

The Auditor-General
Audit Report No.53 2012–13
Performance Audit

Agencies' Implementation of Performance Audit Recommendations

Australian National Audit Office

© Commonwealth of Australia 2013

ISSN 1036-7632

ISBN 0 642 81378 7 (Print)

ISBN 0 642 81379 5 (On-line)

Except for the content in this document supplied by third parties, the Australian National Audit Office logo, the Commonwealth Coat of Arms, and any material protected by a trade mark, this document is licensed by the Australian National Audit Office for use under the terms of a Creative Commons Attribution-NonCommercial-NoDerivatives 3.0 Australia licence. To view a copy of this licence, visit

<http://creativecommons.org/licenses/by-nc-nd/3.0/au/>

You are free to copy and communicate the document in its current form for non-commercial purposes, as long as you attribute the document to the Australian National Audit Office and abide by the other licence terms. You may not alter or adapt the work in any way.

Permission to use material for which the copyright is owned by a third party must be sought from the relevant copyright owner. As far as practicable, such material will be clearly labelled.

For terms of use of the Commonwealth Coat of Arms, visit It's an Honour at <http://www.itsanhonour.gov.au/coat-arms/index.cfm>.

Requests and inquiries concerning reproduction and rights should be addressed to:

Executive Director
Corporate Management Branch
Australian National Audit Office
19 National Circuit
BARTON ACT 2600

Or via email:

webmaster@anao.gov.au





Canberra ACT
25 June 2013

Dear Mr President
Dear Madam Speaker

The Australian National Audit Office has undertaken an independent performance audit across agencies with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit to the Parliament. The report is titled *Agencies' Implementation of Performance Audit Recommendations*.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee', is positioned above the printed name and title.

Ian McPhee
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office (ANAO). The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits, financial statement audits and assurance reviews of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

For further information contact:

The Publications Manager
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Telephone: (02) 6203 7505
Fax: (02) 6203 7519
Email: webmaster@anao.gov.au

ANAO audit reports and information about the ANAO are available at our internet address:

<http://www.anao.gov.au>

Audit Team

Greg Watson
Shona Batge
Renee Hall
Andrew Pope
Stuart Turnbull

Contents

Abbreviations.....	7
Summary and Recommendations	9
Summary	10
Introduction	10
Audit objective, scope and criteria	11
Overall conclusion.....	12
Key findings by chapter.....	14
Summary of agencies' responses.....	17
Recommendations	19
Audit Findings	21
1. Introduction	22
ANAO performance audits	22
Agencies' implementation of recommendations	22
Audit objective, scope and criteria	24
Report structure	25
2. Governance Arrangements to Monitor Audit Recommendations	26
Introduction	26
Audit committees and internal audit.....	26
Program manager responsibilities	27
Systems for monitoring recommendations.....	28
Information provided to audit committees.....	30
Monitoring systems by agency.....	33
Conclusion	40
3. Implementation of Performance Audit Recommendations	43
Introduction	43
ANAO assessment of implementation of recommendations	45
Timeliness of implementation	47
Conclusion	53
Appendices	57
Appendix 1: Agencies' Responses	58
Appendix 2: DEEWR traffic light report information	64
Appendix 3: FaHCSIA traffic light report information.....	65
Appendix 4: DoFD implementation report information	66
Appendix 5: DIT implementation report information	67
Index.....	68
Series Titles.....	69
Current Better Practice Guides	76

Tables

Table 1.1	Report structure.....	25
Table 2.1	Number of employees by agency at 30 June 2012.....	28
Table 2.2	Agency systems for monitoring the implementation of ANAO recommendations.....	29
Table 2.3	Level of authority required for closure of recommendations.....	30
Table 2.4	Status of ANAO recommendations.....	32
Table 3.1	Overview of recommendations included in the audit by agency.....	44
Table 3.2	Categorisation of implementation.....	44
Table 3.3	Implementation overview by total number of recommendations.....	45
Table 3.4	Implementation overview by recommendation type.....	46

