

Welcome

Chief Financial Officer's Forum

Hosted by the Australian National Audit Office
29 November 2019

Welcome and opening remarks

Bola Oyetunji
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ANAO update

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Financial Statements Audit

For the Period Ended 30 June 2019

Clea Lewis
Executive Director
Assurance Audit Services Group

2018-19 Financial Statements Audits Report to Parliament

Key Results

- 237 of 248 Auditor's Reports issued including CFS
- 82% of auditor's reports issued within three months of year-end (2017-18: 90%)
- 184 audit findings across all categories (2017-18: 159)

Concluded for the majority of entities:

- key elements of internal control were operating effectively to provide reasonable assurance that the entities were able to prepare financial statements that are free from material misstatement

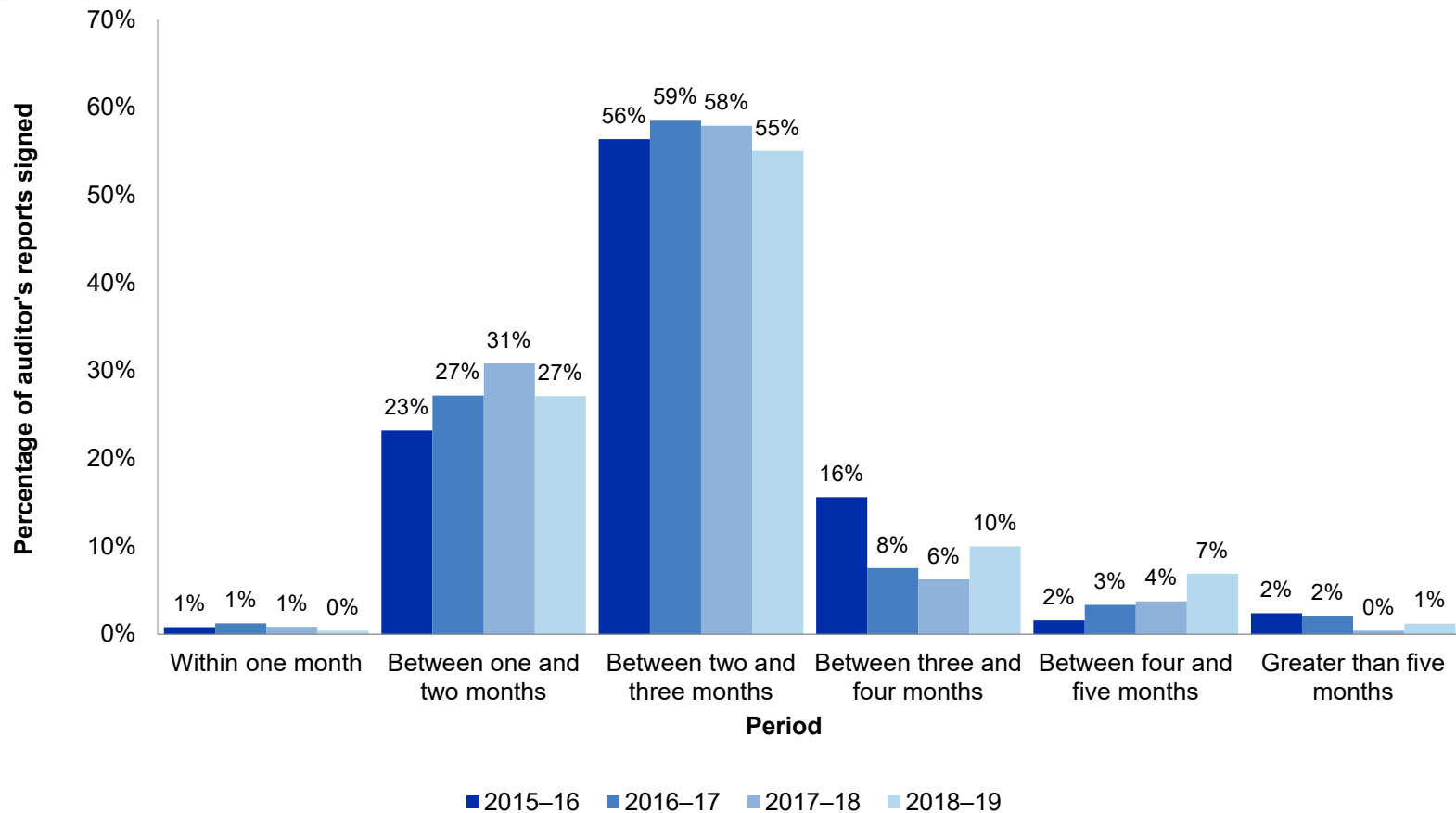
2018-19 Financial Statements Audits Report to Parliament

