



# Australian National Audit Office

## Chief Financial Officer's Forum

### Welcome

Friday 27 November 2020

10am - 11.30am



# Deputy Auditor-General's update

**Rona Mellor**  
Deputy Auditor-General



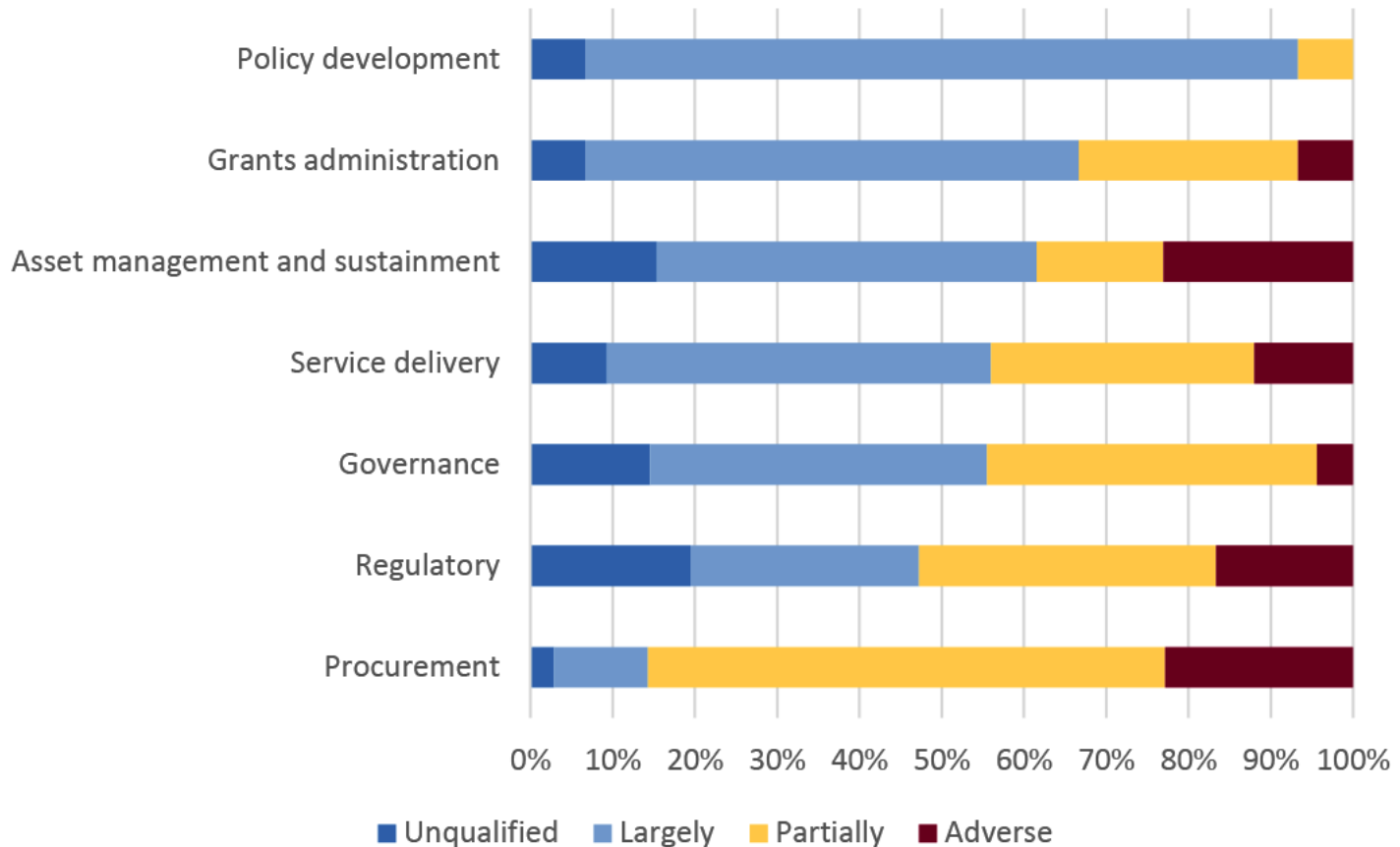
# Key Learnings



- Procurement
- Regulation
- Indigenous Policy
- Cyber Security



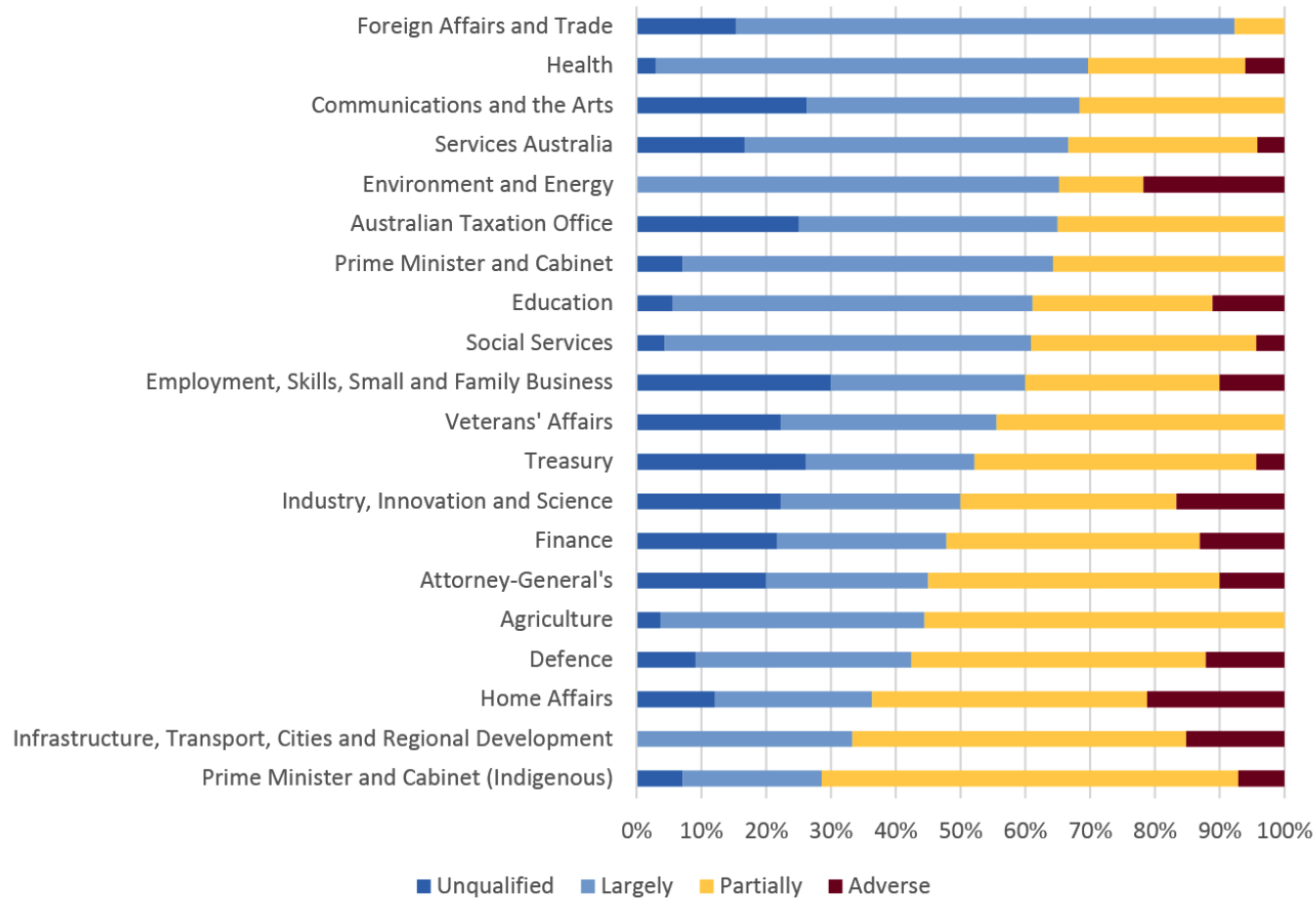
# Audit conclusion by activity



Source: ANAO analysis of performance audit reports published 2015-16 to 2019-20



# Audit conclusion by portfolio, 2015-16 to 2019-20



Source: ANAO analysis of performance audit reports published 2015-16 to 2019-20



# Performance Reporting



Over the past five years, the ANAO has published seven audits covering 34 entities in relation to the revised non-financial performance reporting framework established by the *Public Governance, Performance and Accountability Act 2013* (PGPA Act)