Figures

Figure 3.1	Reported time to implement ANAO performance audit recommendations, January 2009-March 2013 - Overall.....	48
Figure 3.2	Reported time to implement ANAO performance audit recommendations, January 2009-March 2013 - DEEWR.....	49
Figure 3.3	Reported time to implement ANAO performance audit recommendations, January 2009-March 2013 - FaHCSIA.....	50
Figure 3.4	Reported time to implement ANAO performance audit recommendations, January 2009-March 2013 – DoFD.....	51
Figure 3.5	Reported time taken to implement ANAO performance audit recommendations, January 2009-March 2013 – DIT.....	52

Abbreviations

ANAO	Australian National Audit Office
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIA	Chief Internal Auditor
DAC	Departmental Audit Committee
DEEWR	Department of Education, Employment and Workplace Relations
DIT	Department of Infrastructure and Transport (DIT)
DoFD	Department of Finance and Deregulation (DoFD)
FaHCSIA	Department of Families, Housing, Community Services, and Indigenous Affairs
FMA Act	The <i>Financial Management and Accountability Act 1997</i>
JCPAA	Joint Committee of Public Accounts and Audit

Summary and Recommendations

Summary

Introduction

1. The Australian National Audit Office's (ANAO) performance audits are an independent and objective assessment of agency programs, policies and/or systems designed to inform the Parliament and to provide a stimulus for improved public sector performance and accountability. A performance audit can be undertaken in a single agency or as a cross-agency audit involving multiple agencies and a commonly performed function, or where more than one agency is involved in program delivery. Performance audits typically give consideration to the efficiency and effectiveness of agency administration and consistency with legislative and policy settings. In this way, performance audits can assist agency chief executives fulfil their responsibilities to promote proper use of resources when managing the affairs of the agency.¹
2. In its performance audits, the ANAO identifies areas where administrative improvements can be made and, in most cases, makes specific recommendations to assist agencies improve their performance and to address risks to the delivery of outcomes. Recommendations made in cross-agency audits are often applicable to other agencies not subject to the specific audit. In those situations, while other agencies do not explicitly agree to implement relevant recommendations, there is an expectation that these agencies consider the recommendations and implement them as appropriate.
3. Once an agency 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. Implementation of recommendations should be treated by agencies in the same way as implementation of other program and business improvement initiatives. This would generally include having a clear process for assigning responsibilities, and systematic monitoring, so that reporting on implementation can provide sufficient assurance to agency management that the recommendation has been satisfactorily implemented. In general, responsibility for implementing recommendations will rest with the relevant business or program management

¹ Part 7 of the *Financial Management and Accountability Act 1997* (FMA Act) sets out the 'special responsibilities' of agency chief executives, which include a requirement under section 44 to 'manage the affairs of the Agency in a way that promotes proper use of the Commonwealth resources for which the chief executive is responsible'.

area² of an agency. Governance and oversight of agency responses to recommendations will generally involve an agency's audit committee, supported by the agency's internal audit function.³

4. The ANAO examined the governance arrangements established in four Australian Government agencies to monitor the implementation of ANAO audit recommendations. The ANAO also examined the implementation of recommendations from seven ANAO performance audits. Due to the inclusion of cross-agency audits, three to five audits from the sample of seven were applicable to each agency resulting in a total of 48 recommendations being assessed.

Audit objective, scope and criteria

5. The objective of the audit was to assess the effectiveness of agencies' arrangements for monitoring and implementing ANAO performance audit recommendations.

6. The agencies included in the audit were the Department of Education, Employment and Workplace Relations (DEEWR); the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA); the Department of Finance and Deregulation (DoFD); and the Department of Infrastructure and Transport (DIT).⁴

7. To reach a conclusion against the audit objective, the ANAO assessed whether the selected agencies had:

- effective governance systems in place to monitor ANAO performance audit reports and provide oversight of implementation of relevant recommendations;
- reporting arrangements that were accurate and timely, with appropriate intervention mechanisms if required; and

² Program management area is used to refer to 'line' areas of departments that are responsible for the administration of Government programs, and also where applicable, corporate support areas in agencies.

³ The functions of audit committees are set out in FMA Regulation 22C. They include: advising the chief executive about the audit plans of the agency; coordinating work programs relating to internal and external audits; reviewing the adequacy of the agency's response to audit reports; and reviewing the content of audit reports with a view to advising the chief executive on good practice, significant matters of concern and opportunities for improvement.

