



Australian National Audit Office Chief Financial Officer's Forum

Welcome



Deputy Auditor-General's update

Rona Mellor
Deputy Auditor-General



Deputy Auditor-General's update



COVID – response and impacts

AAWP for 2020-21 – Status and Focus

Parliamentary update – JCPAA and Submissions

New building



Auditor-General Report No.38

Interim Report on Key Financial Controls of Major Entities

Carla Jago
Group Executive Director
Assurance Audit Services Group



Impact of COVID-19



The ANAO's audit work and associated findings summarised in the interim report refer predominantly to the pre-COVID-19 period.

The ANAO is revising its risk assessments for each entity and modifying planned audit procedures in response to any heightened or new risks identified.

Some key areas include:

- changes to how systems of internal control operate
- reprioritising staff and resources to operational areas delivering the Government's response to COVID-19
- significant new areas of estimation uncertainty
- ability to operate as a going concern
- challenges to the ability of the ANAO to comply with requirements of the auditing standards. The ANAO Auditing Standards require audit opinions to be modified where we can't get sufficient appropriate audit evidence.



Impact of COVID-19



Commonwealth entities seeking to minimise the impact of COVID-19 on their financial statements preparation and audit should consider:

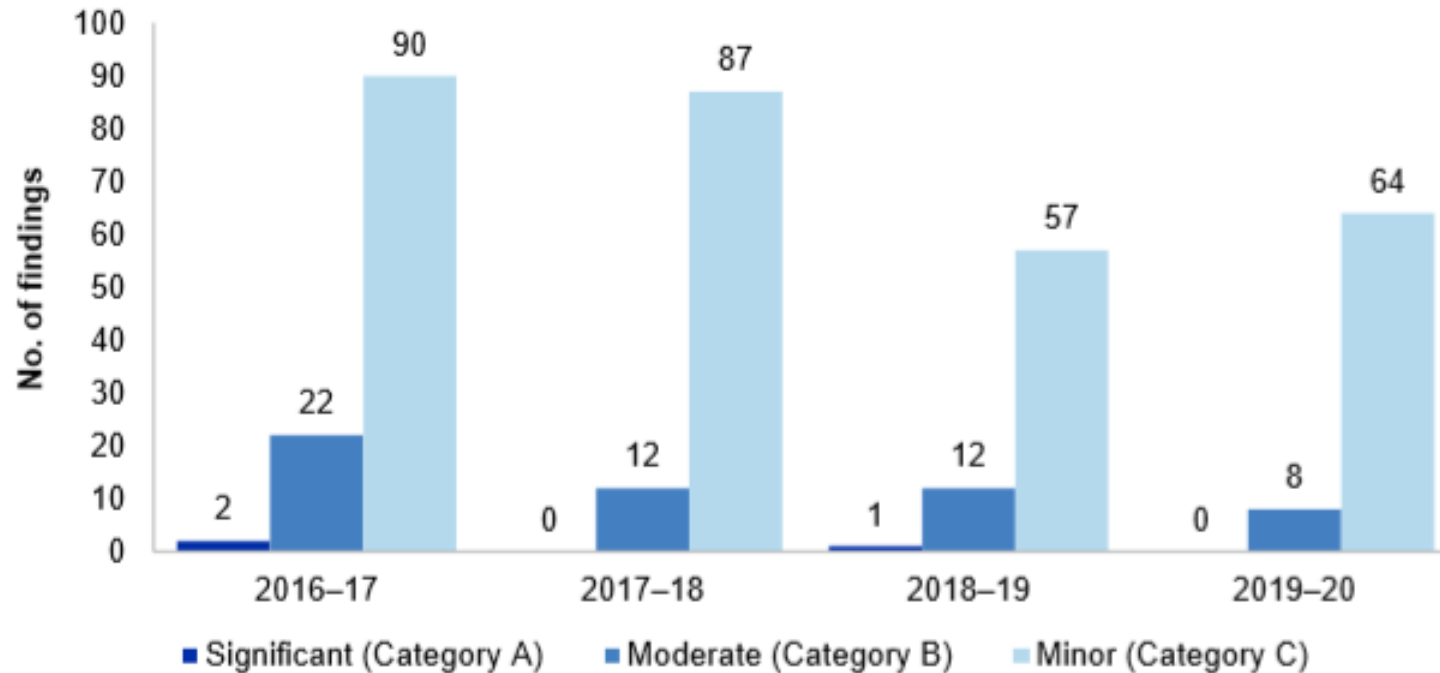
- making an early assessment of the initial and ongoing impact of COVID-19
- horizon scan and implement latest advice from the Department of Finance, standard setters and peak bodies
- disclosures – do them early with audit committee and audit team review
- seek alternative approaches for gaining assurance where key controls are no longer possible