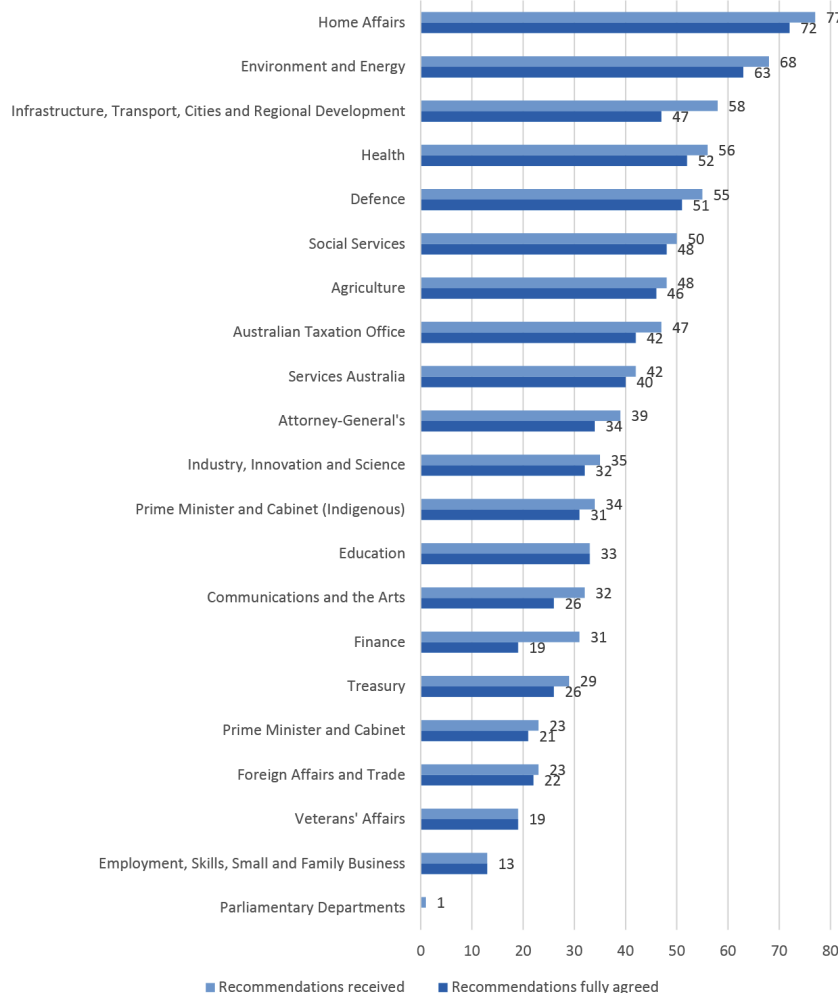
# Ethics



- The fourth 'e' in the definition of proper use and management of public resources in the *Public Governance, Performance and Accountability Act 2013*
- Alongside effectiveness, economy and efficiency



# Recommendations received and fully agreed to – by portfolio

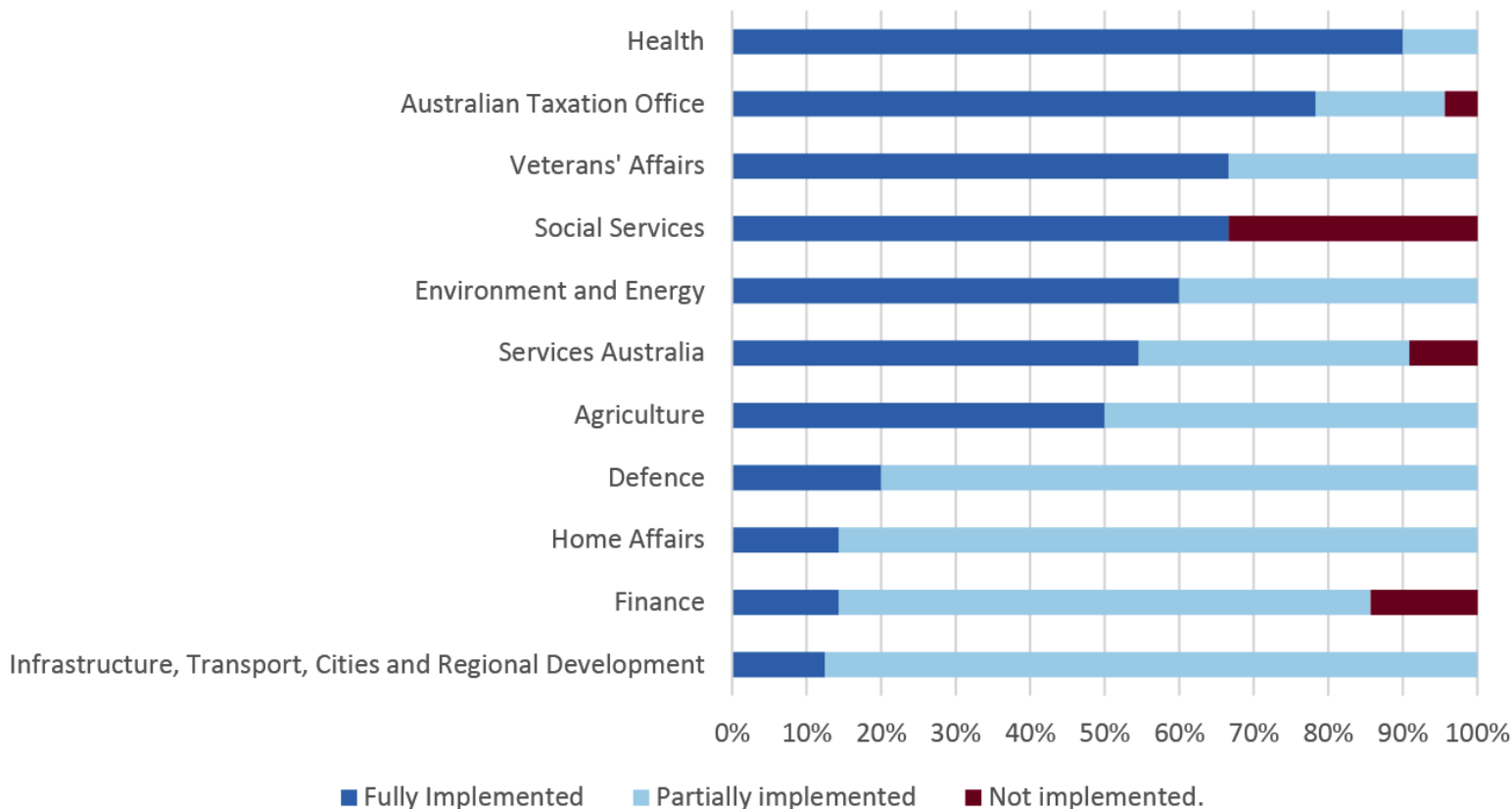


Source: ANAO analysis of performance audits tabled from 2015-16 to 2019-20





# Implementation of ANAO recommendations – by portfolio



Source: ANAO analysis of follow-up audits tabled in 2015-16 to 2019-20. This analysis reflects the status of implementation activity at the time the audits were undertaken.