⁴ The Department of Infrastructure and Transport (DIT) was included in the audit at the request of the Joint Committee of Public Accounts and Audit (JCPAA). In May 2012, the JCPAA conducted a review of ANAO reports. The Committee report (Report 430, *Review of Auditor-General's Reports Nos. 47 (2010-11) to 9 (2011-12) and Reports Nos. 10 to 23 (2011-12)*, Canberra, May 2012 p. xviii) recommended that the ANAO include DIT in the (then planned) performance audit 'Agencies' Implementation of ANAO Audit Recommendations.'

- adequately implemented agreed ANAO recommendations.

Overall conclusion

8. Performance audits play an important role in improving the administration and management of public sector agencies. During the course of an audit, the ANAO establishes a relationship with agencies to provide opportunities for discussion of the audit findings, conclusions and potential recommendations. The benefit of this approach is that it ensures reports are accurate, evidence-based, and balanced. In this process, recommendations are developed to make improvements that are directed towards the efficient and effective implementation of government programs. Once agreed, audit recommendations become a management responsibility, and an effective system to implement recommendations will feature strong ownership within the agency and an outcome orientation, which promotes timely implementation and a focus on results. In this respect, the implementation of audit recommendations is similar to an agency's successful delivery of its other responsibilities, relying heavily on agency leadership and the active support of those charged with oversight and implementation.

9. Overall, the four agencies included in the audit had developed systems to capture ANAO recommendations and to monitor and report on implementation where these recommendations were made in audits directly involving the agency. ANAO recommendations were clearly identified by the agencies' internal audit functions and brought to the attention of audit committees on a regular basis. Reports to audit committees included information on the recommendation, the current status of implementation and the expected timeframe for completion, although in some cases, the status of ANAO recommendations was inaccurately recorded in agency monitoring systems.

10. While the systems in place generally provided visibility over reported actions for audits directly involving the agencies, three of the four audited agencies' monitoring and reporting systems did not feature a systematic approach to the capture of recommendations made in broader cross-agency audits, which may have relevance to the agency's operations. At the same time, the ANAO observed that agencies had implemented a number of cross-agency recommendations which were not recorded in agency monitoring systems.

11. Monitoring and reporting are important activities, but do not necessarily guarantee the timely and adequate implementation of

recommendations. The ANAO examined all ANAO performance audit recommendations marked as complete in agency monitoring systems from January 2009 to March 2013—a total of 216 recommendations. Approximately half (56 per cent) of these recommendations had been implemented within a year of the recommendations being made, and 74 per cent within 18 months. A relatively small proportion (seven per cent) of ANAO recommendations had taken 18 to 24 months to implement. For 19 per cent of the recommendations, however, implementation was still in progress after two years and in one case implementation had been ongoing for six years.

12. Each agency, regardless of its size or the number of recommendations it has been required to manage, has experienced difficulties with full implementation of recommendations. The ANAO undertook a detailed assessment of 48 recommendations, 14 of which were directed to individual agencies while 34 were cross-agency audit recommendations. Overall, 69 per cent of recommendations were assessed as having been implemented adequately, while 10 per cent were assessed as not being adequately implemented. Approximately 21 per cent of the recommendations examined were assessed as being partially implemented reflecting that actions had been taken in agencies, but these actions did not fully address the recommendation.

13. In general, limited supporting information was provided to the respective agencies' internal audit function or audit committee in support of the closure of recommendations. Audit committees generally relied on assurances from program management areas and/or internal audit that recommendations had been implemented and therefore no longer needed to be monitored by the audit committee. While it would not be practical to undertake detailed assessments of implementation of all recommendations, there are benefits in agencies requiring senior management sign off prior to the closure of ANAO recommendations in audit systems. In agencies where this was a standard procedure, for example at Deputy Secretary level, the ANAO assessed a higher number of recommendations as having been adequately implemented, although this was also influenced by the relative complexity of different recommendations. There would also be benefit in periodic internal audit assessments of a sample of recommendations to provide strengthened assurance to audit committees in relation to implementation.

14. Other than DEEWR, none of the agencies included in this audit had developed structured implementation approaches in relation to implementation of ANAO recommendations. A more structured approach would support agencies to manage timeliness, completeness and adequacy of

implementation, and allow progress to be monitored and assessed. This would also provide support for requests to senior management for sign-off on final implementation and closure.