Aggregate audit findings for last four years

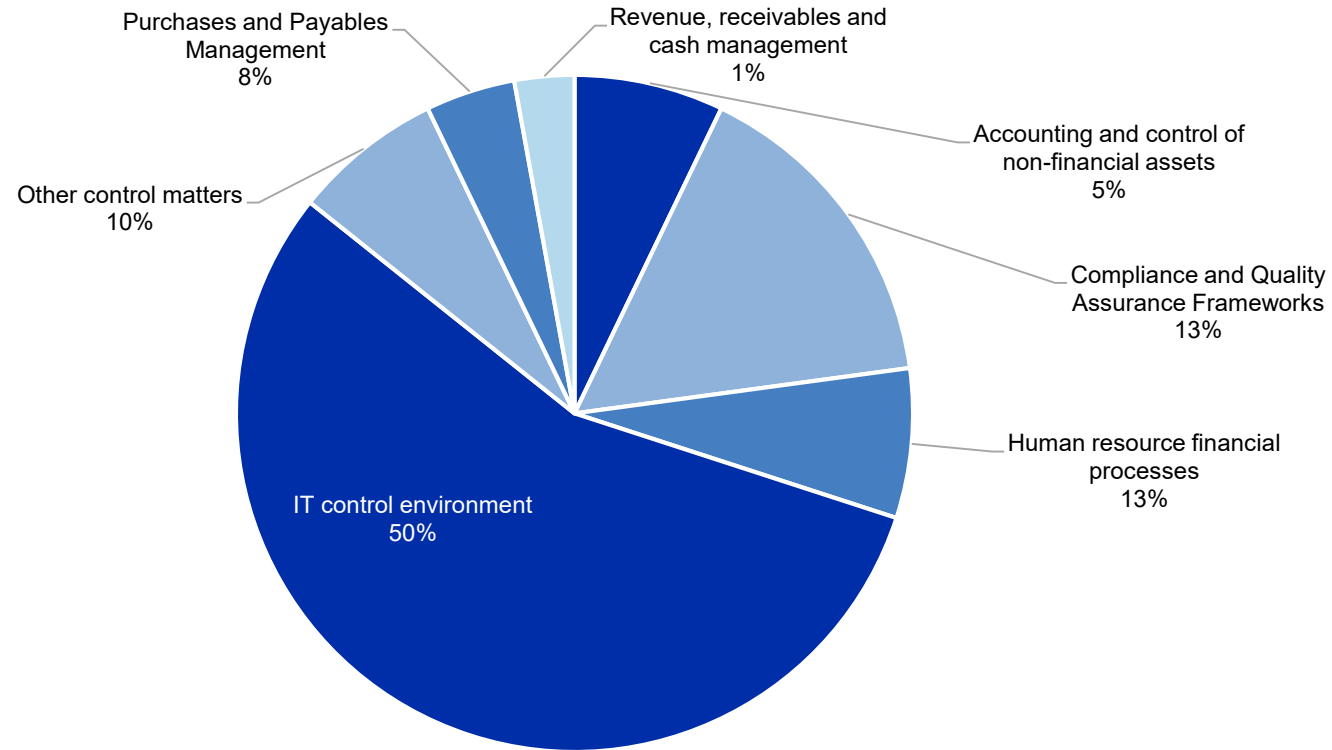


Trend in aggregate interim audit findings 2016-17 to 2019-20





2019–20 interim audit findings – by category



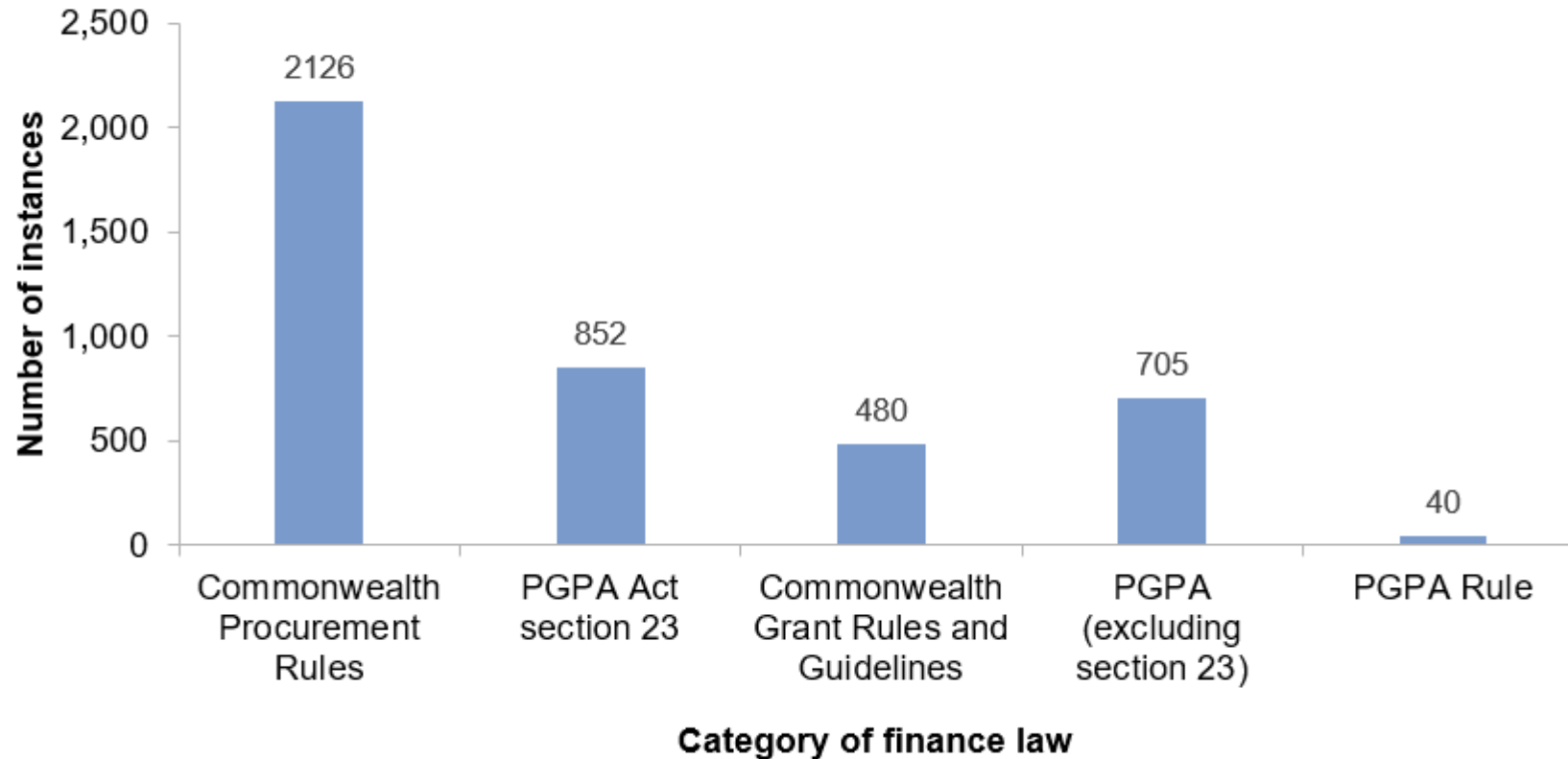
Source: ANAO compilation of interim findings.



Non-compliance identified during 2018-19 by entities



Reported incidences of non-compliance 2018–19



Source: ANAO analysis of data provided by entities.



Gifts and Benefits



Implementation of Public Reporting of Gifts and Benefits Received by Agency Heads

APSC Guidance recommendations	Implemented	Not implemented
Establish a gifts and benefits register	24	0
Record all gifts and benefits received by the agency head over \$100	23	1 ^a
Publish all gifts and benefits received by agency heads valued at or more than \$100 on the entity's website as at 31 January 2020.	20	4
Publish all gifts and benefits received by agency heads valued at or more than \$100 on the entity's website as at 31 March 2020.	19	5

Source: ANAO analysis.