Key Results cont'd

Report includes additional analysis on:

- Audit Findings
- Quality and Timeliness of Financial Statement preparation
- Tabling of Annual reports
- Executive Remuneration
- Financial Sustainability
- Human Resource service arrangements

Audit Report Signing Analysis 2018–19



Audit Findings

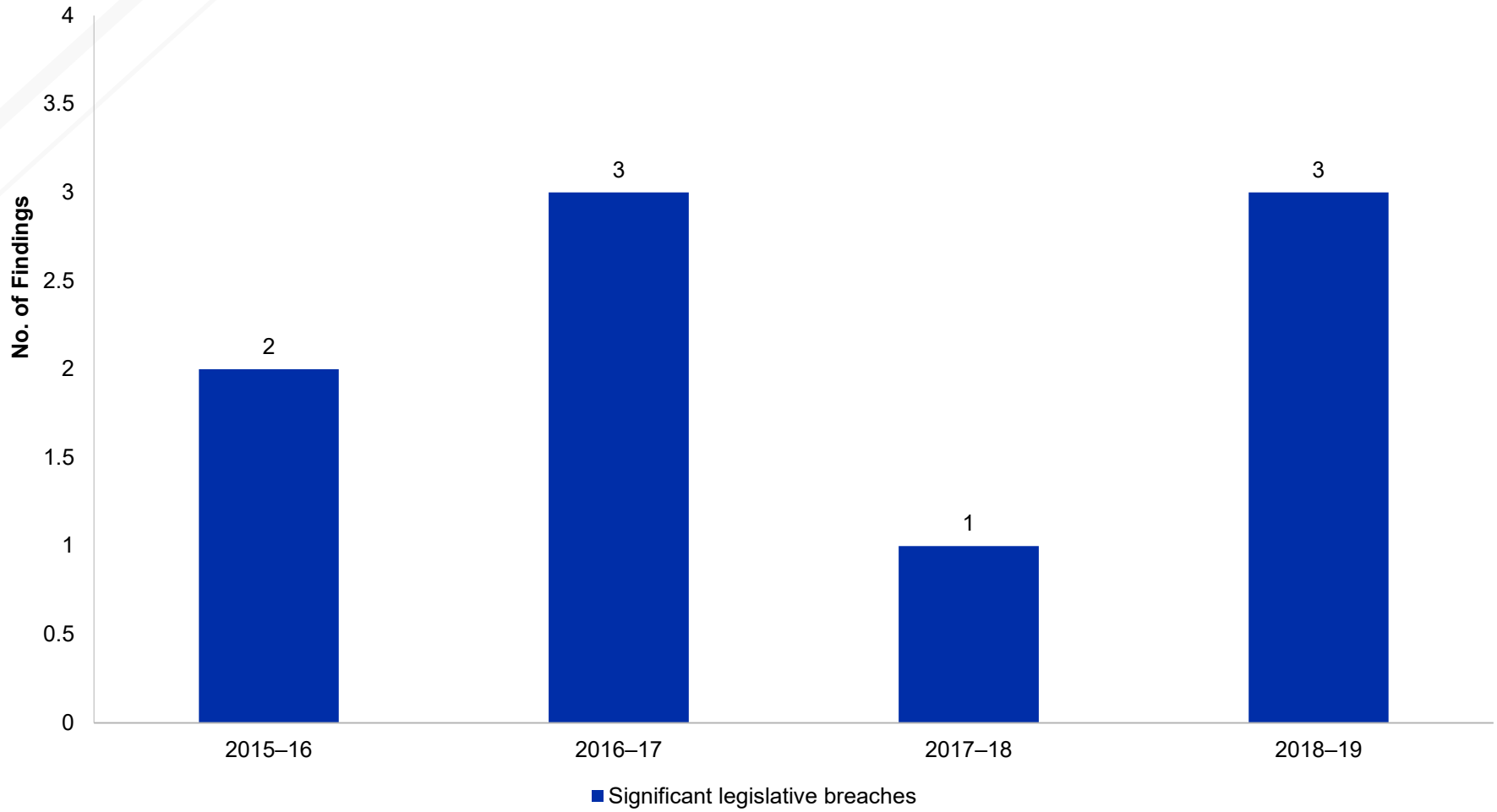
Total findings 184 (2017-18: 159)