# Key themes from the audits of the financial statements of Australian Government entities for the period ended 30 June 2020

**Carla Jago**  
Group Executive Director  
Assurance Audit Services Group



# 2019-20 Financial Statements Audits – Report to Parliament



## Key Results

- 229 of 246 Auditor's Reports issued
- 77% of auditor's reports issued within three months of year-end (2018-19: 83%)
- 142 audit findings across all categories (2018-19: 184)
- COVID-19 pandemic's impact on entities. All entities reassessed risk as part of the internal control environment.
- Revised Key Audit Matters (KAM) for 5 entities, 3 entities with new KAM
- Management of staff leave compliance work insights



# Audit Report Signing Analysis 2019–20



Timeframe	2018-19	2019-20	
	% Signed	% Signed	Number Signed
Within One Month	0.4%	0.8%	2
Between one and two months	27.1%	24.1%	59
Between two and three months	55.1%	52.2%	128
Between three and four months	10.0%	15.0%	35
Between four and five months	6.9%	2.4%	6
Greater than five months	1.2%	6.1%	15



# Audit Findings



Total findings 142 (2018-19: 184) as at 24<sup>th</sup> of November

- 2 significant (2018-19: 3)
- 22 moderate (2018-19: 21)
- 118 minor (2018-19: 160)

Significant findings related to governance, HR & procurement.

77% (2018-19: 86%) of moderate findings related to:

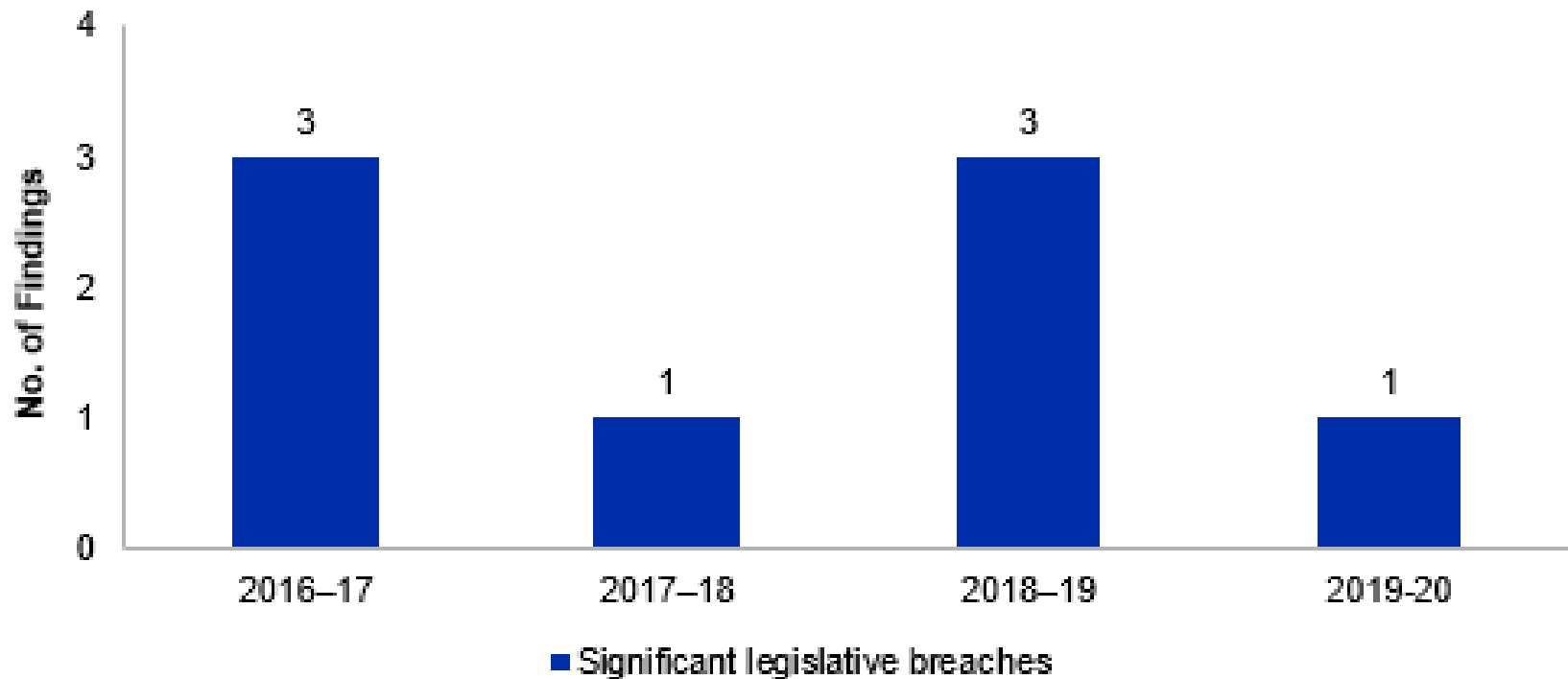
- IT controls – management of user access and privileged users;
- Compliance and quality assurance frameworks supporting program payments; and
- Management of non-financial assets



# Significant legislative breaches



## Legislative breaches





# Quality of FS Preparation



- 14 entities had findings relating to the weaknesses in processes supporting FS preparation (2018-19: 20)
- 62% of entities provided draft financial statements in accordance with the agreed timeline (2018-19: 69%)
  - a further 28% (2018-19: 18%) provided statements within one week of the agreed timeline
- Total number of adjusted and unadjusted audit differences decreased in number and increased in value from 2018-19
- Implementation of new accounting standards
  - application of Finance guidance and use of accounting position papers minimised issues from implementation



# Financial Sustainability



Broadly consistent with previous years

- Analysis of operating surpluses and deficits -
  - 29% of for profit (2018-19: 21%) and 27% (2018-19: 13%) NFP large average deficit
  - 16 NFP entities had large average surplus
- Analysis of balance sheet strength (gearing and liquidity)
  - Reviewed based on the Department of Finance's financial ratios
  - Across government 53% (2018-19: 70%) of entities have strong balance sheets





# Financial Sustainability – Impact of COVID-19



- Eight entities where the financial sustainability was impacted by COVID-19. Responses by entities included:
  - letters of support from the relevant minister or parent entity;
  - restructure of operations including reducing staff;
  - approval from Government to access cash reserves; and
  - additional Government funding.
- Important for management and accountable authority to assess impact and ability to continue as going concern



# IT Controls and Cyber Security



- Cyber security remains a strategic priority for the Australian Government
- 84% of Government entities utilised remote working arrangements during the COVID-19 pandemic
- Assessment of exposure to cyber security intrusions during the COVID-19 pandemic was performed by 105 entities
- There were 8 moderate and 40 minor findings identified during the 2019-20 financial year in relation to IT control environment (10 moderate and 63 minor in 2018-19)