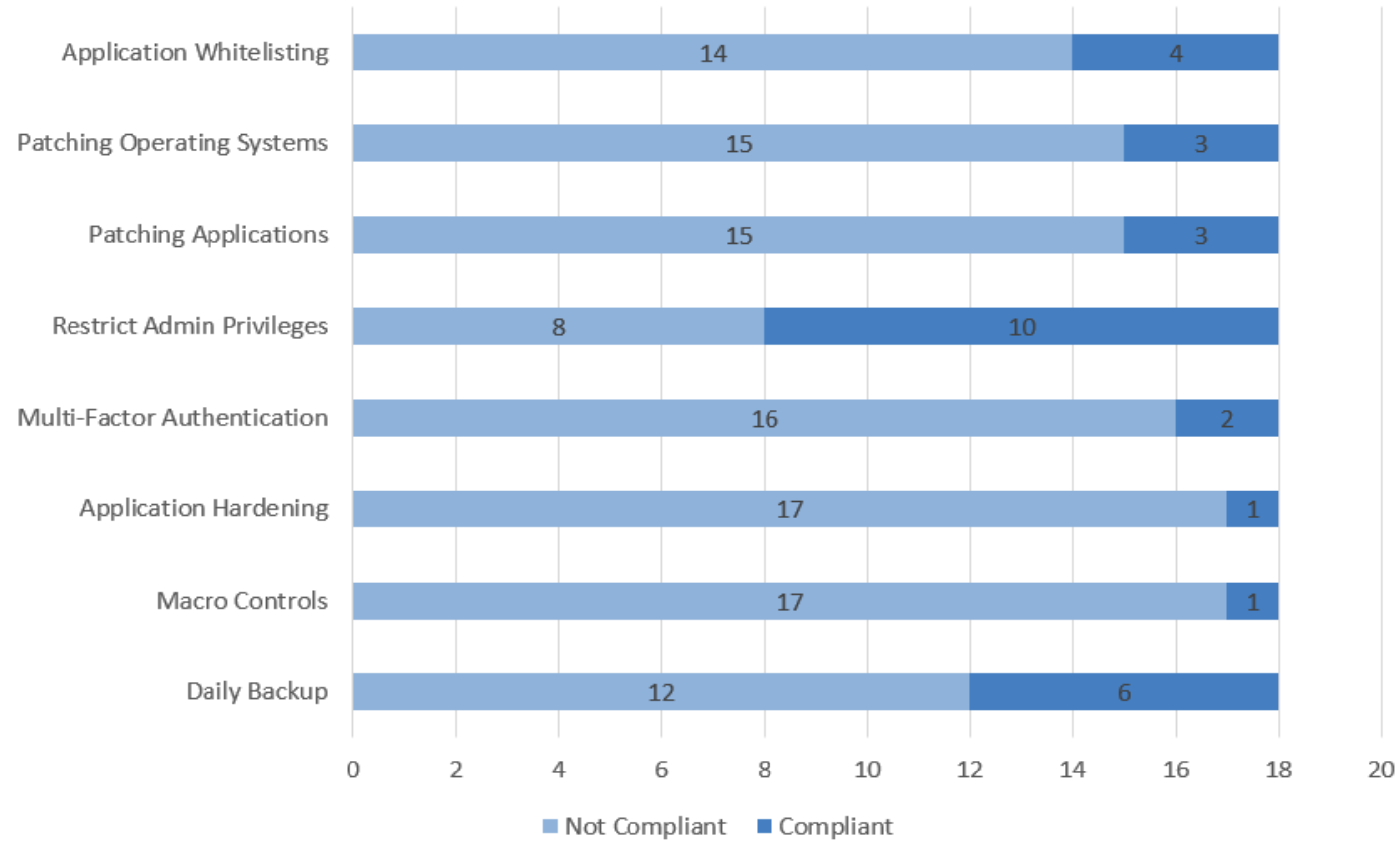
Note a NBN Co as a Commonwealth company is strongly encouraged though not required to comply with the policy released by the Commissioner. NBN Co has not published a gifts and benefits register for the agency head and has set a minimum reporting threshold of \$200.