- 3 significant (2017-18: 1)
- 21 moderate (2017-18:18)
- 160 minor (2017-18: 140)

87% (2017-18: 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

Significant legislative breaches



Quality of FS Preparation

Financial statements preparation

- 28 entities had findings or commentary relating to the weaknesses in processes supporting FS preparation.

Timeliness

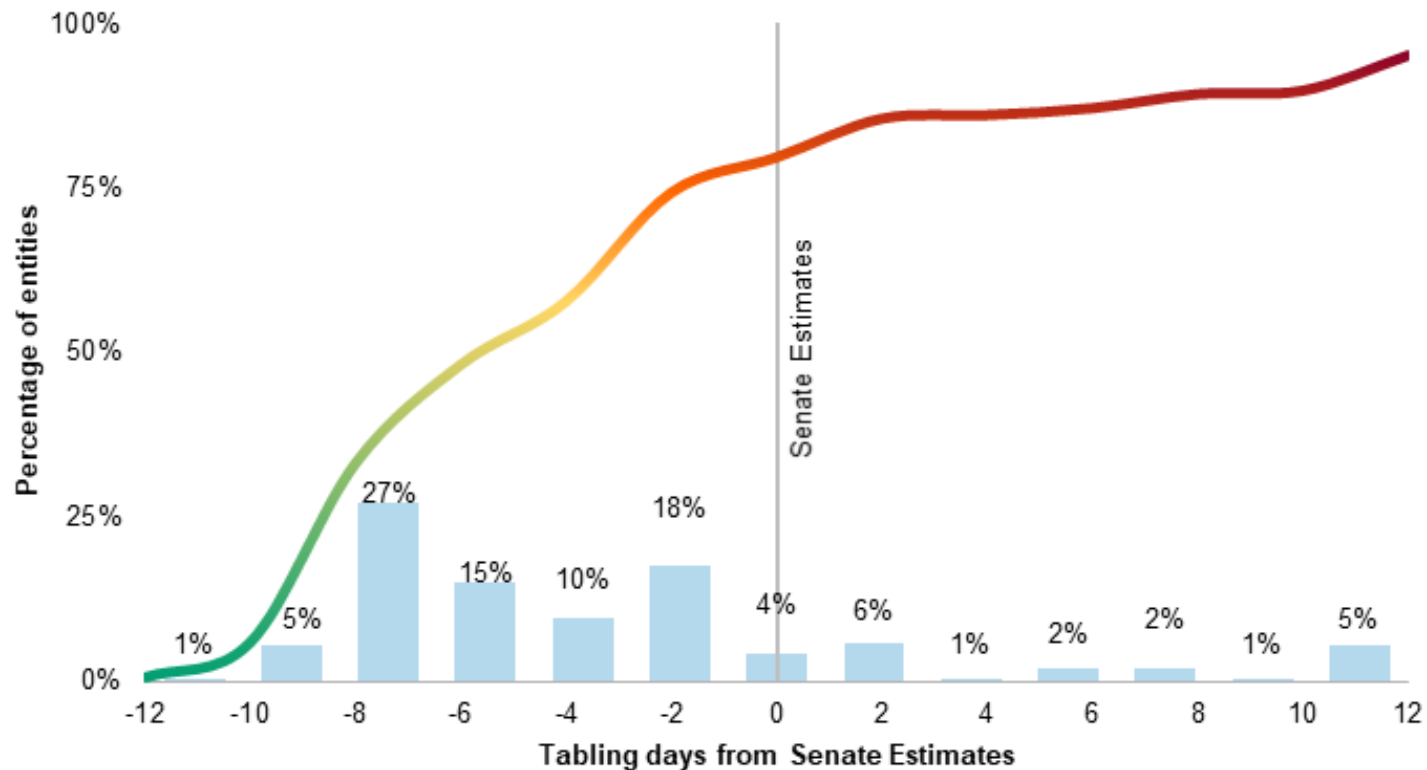
- 69% of entities provided draft financial statements in accordance with the agreed timeline (2017-18: 82%)
- Further 18% (2017-18: 9%) provided statements within one week of the agreed timeline