15. Effective arrangements for the implementation of audit recommendations are an important part of realising the full benefit of an audit. The audit recommendations highlight actions that are expected to improve agency performance when implemented and assist to address risks to an agency's delivery of its outcomes. In this context, ANAO performance audit recommendations are important opportunities, that have generally been agreed to by agencies, to achieve long term benefits. The ANAO has made two recommendations to support improved oversight and implementation of recommendations. The first recommendation relates to the inclusion of all relevant ANAO recommendations in agency internal monitoring systems. The second recommendation is designed to assist agencies in the introduction of a more systematic approach to better manage the implementation of ANAO recommendations.

16. The recommendations are based on findings from fieldwork at the audited agencies, and are likely to be relevant to other agencies. Therefore, all agencies are encouraged to assess the benefits of implementing these recommendations in light of their own circumstances.

Key findings by chapter

Governance Arrangements (Chapter 2)

17. As part of their governance arrangements, each of the four audited agencies had developed systems to capture external audit recommendations, monitor implementation and provide support to audit committees. The monitoring systems differed amongst agencies and this also influenced the style of reporting provided to the audit committees. Two agencies, DEEWR and FaHCSIA have developed an electronic database that tracks progress and records action taken in response to ANAO audit recommendations. The other agencies, DoFD and DIT, employ a system based on spreadsheets and tables, which are emailed to program areas for updating. While this latter approach provides for direct communication with the relevant program managers, it can limit the effectiveness of agency oversight and make it difficult to track continuity of actions for a particular recommendation because historical information may be stored in discrete spreadsheets.

18. The ANAO assessed the implementation by the four agencies of 48 recommendations made in seven ANAO audit reports. ANAO analysis shows that the status of 25 of the 48 recommendations was not accurately recorded in agency systems. The four agencies subject to this audit have had recommendations either marked as complete in their monitoring systems that were either partially implemented, or not adequately implemented in the ANAO's assessment. The analysis also shows that in some cases, applicable recommendations from cross-agency audits including those that have been adequately implemented, were not being monitored in agency systems.

19. Information on the status of recommendations and their completion was in all cases provided to internal audit having first been cleared through the relevant program management area of an agency. In DEEWR, ANAO recommendations are considered by program area governance committees, which are chaired at the Associate or Deputy Secretary level. DEEWR and DoFD both require finalised status reports to be endorsed at the Deputy Secretary level, prior to consideration by the audit committee. In FaHCSIA and DIT, updates are entered into monitoring and reporting systems having been signed off at program manager (senior executive service) level. None of the audited agencies' audit committees required supporting documentation from program areas to support the closure of recommendations. Most of the recommendations (13 out of 15) that were assessed by the ANAO as partially implemented or not adequately implemented, had been either marked as complete in the respective agency monitoring systems, or were not monitored at all. This underlines the need for agencies to strengthen the controls over implementation of ANAO recommendations to obtain sufficient assurance that the risks initially identified by ANAO audits are appropriately controlled and managed.

20. The most significant difference in the governance arrangements observed across the audited agencies was in the approach to ANAO cross-agency audits. Cross-agency audits offer a unique perspective on government arrangements and processes, and recommendations are intended to be useful for all agencies. Three of the four agencies, FaHCSIA, DoFD and DIT, did not have a systematic way of capturing the recommendations of cross-agency audits, although this did not necessarily mean that cross-agency recommendations are not addressed by the agencies. For example, in the sample of recommendations assessed by the ANAO, three cross-agency recommendations have been adequately implemented in FaHCSIA while in DIT, four cross-agency recommendations were adequately implemented.

However, there is no record of whether the respective audit committees were informed of the audit reports, their recommendations and the risks each was intended to address.

Implementation of ANAO Audit Recommendations (Chapter 3)

21. As noted in paragraph 18, the ANAO undertook detailed assessment of 48 recommendations, of which 14 were directed to specific agencies and 34 were cross-agency recommendations. Agencies had demonstrably taken action in relation to 57 per cent (8 of 14) of direct recommendations and 74 per cent (25 of 34) of cross-agency recommendations. While the ANAO has assessed these actions to adequately address the recommendations, in 7 per cent (1 of 14) of direct recommendations and 12 per cent (4 of 34) of cross-agency recommendations, very limited action had been taken by agencies or the action taken did not adequately address the recommendation. In a larger number of cases, 36 per cent (5 of 14) of direct and 15 per cent (5 of 34) of cross-agency recommendations actions by agencies had generally sought to address the recommendation but implementation was less than complete.