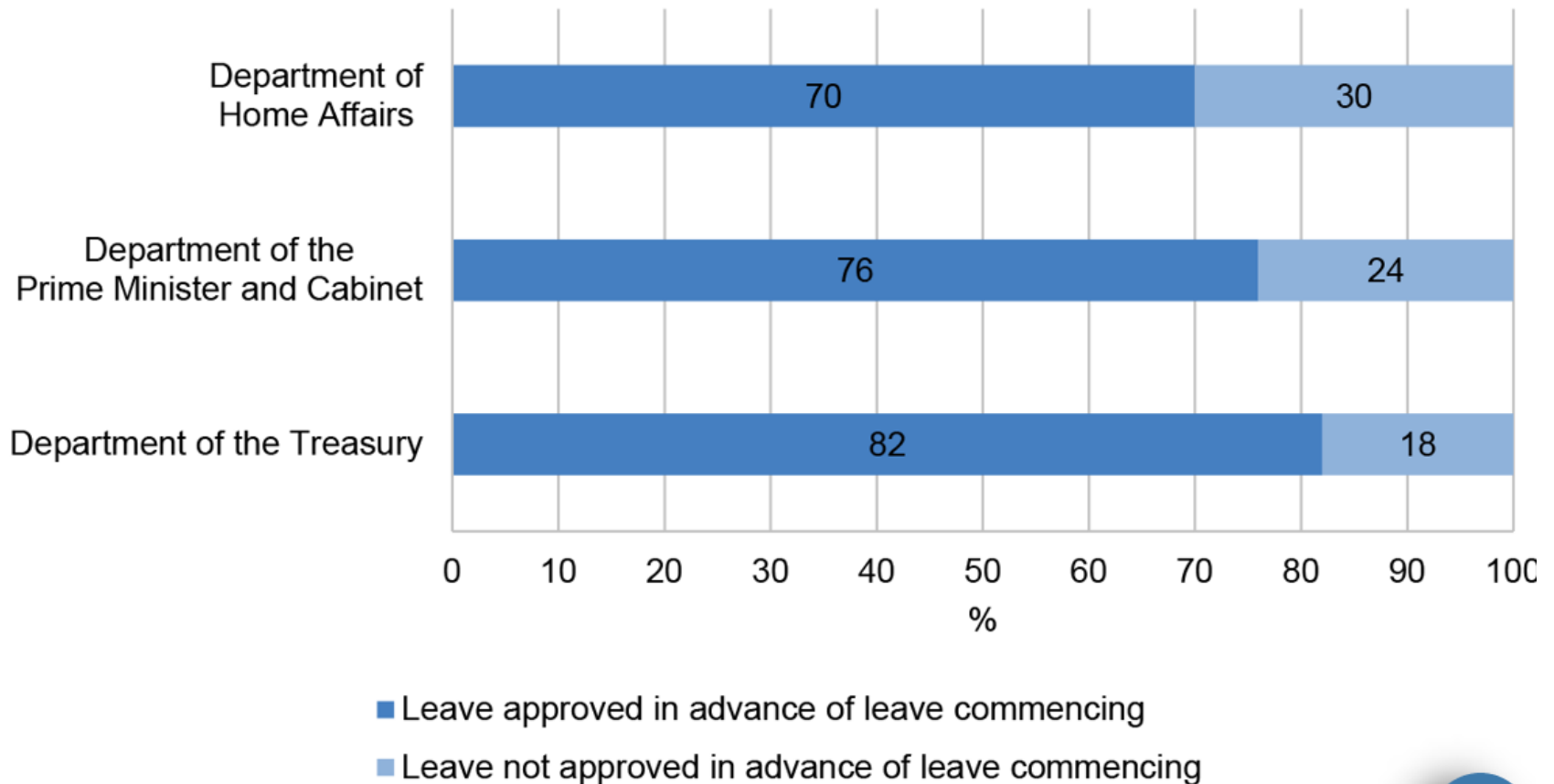


# Management of Staff Leave



- Interim report (No. 38 of 2019-20) included results to date on compliance work on management of staff leave
- End of year report will include further analysis

Figure 3.1: Proportion of leave requiring pre-approval approved in advance of leave commencing





# Management of Staff Leave



## **Annual leave balances at 1 July 2018, 30 June 2019 and 31 December 2019**

### **Number and Percentage of staff with excess annual leave balances at 1 date**

Ranged from 117 to 1,203 and from 7.9% to 14.4%

### **Number and Percentage of staff with excess annual leave balances at consecutive dates**

Ranged from 70 to 638 and from 4.2% to 5.6%



# Management of Staff Leave



Identified compliance issues with:

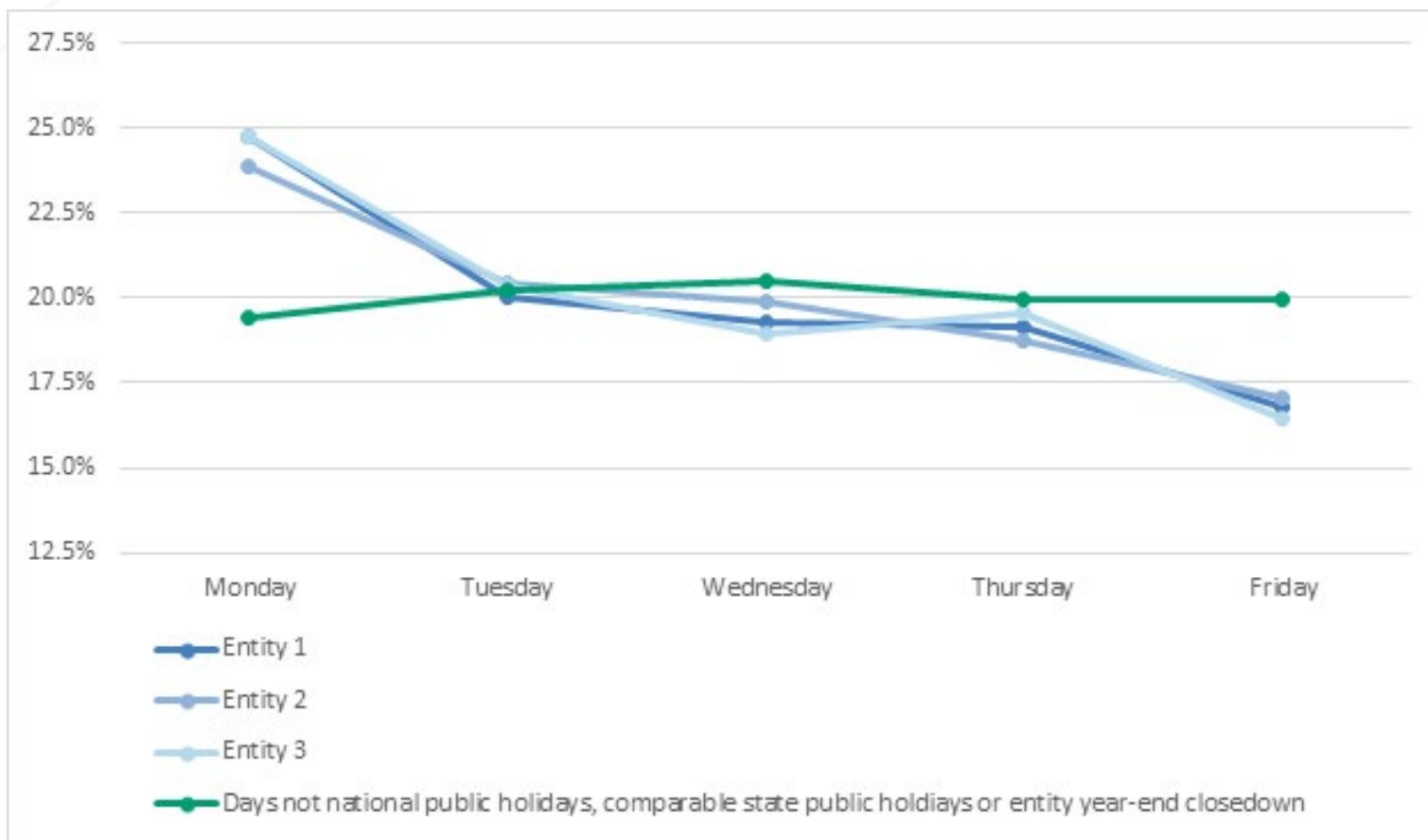
- Purchased leave
- Long service leave
- Maternity and parental leave
- Personal leave



# Management of Staff Leave



Proportion of personal leave taken on each business day (1 July 2018 to 31 December 2019)





# Management of Staff Leave



## Flexible leave balances in the audited entities between 1 July 2018 and 31 December 2019

Entity	Entity 1	Entity 2	Entity 3
Maximum credit for full-time staff	37.5 hours	Not applicable	38 hours
Maximum debit for full-time staff	(10 hours)	(7.6 hours)	(10 hours)
Percentage of employees non-compliant with required maximum credit and debit balances	17.6%	4.9%	16.0%





# Management of Staff Leave



## Attendance records:

Planned to look at physical and network access but identified limitations with the data.