Unadjusted audit differences

- Total number of adjusted and unadjusted audit differences increased by 7% from from 2017-18.
- 121 unadjusted audit differences reported (2017-18: 88).

Tabling of Annual Reports

The 2018-19 tabling dates were:



Financial Sustainability – transparency.gov.au

The Department of Finance has set up the Transparency.gov.au portal for capturing and reporting annual reports for all Commonwealth entities. Finance included four financial ratios and the ANAO utilised two of these as part of the analysis in the Report to Parliament:

1. The Total Liabilities to Total Assets ratio indicates the level of ownership of the entity's assets, but can also be used to gain an understanding of the entity's net equity.
2. The Financial Assets to Total Liabilities ratio indicates the extent to which an entity's liabilities can be covered by its financial assets.

Financial Sustainability

Key points to note:

- Consistent with previous years
- Analysis of operating surpluses and deficits
 - 21% of for profit (2017-18:18%) and 13% (2017-18: 11%) NFP large average deficits
 - 44% (2017-18: 40%) of NFP large average surpluses
- Analysis of balance sheet strength (gearing and liquidity)
 - Reviewed based on the Department of Finance's financial ratios
 - Across government 70% (2017-18: 75%) of entities have strong balance sheets

Executive Remuneration

Background

- Amendments were made to the PGPA Rule in April 2019, requiring Commonwealth Entities to include additional disclosure on executive remuneration in their 2018-19 annual reports.
- Under the new requirements annual reports required additional remuneration disclosures with respect to three staffing categories: key management personnel (KMP); senior executives and other highly paid staff. Commonwealth companies were only required to include information in relation to KMP. The annual report information is not audited by the ANAO.
- The financial statements include reporting on KMP and this information is audited by the ANAO.

Executive Remuneration

The ANAO noted:

- Some entities included additional disclosures in their audited financial statements to increase transparency e.g. disaggregated information for KMP, senior executives and other highly paid staff.
- Some entities included additional information within footnotes to clarify information in the annual report disclosures.
- 32 entities changed the number of KMP from 2017-18 to 2018-19.
- Variances between the disclosure in the financial statements and the annual report for some entities.

Human Resource Service Arrangements

Auditor-General Report No.25 2016–17 *The Shared Services Centre:*

- strengthening the role of the board and its sub-committees and improving the quality of information and communication provided to these boards; and
- putting in place transparent and sound processes for agreeing performance and cost parameters with clients and for monitoring and reporting the Shared Services Centre's performance against these parameters.

Human Resource Service Arrangements

Table 2.5: Commonwealth Human Resource shared service arrangements

Provider description	Number of entities providing HR services	Number of entities to whom they are providing services	Types of services
Established as a service delivery hub	3	22	<ul style="list-style-type: none"> • All processes related to the management of payroll • Related IT management services • Other Corporate functions
Provider is the portfolio agency	9 ^{ab}	18	
Provider is a non Commonwealth entity or Company	4	16	
Provider is an entity outside the receiving entities portfolio	3	6	
Total	19	62	

Way forward for 2019-20

ANAO approach to assist quality in FS preparation:

- Agree timing of position papers in the audit strategy.
- Agree timing of review of key estimates by management and provision to audit team.
- Collaboratively agree responsibilities/expectations and timing of final audit phase.