Compliance with PSPF Policy 10 Requirements



Compliance with the PSPF Policy 10 Requirements





Management of Staff Leave



- FS audits have identified issues in this area over a number of years
- Three financial statements audits were selected for further assessment of compliance:
 - Departments of: Home Affairs; the Prime Minister and Cabinet; and the Treasury.
- To date this has identified weaknesses in processes relating to staff leave and associated monitoring controls.
- How to improve?
 - timeliness of submission and approval; and
 - consistent application of requirements
- Further reporting to come later in the year



Audits of the Financial Statements for the period ended 30 June 2020



- Information that will be collected for the Year End Report:
 - Number and value of audit adjustments
 - Adherence to financial reporting timetable including revisions to annual report tabling deadlines
 - Information on entity responses to COVID-19 including inclusion of additional disclosures



Audit Insights – Fraud Control Arrangements

Michelle Page
Executive Director
Performance Audit Services Group



Summary



- Key messages from a series of performance audits which examined the effectiveness of fraud control arrangements in three Australian Government departments.
- The audits examined:
 - compliance with the mandatory requirements of the 2017 Commonwealth Fraud Control Framework
 - application of the government's better practice fraud guidance
 - steps taken by the entities to promote a fraud aware culture.
- The key messages may be relevant for the operations of other Commonwealth entities, as fraud control is a key responsibility in Australian Government administration



Audit Insights – Fraud control arrangements



- The ANAO audit program includes topics that examine the implementation of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and the Public Governance, Performance and Accountability Rule 2014 (PGPA Rule)
- The Commonwealth Fraud Control Framework 2017 (the Framework) outlines the Australian Government's requirements for fraud control



Audit Insights – Fraud control arrangements



The Framework consists of three tiered documents:

- the Fraud Rule — section 10 of the PGPA Rule 2014 sets out the key requirements of fraud control;
- the Commonwealth Fraud Control Policy — sets out procedural requirements for specific areas of fraud control such as investigations and reporting; and
- the Fraud Guidance—*Resource Management Guide No. 201 — Preventing, detecting and dealing with fraud* (August 2017) is a better practice document setting out the Australian Government’s expectations in detail for fraud control arrangements within all Commonwealth entities



Audit Insights – Fraud control arrangements



- The Framework provides for Commonwealth entities to manage their fraud risks in a way which best suits the individual circumstances of the entity, in the context of a requirement that the accountable authority of a Commonwealth entity must take all reasonable measures to prevent, detect and deal with fraud relating to the entity.
- The Attorney-General's Department is responsible for administering the Framework



Fraud control arrangements – performance audits



Auditor-General Report No. 42 2019-20

*Fraud Control Arrangements in the Department of Foreign
Affairs and Trade*

Presented for tabling 19 June 2020

Auditor-General Report No. 43 2019-20

Fraud Control Arrangements in the Department of Home Affairs

Presented for tabling 22 June 2020

Auditor-General Report No. 44 2019-20

*Fraud Control Arrangements in the Department of Social
Services*

Presented for tabling 23 June 2020



Audit observations



Conclusions:

- fraud control arrangements in the Department of Home Affairs (Home Affairs) were effective
- arrangements in the Department of Social Services (DSS) and the Department of Foreign Affairs and Trade (DFAT) were largely effective
- the relatively small number of recommendations, largely directed to DSS and DFAT, indicates a high level of compliance with the key requirements of the Framework



Audit observations



- Each of the audited entities met the **mandatory requirements** of the Framework regarding:
 - risk assessments;
 - fraud control plan;
 - prevent, detect and investigate fraud;
 - recording and reporting incidents of fraud or suspected fraud; and
 - procedural requirements set out in the fraud policy
- fraud control arrangements in Home Affairs were consistent with the whole of government **better practice fraud guidance** and internal requirements, and largely consistent in DSS and DFAT.
- the accountable authority has taken steps to promote a **fraud aware culture**



Audit insights – implementing effective fraud control



- Each of the three tiers of the Framework has a different emphasis:
 - The fraud rule is the minimum standard for managing the risk and incidents of fraud;
 - the fraud policy sets out procedural requirements for specific areas of fraud control, concentrated towards procedural requirements for fraud investigations; and
 - the fraud guidance is a better practice document that aims to assist accountable authorities to meet their obligations under the PGPA Act, fraud rule and fraud policy



Audit insights – implementing effective fraud control



- The focus areas are:
 - **Risk assessment** — Review fraud risks and conduct assessments regularly
 - **Planning** — Plan both strategically and operationally
 - **Prevention, awareness and training** — Build fraud awareness and expertise
 - **Third party arrangements** — Oversee third party arrangements
 - **Detection** — Look for fraud
 - **Investigation** — Establish comprehensive procedures to support investigations
 - **Quality assurance and review** — Develop the capacity to measure and evaluate performance
 - **Reporting** — Ensure key personnel obtain the information and assurance they require
 - **Culture** — Promote a fraud aware culture



