Implementation of performance audit recommendations

In its performance audits, the ANAO identifies areas where administrative improvements can be made and, in most cases, makes specific recommendations to assist entities improve their performance and to address risks to the delivery of outcomes. Once an entity has agreed to implement a recommendation, timely implementation in line with the intended outcome of the recommendation is important in achieving the full benefit of the recommendation.

Entities’ implementation of recommendations would generally involve having a clear process for assigning responsibilities, and systematically monitoring progress achieved, so that reporting on implementation can provide sufficient assurance to entity management that recommendations have been satisfactorily implemented. Generally, responsibility for implementing recommendations should rest with the relevant business or program management area, with the entity’s audit committee having a review role in relation to an entity’s progress in implementing recommendations.

Following increasing interest from the Parliament, in 2012–13 the ANAO commenced a rolling program of audits focusing on the implementation of its performance audit recommendations.

Entity management needs to make judgements about how best to address audit recommendations, including allowing a reasonable timeframe for implementation which may be modified over time, due to changing priorities or circumstances. As part of their responsibilities in relation to risk management, audit committees will generally review the steps that entity management has taken to address risks identified in performance audits, and to receive regular reports on the status of the implementation of recommendations made in performance audits. While it may not be practical for audit committees to undertake detailed assessments of the implementation of all recommendations, there are benefits in requiring senior management to sign-off that recommendations have been implemented.

To date, the ANAO has examined the governance arrangements established in seven entities to monitor the implementation of ANAO audit recommendations. The audits assessed progress by these entities in implementing, in total, over 100 audit recommendations, including recommendations made in cross-entity audits, and assessed whether a sample of audit recommendations has been adequately implemented.

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The ANAO’s better practice guides aim to improve public administration by sharing better practice and providing practical guidance. They may be developed in response to an identified need for guidance in a particular area of public administration, or as a result of the conduct of an ANAO audit which indicates a new and/or challenging area of public administration in which guidance would be useful. The ANAO has recently published better practice guides on administering regulation, public sector governance and the successful implementation of policy initiatives.

**Administering Regulation**

An appropriate level of effective regulation is an essential part of well-functioning economies and supports the achievement of economic, social or environmental policy objectives. In designing regulatory approaches, governments need to strike a balance between the obligation to protect the community or public interest, and the need to avoid imposing unnecessary costs on those they regulate or on the broader community.

In providing updated guidance on how to efficiently and effectively administer regulation, the guide emphasises the importance of risk management, effective stakeholder engagement, the value of data analysis as a source of regulatory intelligence, regulator behaviour, and regulator and regulatory performance. Better practice principles are outlined in the guide to assist Australian Government regulators in assessing the quality of their administrative practices and identifying where improvements can be made.

**Public Sector Governance**

Good governance arrangements position public sector entities to achieve the best results for government and the Australian community, consistent with legislative and policy requirements, and to efficiently and effectively meet their responsibilities in a sustainable manner.

The guide reinforces the fundamental elements of good governance and builds on them to address contemporary issues and challenges. Particular attention is given to the importance of demonstrating leadership, engaging in beneficial stakeholder relationships, and working collaboratively across entity, jurisdictional and sector boundaries to enhance policy outcomes. The guide emphasises the importance of a highly performing public sector in the context of fiscal constraints and public expectations for continuous improvements in services, transparent processes, and increasing levels of stakeholder engagement in aspects of governance, policy development and planning.

The release of the revised guide was timed to coincide with the full implementation of the Public Governance and Accountability Act 2013.

**Successful Implementation of Policy Initiatives**

The ANAO and the Department of the Prime Minister and Cabinet recently jointly published an update to the 2006 better practice guide Implementation of Programme and Policy Initiatives.

The new guide, titled Successful Implementation of Policy Initiatives, discusses better practice considerations in the implementation of government policy initiatives—one of the key responsibilities of government entities—so that intended benefits are realised. The guide, which is primarily intended for senior leaders—chief executives and senior executives—addresses several key developments since the publication of the previous guide, including:

- changes in the service delivery and regulatory roles of Australian Government entities;
- continuing pressures on public finances; and
- new approaches to stakeholders and community engagement.