For audit committees:

- Encourage you to actively support management through the critical evaluation of position papers and holding entities to account for delivering on agreed timetables.
- ANAO has recommended to entities that the provision of a detailed variance analysis should support the audit committee's review of financial statements at year-end.

Commonwealth Resource Management Framework & the Clear Read Principle

Tom Ioannou
Group Executive Director
Performance Audit Services Group



Clear Read Principle – performance audit



Auditor-General Report No. 14 2019-20
*Commonwealth Resource Management Framework
and the Clear Read Principle*

Cross-entity performance audit
Presented for tabling 27 November 2019

Department of Finance
Department of Defence
Department of Health
Department of Home Affairs



Clear Read Principle - PGPA



Revised explanatory memorandum for PGPA Bill - benefits of the new framework were expected to include:

... achieving a clear line of sight between the information in appropriation Bills, corporate plans, Portfolio Budget Statements and annual reports. Entities will need to define, structure and explain their purposes and achievements to create a clear read across these documents.



Clear Read Principle – key documents



Key publications in PGPA performance framework:

- Portfolio Budget Statements (PBS) - primary financial planning document for entities;
- Corporate Plans - primary non-financial planning document for entities; and
- Annual Reports - incorporate the performance statements and audited financial statements of entities, which report respectively on the non-financial and financial results achieved by entities.



Clear Read Principle - JCPAA inquiries



Joint Committee of Public Accounts and Audit (JCPAA) – three inquiries on PGPA performance framework:

- Report 453: *Development of the Commonwealth Performance Framework*, December 2015
- Report 457: *Development of the Commonwealth Performance Framework — Second Report*, May 2016
- Report 469: *Commonwealth Performance Framework*, December 2017.



Clear Read Principle – JCPAA expectations



JCPAA described a 'clear read' or 'clear line of sight' of entities' performance information as exhibiting three key characteristics:

- performance information is presented clearly and consistently and is reconcilable throughout an entity's PBS, corporate plan and annual report within one reporting cycle;
- performance information is presented clearly and consistently throughout an entity's PBS, corporate plan and annual report across multiple reporting cycles; and
- compatibility of performance information between Commonwealth entities — in terms of comparability, consistency of reporting structure and level of information provided.



Clear Read Principle – performance audit



Audit objective

- To examine the effectiveness of the design and implementation of the clear read principle under the Commonwealth Resource Management Framework.

Audit criteria

- Finance effectively established the clear read principle in the Commonwealth Resource Management Framework, and monitored its implementation.
- Selected entities addressed Parliamentary expectations, and established a clear read through their 2017–18 performance measurement and reporting.



Clear Read Principle – audit focus



Audit focused on 2017–18 performance reporting cycle

- third reporting cycle under current arrangements
- cycle commenced with publication of PBSs in May 2017
- concluded with tabling of annual reports in September/October 2018, approximately 18 months later.

Audit also examined extent to which selected entities established clear read principle in performance reporting and improved quality of information presented to the Parliament over time

- Reporting in 2016–17, 2017–18 and 2018–19 and plans for 2019–20 were reviewed.



Clear Read Principle – audit focus



Audit considered Finance’s design activities up to 2019–20 performance reporting cycle

- extent to which Finance’s guidance established the clear read principle to inform entities.

Audit also reviewed Finance’s activities to address agreed recommendations from JCPAA Reports 453 and 469.



Clear Read Principle – audit focus



To assess extent to which JCPAA expectations of a clear read of performance information have been communicated through Finance guidance and implemented by entities, ANAO looked for:

- clear information – within a reporting cycle
- consistent information – within a reporting cycle and across reporting cycles
- reconcilable information – within a reporting cycle
- comparable information – across reporting cycles and between entities

See Table 1.3 of audit (page 27).