1. Review fraud risks and conduct assessments regularly



Fraud risk assessments are an important first step in fraud control, as they allow the entity to understand how vulnerable it is to fraud and what business areas or programs are most susceptible

Audit example

- The Department of Home Affairs has drawn from a variety of internal documentation to identify and prioritise business areas requiring fraud risk assessments.
- A fraud risk schedule is used to prioritise fraud risk assessments of its business areas.
- The department has guidance to assist its fraud control section to conduct fraud risk assessment workshops with the business area.
- During the workshop fraud risks are identified, analysed and evaluated.
- Fraud risk treatments are then determined, if required, to reduce the likelihood and/or consequence of the risk occurring (paragraphs 2.20 to 2.22)



2. Plan both strategically and operationally



- Strategic: communicate a commitment to combatting fraud and to provide enterprise-level information on the entity's approach to fraud control.
- Operational: address the risks identified in fraud risk assessments and to assist staff to identify and manage fraud risk in their day-to-day work.

Audit examples

- Social Services' fraud control framework comprises a fraud control plan which sets out the department's strategic approach to fraud control and an operational annual work program that sets out key actions to be taken by the department during the year (paragraph 2.13).
- Home Affairs maintains a comprehensive fraud risk register, documenting each fraud risk identified from fraud risk assessments, with each fraud risk having a staff member (identifiable by position) allocated as the fraud risk owner. The decision of the fraud risk owner to either accept the fraud risk or undertake further treatment to reduce the fraud risk is also documented in the risk register. The treatment owner, the implementation date and review date are also updated regularly (paragraphs 2.28; 2.30; 2.38–2.39).



3. Build fraud awareness and expertise



- awareness of what constitutes fraud and the need to prevent and detect fraud as part of their normal responsibilities
- skilled fraud control officials who can provide specialist advice and expertise

Audit example

- In addition to providing online and face to face training to all staff, the Department of Home Affairs provides a suite of guidance material and advice for staff, including case studies and videos.
- This additional supporting material helps staff connect the information provided during training to situations that may arise in their day to day work.
- The department also has arrangements to monitor staff compliance with mandatory training, including a requirement for direct line managers to monitor compliance on a monthly basis.
- Staff non-compliance is escalated to the executive via an executive dashboard (paragraphs 4.18 to 4.21).



4. Oversee third party arrangements



A Commonwealth entity retains its fraud control responsibilities when entering into an arrangement for services to be delivered by a third party

Audit example

- DFAT requires funding recipients (third parties) to prevent, detect and correct fraud in accordance with contract obligations.
- department conducts due diligence checks and confirms that the funding recipient has fraud control arrangements in place prior to commencing funding.
- Funding recipients must report any suspected fraud or incidents of fraud to the department within five business days, and investigate the matter in accordance with the Australian Government Investigations Standards 2011.
- the department provides guidance, written procedures and training to third party providers.
- procedures and a case management system for monitoring, and reports regularly to its executive and audit committee (paragraphs 3.16 to 3.18).



5. Look for fraud



Data analytics is emerging as the most common fraud detection method. Data analytics can assist an entity to identify patterns, anomalies and exceptions that could indicate fraud.

Audit example

- In addition to providing a process for staff and the public to report suspected fraud, the Department of Social Services uses **data analytics** as a detective control. The department has operationalised machine learning models to detect fraud in high risk programs, and has also undertaken random sampling activities to detect patterns, anomalies and exceptions in records and transactions that are then subject to further investigation (paragraph 3.13).



6. Establish comprehensive procedures to support investigations



Having clear documented procedures can assist entities to apply a consistent approach and gather the necessary information to support successful investigation outcomes.

Audit examples

- The Department of Home Affairs procedures for investigations of suspected fraud are consistent with the Australian Government Investigations Standards 2011. The department's procedures provide clear guidance to assist staff to assess and prioritise cases and to document and report on outcomes (paragraphs 3.18 to 3.22).