- Days network access data retained?
- Do staff log off the network each day?
- Staff in the organisation that don't require physical pass or network access?



# Management of Staff Leave



## **For your entity, how do you know whether:**

- staff are entering leave before taking it (annual, study, LSL etc.)?
- staff are entering leave soon after returning for sick/bereavement etc. leave?
- staff are actually recording leave when not at work?
- leave is managed and taken in compliance with your entity's policies?



# Moving forward



- Remote access for audit teams
- KMP remuneration and expenses – who is oversighting?
- Unusual transactions – the CFO's responsibilities
- Benefits of position papers
- Agreed timing and review of key estimates by management, especially those potentially impacted by the COVID-19 pandemic and associated economic conditions
- New auditing standard on auditing accounting estimates
- Collaboratively agreeing responsibilities/expectations and key timings



# Performance Audit Update

**Lisa Rauter**  
Group Executive Director  
Performance Audit



# Performance Audit Products summary



- 42 performance audits were tabled in 2019-20
- Same target planned for 2020-21
  - This is a reduction on previous years and reflects reducing performance audit budget and performance statements pilot
- 4 insights products will be tabled this year – with a focus on performance measurement, regulation, service delivery through other entities and procurement
- 2 performance statements audit opinions will be delivered to the Finance Minister





# Common findings of interest



- Performance measurement
- Additionality
- Record keeping
- Document the basis for decisions
- Risk
- Ethics and stewardship of public resources
- Governance structures
- Value for money
- Delivery of intended savings



- Conducted and completed a performance statements audit of DVA and AGD
- Opinions to be provided to the Finance Minister
- Sector messages:
  - Clear read
  - Evidence assurance
  - Data access
  - Targets
  - Quantitative and qualitative measures
  - Case studies
  - Performance measurement capability
  - The corporate plan is a living document



- 10 years of procurement data examined with a focus on 2018-19
- \$64.5 billion spent by the 125 entities required to report on AusTender, including:
  - 62,928 parent contracts (\$47.2 billion)
  - 15,222 contract amendments (\$17.3 billion)
- Limited tender more prominent than open tender
- Contract variations reducing in incidence – but still significant
  - Less than nine per cent of amended contracts were reported as being amended within twelve months of being published (2018-19 – 6.2%)
  - 41.8 per cent of amended contracts increased by more than 100 per cent - 20 per cent of these increased by more than 200 per cent
- Consultancy contracts reported in 2018–19 totalled \$647.0 million







# 2020 Products



- Insights on Rapid Implementation
- Insights on performance measurement and monitoring
- Insights on Management of Conflicts of Interest in Procurement Activity and Grants
- Insights on Fraud Control

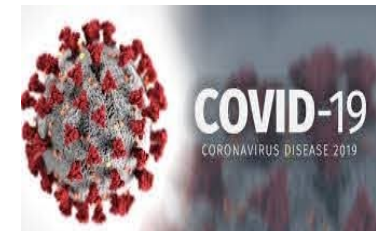
Available at: <https://www.anao.gov.au/pubs/audit-insights>

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

(<https://www.anao.gov.au/work-program/covid-19>)

- Assurance Review of Advances to the Finance Minister (1 July 2019 through to 30 October 2020)

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





# What is working well this year?



- Electronic access to records - reducing the burden on the entity, but poor file structure and using informal filing such as storing decisions in emails takes additional time and resources to work through
- Performance audit working more closely with Financial Statements audit to identify risks and share information – this can trigger the need for performance audit, it also saves time in understanding context, controls and governance arrangements
- Remote access to audit committees – saves time and travel budget and allows more both AASG and PASG to attend



# Key Take Outs for CFOs

- Invest in performance measurement capability
- Get the performance people to talk to the financial statements people about controls and evidence
- Be open in provision of information to the ANAO – clearance processes for the release of documentation creates bottlenecks and inefficiencies for both of us
- When agree to recommendations – have a way to ensure these are followed up and actioned
- Currently considering risks at portfolio and sector level for next year's audit plan.