Clear Read Principle – audit conclusion



Auditor-General's overall conclusion:

Finance's design and the selected entities' implementation of the clear read principle under the Commonwealth Resource Management Framework has been partially effective and Parliamentary expectations have not been fully realised.



Clear Read Principle – audit conclusions



Finance has informed entities of the clear read principle, provided guidance on some aspects of achieving a clear read, and carried out monitoring and assessment of entities' implementation of framework requirements.

- However, Finance's current guidance is focused on supporting entities to implement the clear read principle within a reporting cycle.
- Expanding this guidance to address implementation of the clear read principle across reporting cycles and between entities would contribute to the realisation of the Parliament's expectations.
- Finance could further improve its support of entities' implementation of the clear read principle by directly providing entities with advice based on its assessments of entity reporting, and monitoring the effectiveness of its own activities on implementation.



Clear Read Principle – audit conclusions



In respect to the selected entities' implementation of the clear read principle, the Auditor-General concluded that:

- within the 2017–18 reporting cycle — implementation was mostly effective in the case of Health and partially effective in the case of Defence and Home Affairs;
- across reporting cycles — implementation was partially effective in the case of Home Affairs and not effective in the case of Defence and Health; and
- between entities — implementation was partially effective in the case of the three departments. A clear read was most evident in those areas where reporting was underpinned by framework requirements, in particular for the presentation of information in entity PBSs and annual reports.



Clear Read Principle – audit recommendations and key messages



Three recommendations to Finance:

- amending requirements and guidance
- monitoring advice provided to entities to improve implementation of the clear read principle.

Also five key messages which may be relevant for operations of other entities.



Clear Read Principle – audit key messages



First, when preparing PBSs, corporate plans and annual reports, entities should consider the needs of Parliament as the primary user of these documents.

- In particular, entities should consider Parliament's need for a clear read within reporting a cycle, across reporting cycles and between entities, which is aided by clear, consistent, comparable and reconcilable reporting.

Second, entity processes for preparing PBSs, corporate plans and annual reports should be coordinated so as to implement the clear read principle across the product suite and the complete cycle of performance measurement and reporting.

- Effective coordination facilitates a holistic approach to preparation and publication of these documents.



Clear Read Principle – audit key messages



Third, significant change to an entity's operating environment that impacts its purposes, activities, capability, risk and/or performance, should trigger a review of the corporate plan.

- Resource management and performance reporting frameworks provide entities with the flexibility to update and reissue corporate plans at any time.
- The purpose of the corporate plan as an entity's primary planning document, and the needs of Parliament as a user of this document, should be considered when deciding whether to reissue it.



Clear Read Principle – audit key messages



Fourth, effective integration of financial and non-financial performance information in annual reports can provide Parliament and the public with an improved understanding of the connections between the resources agreed by Parliament and outcomes delivered.

Fifth, explaining changes to PBSs and corporate plans across reporting cycles, and providing comparative results in performance statements, assists Parliament and public to monitor performance over time.



Questions



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

Questions?

Morning tea

ANAO pilot of audits of performance statements

Michael White
Senior Executive Director
Performance Audit Services Group

Previous audits of performance statements – ASAE 3500

- **ANAO has examined the progress of the implementation of the performance statements requirements under the PGPA Act and the PGPA Rule.**
- **Three performance audits across ten entities to date:**
 - 2015-16: Department of Agriculture and Water Resources; Australian Federal Police**
 - 2016-17: Department of Jobs and Small Business; Department of the Environment and Energy; Australian Trade and Investment Commission, Australian Sports Commission**
 - 2017-18: Attorney-General's Department; Department of Education and Training; Department of Foreign Affairs and Trade; Department of the Prime Minister and Cabinet**

Audit coverage

We have also examined a selection of entities' performance measures within the audits of:

- **Smart Centre's Centrelink Telephone Services (DHS)**
- **Disability Support Pension (DSS)**
- **National Water Infrastructure Development Fund (Infrastructure)**
- **Disability Support Pension (DSS)**
- **Reforms to Services on Norfolk Island (Infrastructure)**
- **Addressing Illegal Phoenix Activity (ATO)**
- **Management of the Regional Network (PM&C)**
- **Administration of the Renewable Energy Target (CER)**
- **Delivery of extreme weather services (BoM)**
- **Management of National Parks (Director of National Parks)**

Audit 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.**
- **Audit Committee assurance to Accountable Authorities is also considered during the audits.**

Key learnings

Improve the 'set-up' of performance information in corporate plans

- **Avoid internally-focussed and technical terms (or define)**
- **Clearly describe the method of assessment and information sources (underpinned by documented internal processes)**
- **Include a target or benchmark (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 continued

Good quality analysis 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 results presented;
- internal or external environmental influences that affected those results; and
- how these informed the overall assessment of progress against the purpose.

Pilot Audit Program

On request by the Minister for Finance, the Auditor-General has 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*.

Will apply existing methodology (5th year of implementation), with some new features including:

- **Report interim findings to entities in March 2020**
- **Provide audit opinions (under ASAE 3000) to Minister for Finance and prepare a report for the JCPAA**

Post-Pilot Program steps

Results from the pilot will be provided to the JCPAA and will inform a transition towards full implementation of annual auditing of performance statements of Commonwealth entities by the ANAO

Any amendments to the PGPA Rule are expected to take effect from 2020-21 and would be factored in to future performance statements audits

Implementation of ANAO and Parliamentary Committee Recommendation

Michael White
Senior Executive Director
Performance Audit Services Group

Implementation of ANAO and Parliamentary recommendations

Historically, the Auditor-General has undertaken a series of audits following up the implementation of agreed ANAO recommendations to entities

Follow ups are also done on a case by case basis within individual performance audits

From 2018-19 the ANAO will also include the follow up of parliamentary committee recommendations within our portfolio of performance audits

Audits will utilise both limited and reasonable assurance processes to ensure an efficient audit approach

Recommendations from recent audits and inquiries

As background, in 2018-19:

- 146 recommendations by ANAO (131 were agreed to)
- 67 recommendations by the Joint Committee of Public Accounts and Audit (JCPAA)

Implementation of ANAO and Parliamentary Committee Recommendations audit report tabled August 2019

- First in a series of audits
- Second audit underway - to table May 2020

Implementation of ANAO and Parliamentary recommendations

First audit examined 4 entities (two portfolios):

- Department of Agriculture**
- Airservices Australia**
- APVMA**
- Department of Infrastructure, Transport, Cities and Regional Development**

A reasonable timeframe for the implementation of agreed ANAO recommendations was taken as within two calendar years of the tabled report

Audit rationale, focus and findings

Audit rationale: reports of the ANAO and parliamentary committees identify risks to the successful delivery of outcomes and areas where administrative or other improvements can be made.

Audit focus: entities' arrangements to respond to and monitor implementation of recommendations

Overall finding: mixed success across entities; strong correlation between entities' governance arrangements and successful implementation

Audit Conclusion

Overall, none of the entities selected for audit demonstrated that they had effectively implemented all agreed recommendations within the scope of the audit

Agriculture was the only entity where limited assurance was an effective approach to the audit, due to the demonstrated effectiveness of their governance arrangements over implementing ANAO recommendations

Additional substantive procedures were required to be undertaken for all other recommendations

Key Learnings

Deciding the entity's position and responding

- clarify the intent of a recommendation
- 'agreed' or 'not agreed'
- specify agreed actions (appropriate and achievable which address the identified risk or issue)

Implementation plans

- assign responsibility
- set timeframes
- success measures

Key Learnings

Monitor and track implementation

ensure that those accountable have clear line of sight to implementation progress

Review of implementation of entity recommendations by Audit Committees

- are timeframes achieved?
- has the original intent of the recommendation been achieved?

Report back to JCPAA or the Parliament on implementation

Questions?

Meeting close