22. Recommendations vary in their complexity, and the time taken to implement ANAO recommendations is expected to vary across and within agencies. However, if implementation is not progressed in a timely manner and identified risks remain untreated, the full value of the audit is not being achieved. DEEWR had one recommendation that had been outstanding for 45 months and DIT had two (part) recommendations marked as ongoing in its monitoring system for six years. The reasons provided by the relevant program management areas for the length of time taken to implement these recommendations do not set out a comprehensive explanation as to why this was the case. It is important that internal audit and the audit committee keep the agency chief executive informed on progress with implementing recommendations that are complex, difficult or are overdue.

23. Other than DEEWR, none of the agencies included in this audit had developed a structured approach to the implementation of ANAO recommendations, involving planned implementation dates, and the allocation of responsibilities to guide the program management area and for reporting to audit committees. FaHCSIA assigns a risk rating to the implementation of ANAO recommendations. FaHCSIA's risk rating system links to planned implementation dates, which is a systematic way of taking into account the complexities involved and ensuring the time being taken to implement ANAO recommendations is reviewed by internal audit and the audit committee at

regular intervals. Implementation of recommendations by agencies would be improved by a broader adoption of structured implementation approaches. This would generally include identifying a clear process and timelines, clear allocation of roles and responsibilities at each stage and appropriate senior management sign-off arrangements.

Summary of agencies' responses

24. The proposed audit report was provided to the Departments of Education, Employment and Workplace Relations; Families, Community Services and Indigenous Affairs; Finance and Deregulation; and Infrastructure and Transport. All agencies provided a formal response to the proposed report and to the recommendations. The audited agencies' summary responses to the audit are provided below. The agencies' responses to the recommendations are contained in the body of the report following the relevant recommendation. Formal responses from the agencies are included at Appendix 1.

DEEWR

25. DEEWR acknowledges that there are benefits and efficiencies to be gained across the department in leveraging from evidenced based recommendations and lessons learnt contained in ANAO performance audits. DEEWR has made decisions, in line with better practice, to engage the Executive in monitoring audit recommendations to ensure the implementation of audit recommendations is timely and there is cross cluster transparency of these recommendations.

26. It is pleasing to see after audit scrutiny, the ANAO has concluded that overall, DEEWR's governance arrangements for the implementation of ANAO recommendations are effective and appropriately targeted. Furthermore, the use of the Audit Recommendations dnet site (ARds) was considered by the ANAO as an appropriate initiative to gain efficiencies in managing the implementation of ANAO performance audit recommendations. The ANAO also highlighted that DEEWR had developed a structured approach to the implementation of ANAO recommendations, involving planned implementation dates, and the allocation of responsibilities to guide the program management area and for reporting to audit committees.

FaHCSIA

27. FaHCSIA agrees with the two recommendations in the report.

DoFD

28. The Department of Finance and Deregulation agrees with both recommendations.

DIT

29. The Department of Infrastructure and Transport (DIT) welcomes the assurance provided by the ANAO that in relation to the governance arrangements over the implementation of ANAO performance audit recommendations, the underlying processes employed by DIT are sound. DIT acknowledges a higher level of support could be provided to the Audit Committee with some improvement in process and documentation. DIT agrees to both recommendations.

Recommendations

The recommendations are based on findings from fieldwork at the audited agencies, and are likely to be relevant to other agencies. Therefore, all agencies are encouraged to assess the benefits of implementing these recommendations in light of their own circumstances, including the extent to which each recommendation, or part thereof, is addressed by practices already in place.

Recommendation No.1

Paragraph 2.47

To better support the application of relevant recommendations, the ANAO recommends that agencies establish, or review existing procedures for assessing the relevance of recommendations from ANAO cross-agency audits, and subsequent monitoring.

DEEWR's Response: Noted.

FaHCSIA's Response: Agreed.

DoFD's Response: Agreed.