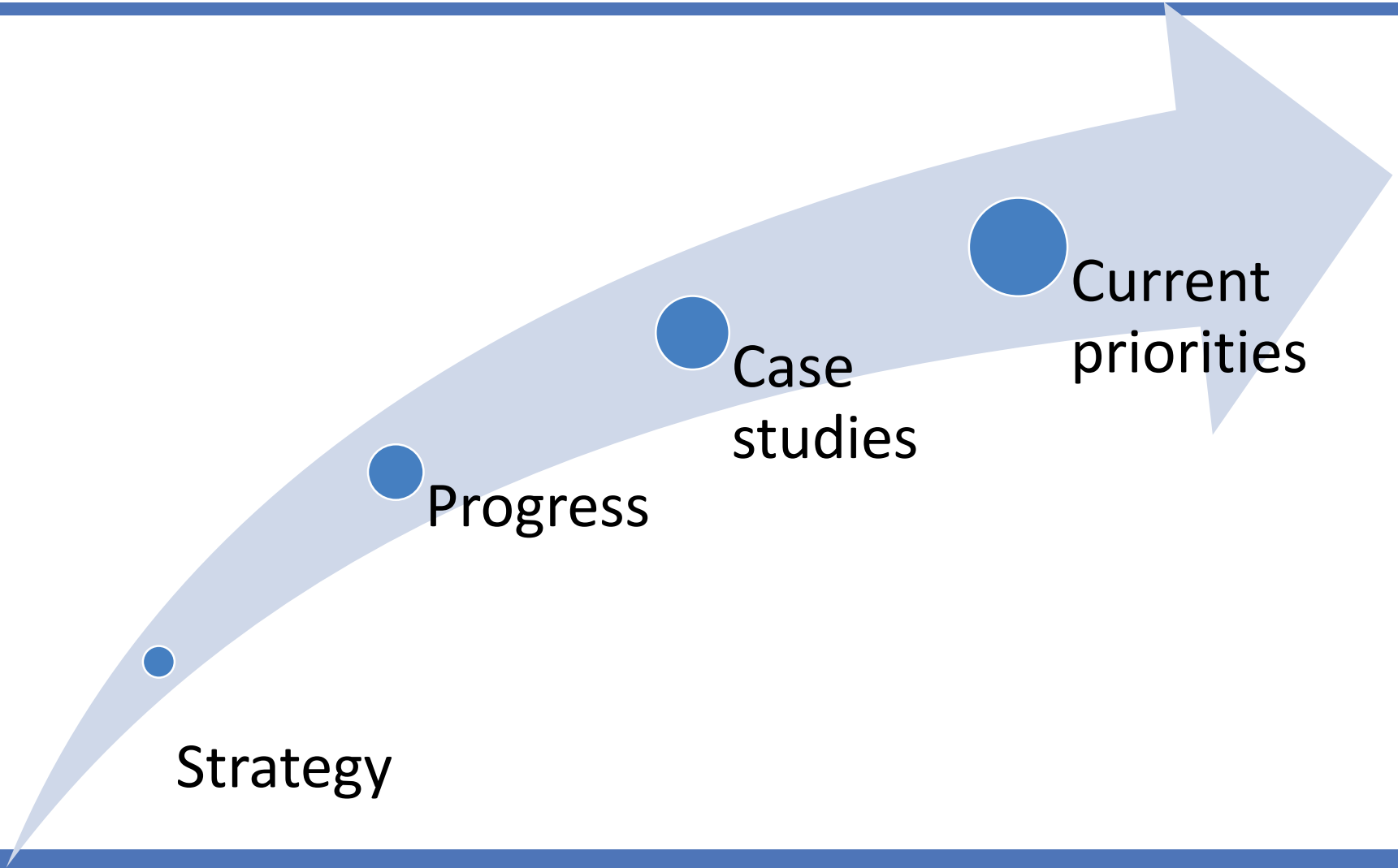


# Application of Data Analytics in Financial Statements and Performance Audits: Case Studies

**Bola Oyetunji**  
Senior Executive Director  
System Assurance and Data Analytics

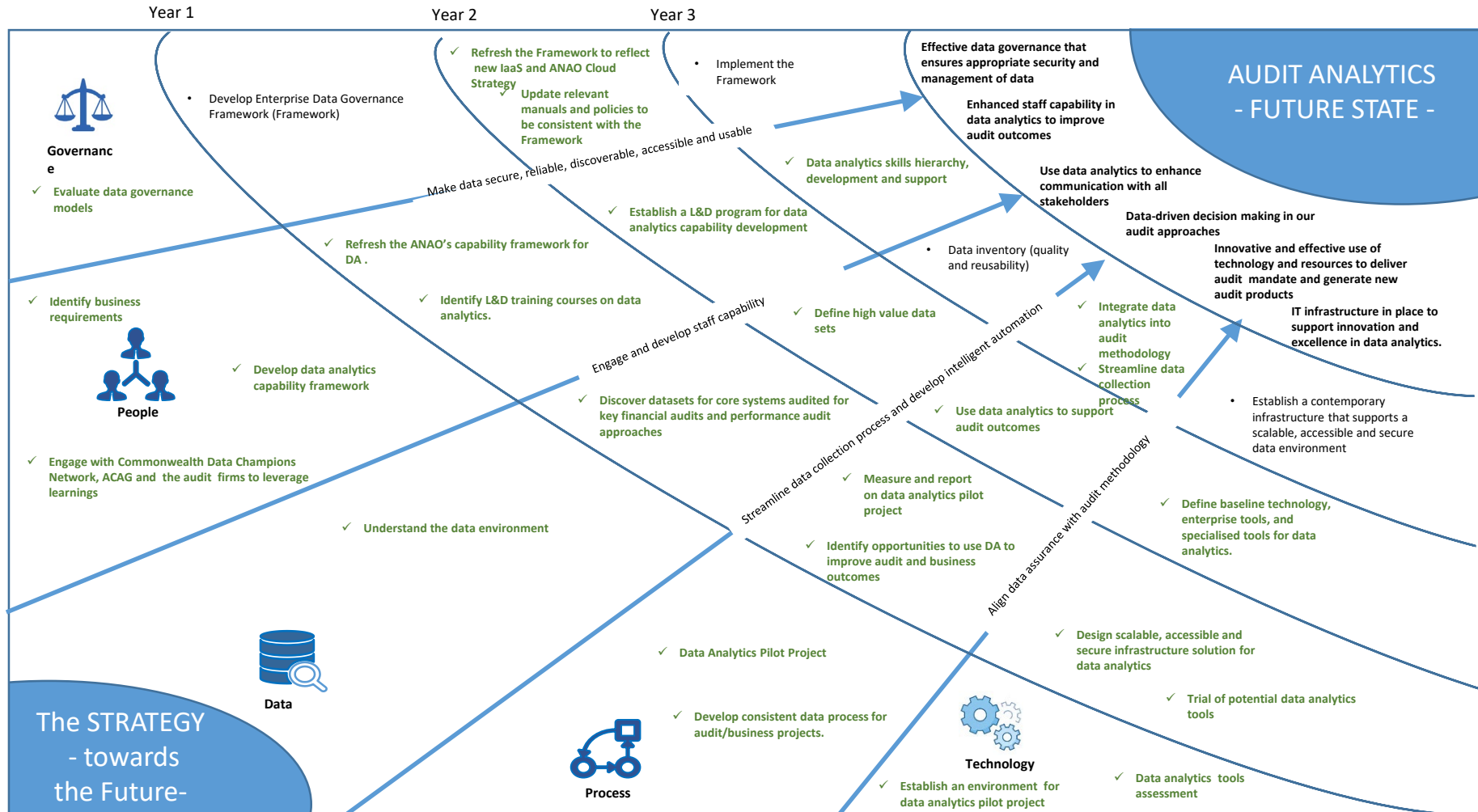


# Presentation outline



# Snapshot of Data Analytics Strategy 2018-20

## Mission: Transform ANAO to a data-driven organisation





# Milestones of Strategy Delivery



2020

Embed data analytics in financial statements audits to drive efficiency and improve quality

2019

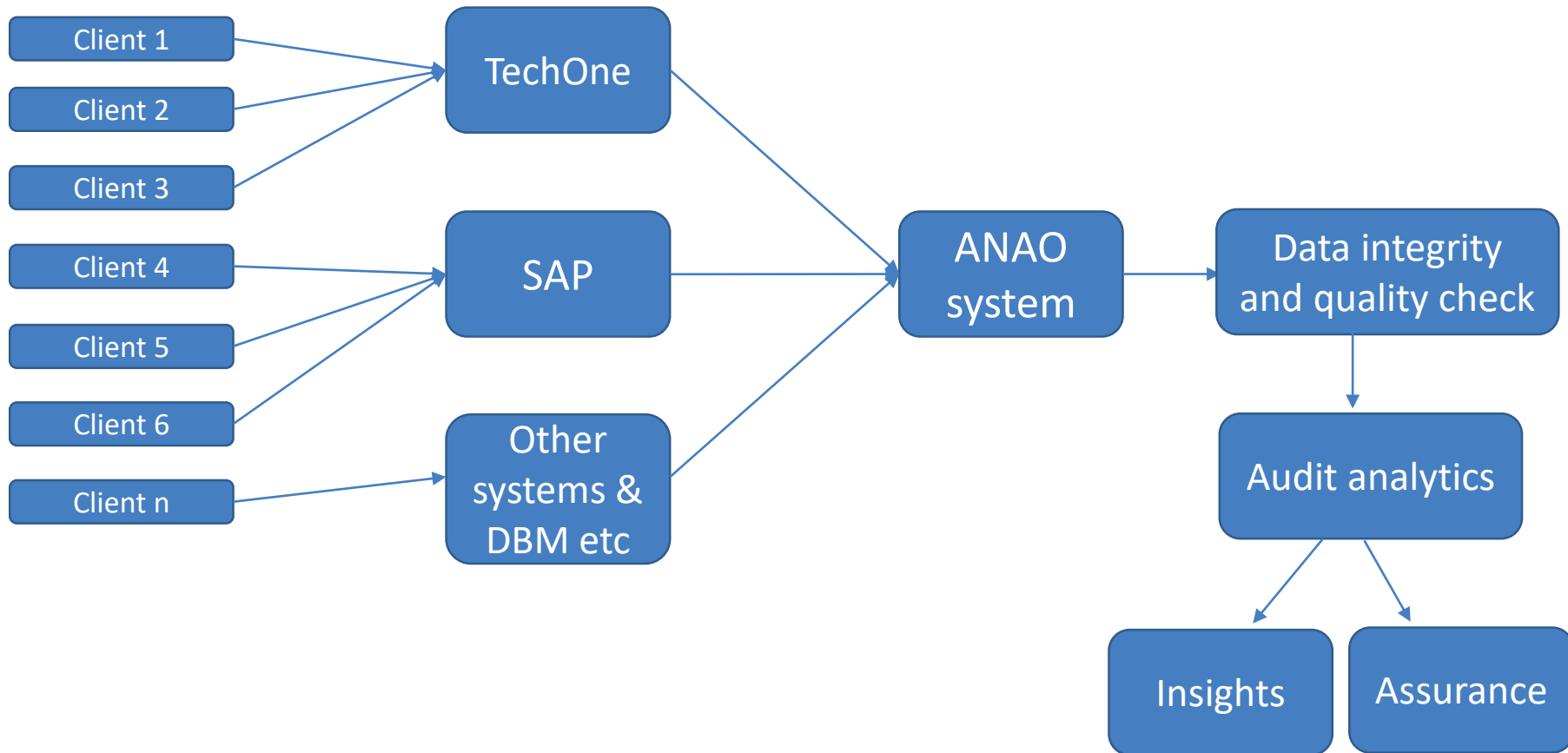
Embed data analytics in performance audits planning and scoping