7. Develop the capacity to measure and evaluate performance



- All entities are expected to review fraud control arrangements and provide quality assurance over their fraud investigations
- Establishing **metrics** to evaluate performance will assist entities to assess whether the actions they are taking are improving fraud prevention, detection and responses

Audit example

- The Department of Social Service's fraud control plan contains 'measures of success' intended to assist the department to monitor and review its fraud control arrangements (paragraph 2.18)



8. Ensure key personnel obtain the information and assurance they require



The PGPA Act establishes a duty that the accountable authority keep the Minister informed of the activities of the entity

Audit examples

- DFAT: annual fraud control report to the responsible Minister, containing all of the suggested content detailed in the fraud guidance, including fraud initiatives planned and undertaken, information about significant fraud risks, and significant fraud incidents which occurred during the reporting period (paragraph 4.31).
- Home Affairs: produces a quarterly Fraud in Home Affairs report for the audit committee and enterprise operations committee. This report includes details of fraud instances and related analysis, details on all fraud and corruption activities within the department during the quarter, and staff completion rates for compulsory fraud awareness training (paragraphs 2.23 and 4.21).



9. Promote a fraud aware culture



Audit examples

In each of the audited entities, the accountable authority has taken steps to promote a fraud aware culture:

- Clear expectations
- Accountable authority messaging to staff
- Making fraud awareness information easily available for staff to access
- Departmental activities
- Governance arrangements structured to support a fraud aware culture



Questions



Audit available at: <https://www.anao.gov.au/>

Questions?



ANAO COVID-19 Audit Strategy

Lisa Rauter
Group Executive Director
Performance Audit Services Group



Strategy Overview



- A three phased strategy to consider the effective, efficient, economical and ethical delivery of the Australian Government's response to the COVID-19 pandemic.
- Including the examination of economic stimulus and social support packages as well as the management of related risks, such as:
 - system and technology changes;
 - fraud;
 - information management;
 - privacy;
 - compliance and regulatory effectiveness.



Three phases of audit: Phase 1



Phase 1: Focus on in-flight delivery of key government measures, including:

- Risk management – in frontline delivery agencies – examining risks such as internal and external fraud, compliance, reaching beneficiaries in a timely manner, stakeholder engagement, IT system controls, data integrity, and impact on business as usual
- Resourcing – effectiveness of the APS to quickly and efficiently identify and train additional resources to implement new measures and deliver new policy
- Procurement – looking at the national medical stockpile and preparedness for pandemic response, procurement of personal protective equipment (PPE), pharmaceuticals and medical devices, the planning for distribution of the equipment quickly and to areas of highest need



Phase 1 audits



- Services Australia COVID-19 measures and enterprise risk management
- The Australian Taxation Office's management of risks related to the rapid implementation of COVID-19 economic response measures
- Management of the Australian Public Service's workforce response to COVID-19
- Procurements to increase the national medical stockpile

All are planning to table in December 2020



Three phases of audit: Phase 2



Phase 2 will focus on the three main stages of program delivery:

- policy design;
- implementation;
- performance assessment, evaluation and dissemination of lessons learnt.

Audit topics still being determined, but will be informed by:

- assessment of risk and system controls;
- materiality of funds allocated to entities;
- potential or actual impact of the response measure on the entity, individuals and/or industry;
- extent of policy or systems change in each portfolio; and
- Parliamentary interest



Three phases of audit: Phase 3



In Phase 3 we will review the outcomes of the Australian Government's COVID-19 response.

This may include a post-pandemic assessment of:

- the achievement of outcomes intended through the COVID-19 measures
- recovery plans and programs
- identification and dissemination of lessons learnt
- the readiness of government systems and processes to respond to future crises
- the government's response from a whole of sector perspective, looking at findings from all audits undertaken that have considered COVID-19 policy measures and associated impacts.



Early Products



- Insights on Rapid Implementation

<https://www.anao.gov.au/work/audit-insights/rapid-implementation-australian-government-initiatives>

- Dedicated ANAO website page for COVID-19 related audit activity and COVID-19 audit strategy

Coming soon

- Assurance Review of Advances to the Finance Minister (1 July 201 to 24 April 2020 and 25 April to 29 May 2020)

<https://www.anao.gov.au/pubs/assurance-review>



ANAO pilot of audits of performance statements

Michael White
Senior Executive Director
Performance Audit Services Group



Background



On request of the Minister for Finance, the Auditor-General agreed to undertake a program of pilot audits of annual performance statements, in consultation with the JCPAA

- Implements Recommendation 8 from the *Independent Review of the PGPA Act and Rule*.
- The intent of performance statements audits is to drive improvements in the transparency and quality of entities' performance reporting and, in turn, increase entities' accountability to the Parliament and public.