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Our audits have identified that:

- all entities reviewed had systems and processes in place for capturing audit recommendations and for monitoring progress in their implementation, and in most entities there was appropriate oversight by senior executives of this process;

- the audit committees of each of the entities received information regarding the implementation of audit recommendations as part of their scheduled meetings but the effectiveness of the oversight by these committees was mixed;

- the timeliness of the full implementation of recommendations was a common issue in most entities reviewed and there was often long delays in finalising the implementation of audit recommendations; and

- in each of the entities reviewed a number of recommendations that were reported to have been implemented were assessed by the ANAO as having not been implemented adequately.

The results of our audits to date suggest that more systematic approaches to the monitoring of the implementation of audit recommendations is required in a number of entities, including a stronger focus by audit committees on actions taken by management to implement recommendations in a timely manner that involve senior management sign-off.

The ANAO expects to table the results of an audit that examines the implementation of audit recommendations by the Department of Health later this year.

Better Practice Guides to be updated in 2014–15

During 2014–15, the ANAO intends to publish updated guides on Public Sector Audit Committees and Preparation of Financial Statements by Public Sector Entities. The updated guides will reflect the requirements of the Public Governance, Performance and Accountability Act 2013 and other developments.

In recognition of the need for Commonwealth entities to update their audit committee charters, in light of changes to audit committee arrangements contained in the PGPA Rule (Section 17 Audit Committee for Commonwealth Entities), the ANAO provided guidance in July 2014 on preparing a revised audit committee charter to all Commonwealth entities. The guidance for both non-corporate and corporate entities is available from the ANAO's website www.anao.gov.au.

Implementation of performance audit recommendations … continued from page 1

The guide is designed to complement other resources, including guidance available from the Cabinet Implementation Unit, and should also serve as a useful reference for officials supporting senior leaders in the implementation of policy initiatives.

Part one of the guide outlines essential preconditions and capabilities for the successful implementation of policy initiatives, including the key role played by an entity’s leadership, and also highlights the importance of giving early attention to implementation issues during the policy development stage. Part two of the guide discusses better practice considerations for successful implementation of policy initiatives across six key elements, namely: governance; managing risk; engaging stakeholders; planning; resources; and monitoring, review and evaluation as a basis for active management.

Better Practice Guides … continued from page 2

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Our audits have identified that:
Government procurement

Australian government entities purchase goods and services around $39 billion each year as part of the delivery of a broad range of programs and government activities. When procuring goods and services, entities are required to comply with the Commonwealth Procurement Rules (CPRs).

The CPRs are designed to promote sound and transparent procurement practices that encourage competition and achieve value for money. A key step in achieving this is adequate planning, including consideration of the extent to which the procurement method meets the identified need.

As procurement is a core activity of Australian Government entities, the ANAO has an ongoing focus on procurement practices in entities. Parliamentary committees also maintain an interest in this important area of administration. In recent months the ANAO has tabled a report that examined the establishment and use of multi-use lists and the Senate Finance and Public Administration References Committee conducted two inquiries on aspects of procurement and tabled two reports in the Senate.

Establishment and use of multi-use lists

Multi-use lists (MULs) were introduced into the Australian Government’s procurement framework as a means of streamlining and simplifying procurement processes for frequently purchased goods or services by enabling entities to easily identify suppliers that meet certain conditions or that have specific expertise. Used appropriately, MULs can assist entities in their procurement activities. However, the recent ANAO audit identified that the arrangements applying to MULs were not well understood and the ANAO suggested that all entities needed to give greater consideration as to whether a MUL is the best option for meeting particular procurement needs.

Areas where entities did not adhere to requirements of the CPRs included: approaching too few suppliers; providing insufficient time for suppliers to respond to requests for work; and not treating suppliers consistently. As a result, it was difficult for some of the audited entities to demonstrate that competition was genuine and value for money was achieved.

Senate Finance and Public Administration References Committee inquiries

The two recent inquiries by the Finance and Public Administration References Committee focussed on the Senate Order for departmental and agency contracts and Commonwealth procurement procedures in relation to participation by Australian business in government procurement.

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Governments, business and individuals increasingly rely on information and communications technology (ICT) in their day-to-day activities, with rapid advances continuing to be made in how people and organisations communicate, interact and transact business through ICT and the Internet. In the government sector, ICT is used to deliver service, store and process information, and enable communications, with a consequent need to protect the privacy, security and integrity of information maintained on government systems.