2018

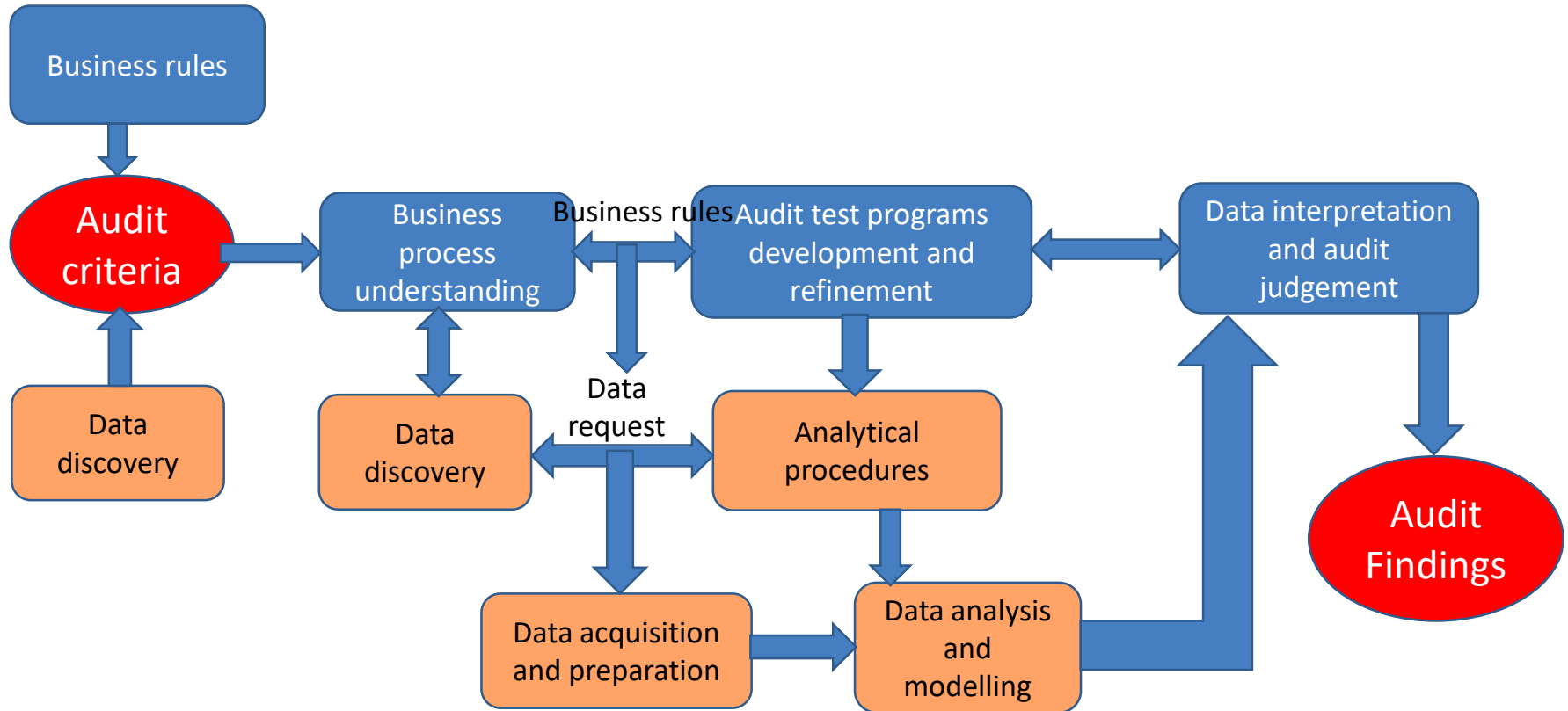
Capability development (staff, technology, pilot, data)



# Audit analytics at ANAO









# Case Study 1 – Assurance over Airservices Australia Revenue



Purpose: Use a data analytics approach to confirm the completeness and accuracy of Airservices Australia's revenue.

ITGC  
Testing



System 1  
Transaction 'bookings'  
(Not all transactions  
'booked')

System 2  
Transaction 'observations'  
(Not all transactions  
'observed')

Problem 1:  
Completeness of  
transactions  
(Are any modified or  
missing? Are any invented  
to overstate revenue?)

System 3  
Combine all transaction information.  
Manually fix errors and discrepancies.

System 4  
Calculate charges

System 5  
Invoice customer

Problem 2: Are calculated  
charges correct?

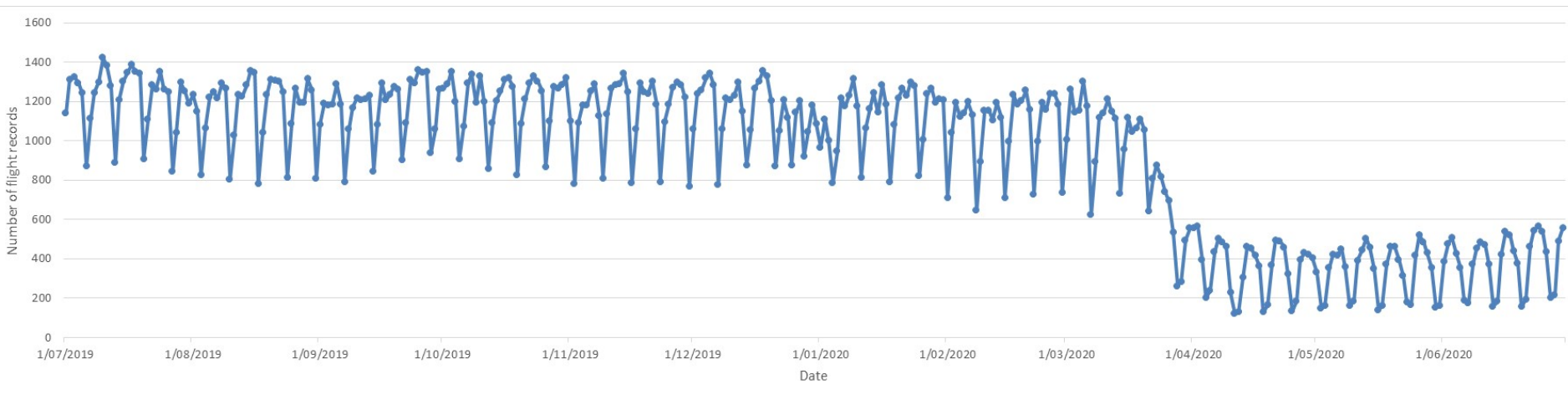
Problem 3: Does  
chargeable revenue match  
receipts?



# Outcomes



- The programming script based solution achieved approximately 99.9% precision to provide assurance over data integrity, completeness and accuracy of the revenue amount.
- In 2019-20, the solution was re-used with a 50 per cent reduction in audit cost related to this assurance.





# Case study 2: HR Analytics



- Standardised solution for payroll.
- Additional data request for leave provision calculation.
- Data requests specify required fields
- Expectation calculated.

Actual Result (Less Adjustment)

\$147,000,000

Expectation (Total Forecast Base Salary)

\$146,649,150

Absolute Variance (\$)

\$350,850

Absolute Variance (%)

0.24

Variance from Expectation is less than Threshold?