Background



Applying existing methodology from recent performance audits with some refinements including:

- Aggregation of results to support consistent and repeatable audit opinions
- Interim results reported to entities in May 2020
- Final audit work in parallel with financial statements audits, in time for entity annual reporting
- Provide audit opinions (under ASAE 3000) to Minister for Finance and prepare a report for the JCPAA



Interim Audit Testing



Five areas of interim audit testing:

1. Internal controls assessment
2. Corporate Plan and PBS compliance
3. 'Purposes' assessment
4. 'Key Activities' assessment
5. Appropriateness of performance criteria
 - Relevant; Reliable and Complete



1. Internal controls assessment



Interim assessments of:

- entity internal control environment, including fraud risk assessment;
- management assurance controls, including audit committee involvement in performance statements reporting; and
- relevant internal audit coverage



2. Corporate plan and PBS compliance



Corporate plan compliance assessment:

- Requirements outlined in *PGPA Act (Section 35)* and *PGPA Rules (Section 16E)*
- PBS compliance assessment:
 - Requirements outlined in *Finance Secretary Direction dated 3 March 2017 – Requirements for Performance Information included in PBS*



3. 'Purposes' assessment



Assessment Questions
1a. Are the purposes readily identifiable (accurately described and labelled)?
1b. Are the purposes free from any additional material that confuses the reader (for example, no unnecessary or duplicative mission or vision statements or text that detract from the purposes)?
1c. Are the purposes clear and concise?
2. Are the purposes consistent with the PBS and other documents?
3a. Do the purposes include what the entity aims to achieve, a summary of the activities the entity will undertake to achieve it, and the outcome/effect of the summarised activities?
3b. Is there a clear alignment between the entity's aims, summarised activities and the outcome/effect?
Are the entity's purposes set out in its Corporate Plan clear and concise and include all required elements



4. 'Key activities' assessment



Assessment Questions

1. Are the activities set out in the entity's Corporate Plan readily identifiable?

2a. Do the activities contribute to the entity's purposes?

2b. Do the activities clearly describe what actions the entity will undertake?

3. Have the activities been expressed at an appropriate level?

Significant activities are identified rather than minor supporting activities. Larger entities identify a more complex range of activities than smaller entities

Do the activities set out in the entity's 2019-20 Corporate Plan support appropriate performance reporting by the entity?



5. Performance criteria - threshold



Threshold for inclusion in ANAO's assessment

Must be:

- Effectiveness indicator; or
- Efficiency indicator; or
- Effectiveness/efficiency proxy indicator.
- *RMG 131 (paragraph 84) - circumstances where proxies (generally outputs or activities) are acceptable*



5. Performance criteria – Relevant



Assessment characteristics

Individual assessment of each performance criterion

Benefit

The performance criterion clearly indicates who will benefit and how they will benefit from the entity's activities.

Focus

The performance criterion should address a significant aspect/s of the purpose, via the activities

Understandable

The performance criterion should provide sufficient information in a clear and concise manner.



5. Performance criteria – Reliable



Assessment characteristics

Individual assessment of each performance criterion

Measureable

The performance criterion should use and disclose information sources and methodologies that are fit for purpose.

Target

The performance criterion should include a target.

Free from bias

The performance criterion should be free from bias and where possible, benchmarked against similar activities.



5. Performance criteria - complete



Balanced

For each Purpose/Strategic Outcome/PBS Program:

- At least *one* Effectiveness/Effectiveness Proxy Indicator
- At least *one* Efficiency Indicator
- At least *one* Quantitative Indicator
- At least *one* Qualitative Indicator
- Collective
 - Are the significant activities undertaken in each PBS Program encapsulated in the Corporate Plan?
 - Does the Corporate Plan's performance criteria (that meet assessment threshold) cover each PBS Program's significant activities?



Common difficulties entities have with performance criteria



Relevant

- Outlining who will benefit and how
- Attributing entity activities to the performance measure
- Making the measure understandable to a reader

Reliable

- How performance will be measured and that the measurement will be free from bias

Complete

- Lack of efficiency indicators (measures of inputs over outputs)



Next steps in the Pilot Program



- Final audit
 - Finalise internal controls assessments
 - Verify completeness and accuracy of performance measures
- Independent Assurance Reports (audit opinions) to entities and the Minister for Finance (tabled in Parliament) in advance of annual reports tabling
- Final Report on the Pilot Program to the JCPAA (tabled in Parliament)



Forum Close