cities - Pilot



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

Extract relatively easily/and not time consuming and easily repeatable



Predefined data script/extract for procurement and journals

Traditional audit discovery/ analysis process relatively easy to automate

Quality checks over data (completeness and accuracy)

Understand nuance of the process flow in data (Data Discovery)

Understand nuance of the process flow in data (Data Discovery)



Co-design and Agile development

Focus on repeatable functions (entity & tool agnostic) to reduce impact

Tools flexible and provide ability to customise quickly

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



Data security – comfort that nothing has changed



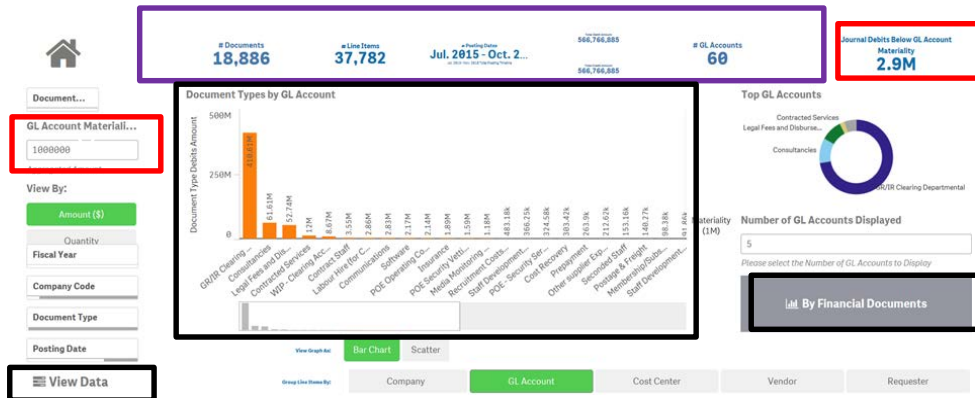
Initial investment for future benefits

# Evaluate, Audit Risk and Response

Process mapping



Interactive discovery and risk assessment



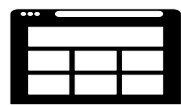
## Experience

### Process Mapping

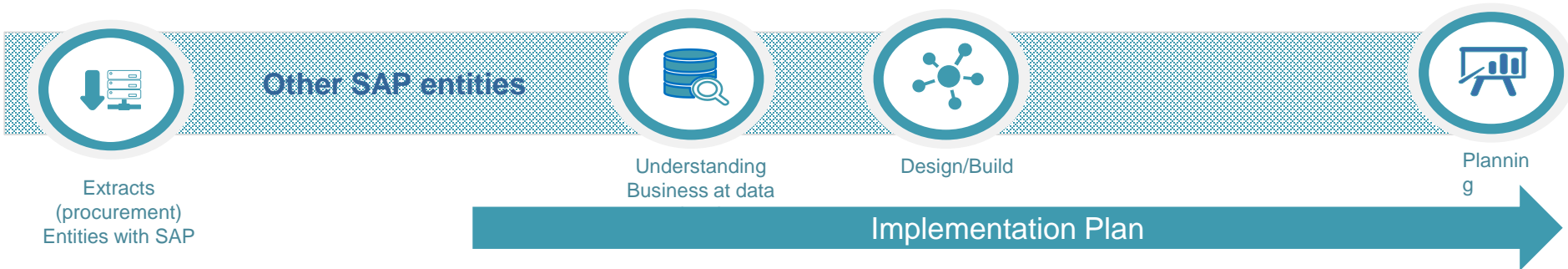
- Intensive to develop (ANAO)
- Clear understanding/visualisation of process.
- Easier to confirm against expectation (AAI).
- Target questions in walkthrough/process confirmation

### Risk assessment

- Snapshot information.
- Filters to quickly discover and analyse
- Quickly understand materiality of transactions.
- Ability to quickly drill down to actual transactions



# Way forward



# Dealing with sensitive information

**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.
- 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



# Break

# Auditor-General's update

**Grant Hehir**  
Auditor-General



Australian Government

Department of Finance

# Public Governance, Performance and Accountability update

**Lembit Suur**

First Assistant Secretary

Public Governance, Performance & Accountability



**Australian Government**

**Department of Finance**

# **Financial Analysis, Reporting and Management update**

**Tracey Carroll**  
First Assistant Secretary  
Financial Analysis, Reporting & Management



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# GovTeams

**Marcel Gabriel**

Director

Online Services Branch



# Forum close