The protection of Australian Government systems and information from unauthorised access and use is therefore a key responsibility of entities, having regard to their business operations and specific risks. These risks can range from threats to national security through to disclosure of sensitive personal information.

For some years, the Australian Government has established both an overarching protective security policy framework, and promulgated specific ICT risk mitigation strategies and related controls, to inform the ICT security posture of entities. This framework consists of the Protective Security Policy Framework (PSPF), which is supported by the Australian Government Information Security Manual (ISM). In 2013, the government mandated elements of the framework in response to the rapid escalation, intensity and sophistication of cyber crime and other cyber security threats.

In an ideal world, every entity’s security posture would comprehend all threats and deal with them comprehensively. In reality it is not possible for any agency’s management to have a full understanding of security risks and nor is it practically possible to deal fully with them. There are, however, practical strategies entities can implement to improve their security posture. These include: complying with the mandatory requirements of the PSPF and the ISM; tailored implementation of non-mandatory requirements and other initiatives; and addressing insider threats including through the application of IT general controls.

The ANAO recently completed two audits that focused on entities’ compliance with the information and physical security requirements of the PSPF, and the ISM with respect to information security. In view of the emergence of cybersecurity as a major issue, the audit of information security also considered agencies’ IT general controls and security posture more generally.

Our audit coverage highlighted opportunities for entities to improve their security posture, through improved compliance with the PSPF and the ISM. While recognising that practical issues exist, these should not present insurmountable problems in most cases and entities should develop a clear timetable and process to achieve increased levels of compliance. Entities also have a role in ensuring that the PSPF and ISM requirements are relevant to their circumstances and have opportunities to work in partnership with the Attorney-General’s Department and the Australian Signals Directorate. There is scope for entities to tailor implementation of the PSPF and ISM requirements, and to implement their own specific initiatives through better integration and more focus on security in management processes. More generally, there are also opportunities to integrate security considerations into entity risk management and assurance processes, and a recognition that a strong security posture is reinforced through the promotion and enforcement of security awareness and accountability at all levels within an entity.

The audit of physical security concluded that entities selected for review were largely complying with PSPF mandatory requirements. Integration of security risk management into enterprise wide risk management policy and practice was, nevertheless, an area in which entities could pay particular attention. The audit of IT security concluded that the entities reviewed had security controls in place to provide a reasonable level of protection from breaches and disclosures of information from internal sources. However, this was not sufficient protection against cyber attacks from external sources.

Audit Report references:

ANAO Audit Report No. 49 2013–14 Management of Physical Security

3 This term is used to describe how well an entity is protecting its exposure to external vulnerabilities and intrusions, internal security breaches and disclosures, and how well it is positioned to address threats.

Since 2001, successive governments have agreed to comply with the Senate Order that involves departments and agencies publishing on the Internet lists of contracts valued at $100,000 or more with statements of reasons for any confidentiality clauses or claims. For many years the ANAO has an ongoing role in monitoring compliance with the Senate Order through annual compliance audits.

The Committee’s report into the Senate Order made a number of recommendations, including that an 18-month trial be undertaken of AusTender to fulfil agency reporting obligations (for procurement contracts) arising from the Senate Order. The trial would be subject to the Department of Finance being able to demonstrate that AusTender is able to produce reports which comply with the Senate Order. In relation to ANAO audits of compliance with the Senate Order, the Committee recommended that the annual audit of Senate Order compliance be phased out and following the tabling of a final annual audit report in 2014, the Auditor-General conducts two subsequent biennial reports, by 30 September 2016 and 30 September 2018.

The Committee’s inquiry into Commonwealth procurement procedures, which reported in July 2014, explored the operation and effectiveness of the CPRs as they relate to the participation of Australian businesses. The Committee’s report expressed the view that procurement policies, as part of the value-for-money assessment, should take into account the impact of the government’s procurement decisions on communities and on the broader economy. The Committee’s majority report made 15 recommendations, not all of which are supported in the Government Senator’s minority report. However, there was full committee agreement with the recommendation that the ANAO review the operation of the revised Procurement Rules in procurement-related audits, particularly the revisions relating to the assessment of financial and non-financial costs and benefits. The ANAO is supportive of this recommendation and will look to incorporate this type of analysis into future procurement related audits.

The Government’s response to both reports had not been finalised at the date of publication of this newsletter.