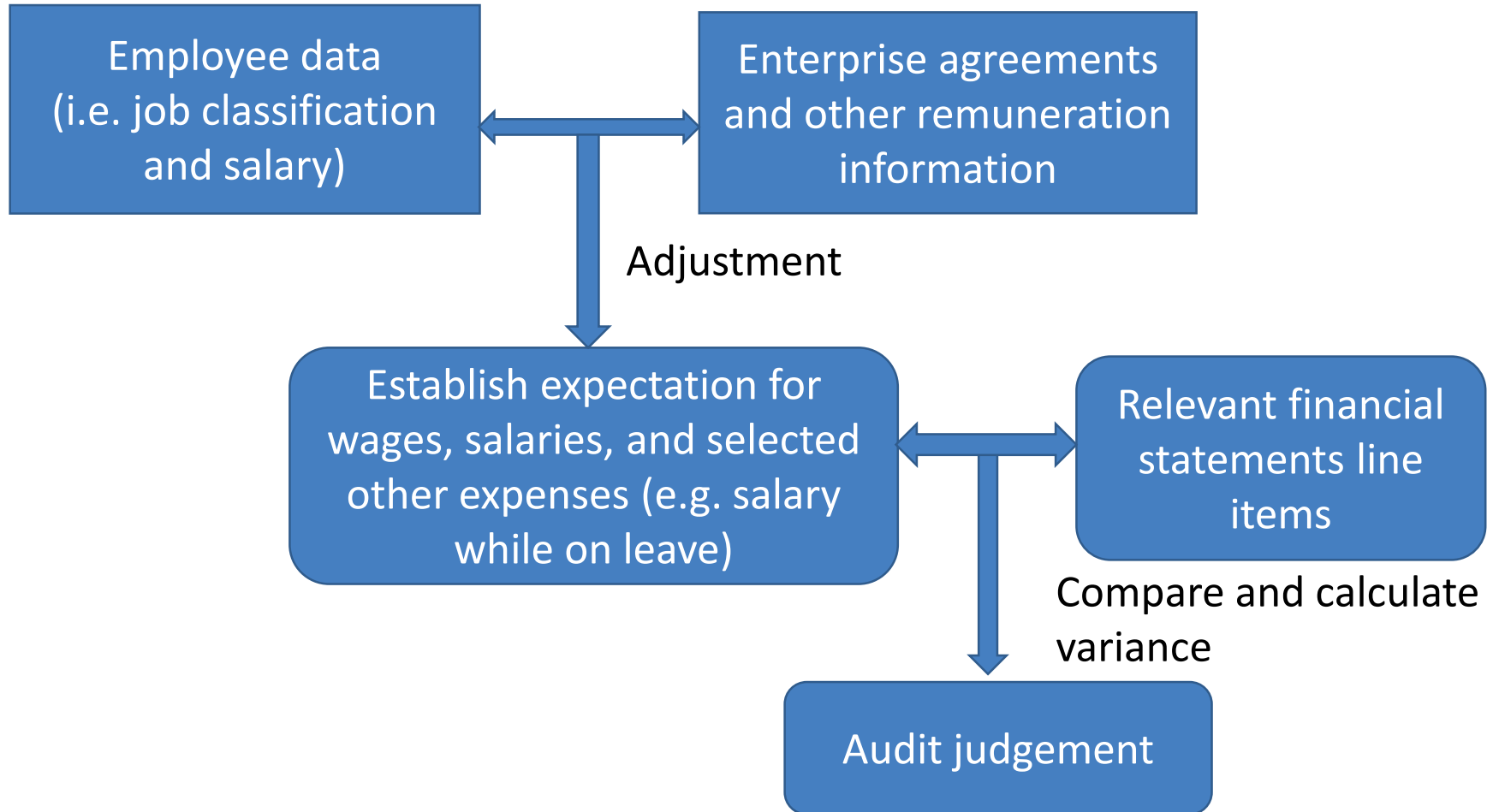
YES

Recommended Action

ACCEPT

Expectation (Total Forecast Base Salary) as at EOFY

As above (12 month result already selected)





# Case study 3: NBN Audit - KPI recalculation



Relevant Audit Criteria - *Does NBN Co effectively manage end user connection-related complaints and drive improvement?*

## Role of data analytics

**A.** Connections Work Orders dataset  
**2.62** million records

+

**B.** Incidents dataset  
**3.96** million records

+

**C.** Incidents work order dataset  
**1.07** million records

Data merge

**Audit Data**

- NBN co's work processes allow for multiple connection work orders at the same location, with multiple incidents and incidents work orders per connection.
- NBN Co. provided **three separate** datasets.
- ANAO created a new dataset merging the three datasets to enable the analysis.

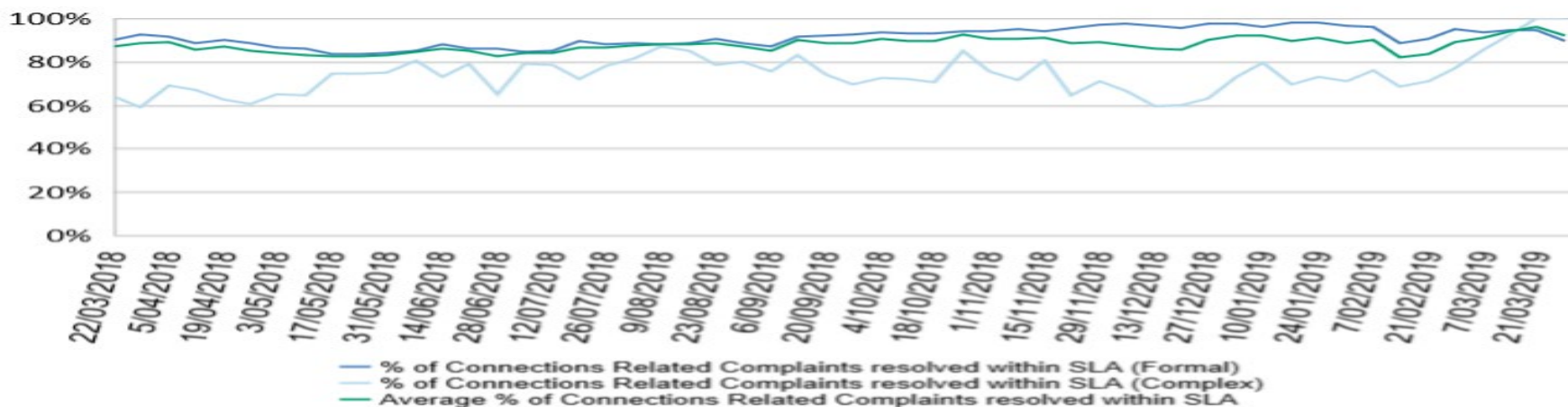


# Supporting findings – Complaint Management



- Extract from the published report

21. Connection-related complaints are not being resolved in line with NBN Co's timeliness targets. NBN Co has defined three complaint categories — Formal, Complex and Urgent — and established clear KPIs for each. However, 87.7 per cent of combined Formal and Complex complaints are being resolved within KPIs, which is below the NBN Co target of 93 per cent, and 45.5 per cent of Urgent complaints, of which there were only 11 in the audit timeframe, were resolved within the associated KPIs, which is also below the NBN Co target of 93 per cent. Complaints that are unresolved within the respective KPIs for all three categories are typically not resolved in a sufficiently timely manner after the KPI period has elapsed.







# Our current priorities



## Data Acquisition Strategy and Process

- Streamline and standardise data acquisition processes for efficiency and timeliness
- Obtain population data where relevant and appropriate

## Systemised Solutions

- Standardise our DA solutions to be applied across all audits
- Capability development in data analytics across the Office

## Data driven audit planning

- Discover and analyse rich data sets to provide insights for risk assessment, audit planning for use in multiple audits (procurement data, grants data etc.)



Thank you!  
Any questions?