DIT's Response: Agreed.

Recommendation No.2

Paragraph 3.30

In order to support timely and complete implementation of ANAO performance audit recommendations, the ANAO recommends that agencies establish, or strengthen implementation approaches, including documenting intended actions, timelines and setting out clear responsibilities for the outcome.

DEEWR's Response: Agreed.

FaHCSIA's Response: Agreed.

DoFD's Response: Agreed.

DIT's Response: Agreed.

Audit Findings

1. Introduction

This chapter summarises the role of program management areas, audit committees and internal audit in relation to implementing and monitoring ANAO performance audit recommendations. It sets out the ANAO audits that were selected for follow-up of recommendations, as well as the audit objective, scope and criteria.

ANAO performance audits

1.1 The Australian National Audit Office's (ANAO) performance audits are an independent and objective assessment of agency programs, policies and/or systems designed to inform the Parliament, and to provide a stimulus for improved public sector performance and accountability. A performance audit can be undertaken in a single agency or as a cross-agency audit involving multiple agencies and a commonly performed function, or where more than one agency is involved in program delivery. Performance audits typically give consideration to the efficiency and effectiveness of agency administration and consistency with legislative and policy settings.

1.2 In its performance audits, the ANAO identifies areas where administrative improvements can be made and, in most cases, makes specific recommendations to assist agencies improve their performance and to address risks to the delivery of outcomes. Audit reports may also encourage the agency to address opportunities for improvement even though the issue may not warrant a recommendation. Recommendations made in cross-agency audits are often applicable to other agencies not subject to the specific audit. In those situations, while other agencies do not explicitly agree to implement relevant recommendations, there is an expectation that these agencies consider the recommendations and implement them as appropriate.

Agencies' implementation of recommendations

1.3 Evaluation, review and audit activities enable an organisation to identify strengths, learn lessons, and maintain and improve its capacity to serve government and the community over time. Such review activities may be internally or externally driven. In both cases, a key area of focus is to assess the impact and effectiveness of programs, so as to contribute to improved accountability for results. Implementation of the recommendations from evaluation and audit review activity can assist chief executives in promoting

efficient and effective program management, and in adopting continuous improvement approaches.

1.4 Once an agency 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. Implementation of recommendations should be treated by agencies in the same way as implementation of other program and business improvement initiatives. Responsibility for implementing recommendations should be clearly assigned to the relevant business or program management area of an agency. Governance and oversight of agency responses to audit recommendations will generally involve an agency's audit committee, supported by the agency's internal audit function.

1.5 Under section 46 of the *Financial Management and Accountability Act* 1997 (FMA) and sections 32 and 44 of the *Commonwealth Authorities and Companies Act* 1997 (CAC) the chief executive or directors of an entity must establish and maintain an audit committee. The functions of an audit committee include providing a forum for communication between senior managers and the internal and external auditors of the entity.⁵

1.6 Internal audit is an integral part of the corporate governance framework that agencies establish to manage their risks and achieve their objectives. Internal audit provides a service to management, through the conduct of an internal audit program and consultation with external audit.

1.7 A key role of internal audit is to support the audit committee by monitoring and providing advice on the implementation of audit recommendations. When an agency is not the direct subject of an ANAO audit, such as in some cross-agency audits, internal audit has a role in engaging with the appropriate program management area to share applicable key messages from the audit, following publication of the report. When it is relevant for a program management area to implement recommendations from such audits, internal audit should include these in the monitoring process.

1.8 The specificity of ANAO recommendations may vary, depending on the issues identified in an audit. Specific recommendations propose particular

⁵ In addition, FMA Regulation 22C sets out the functions of audit committees. They include: advising the chief executive about the audit plans of the agency; coordinating work programs relating to internal and external audits; reviewing the adequacy of the agency's response to audit reports; and reviewing the content of audit reports with a view to advising the chief executive on good practice, significant matters of concern and opportunities for improvement.

action for the agency to undertake, while broad recommendations generally provide greater flexibility in addressing the issue for improvement. ANAO performance audit recommendations generally have an outcome focus. The action management takes should accord with the responses and any timeframes documented in the audit reports that have been agreed by the entity and reviewed by the audit committee.

Audit objective, scope and criteria

Audit objective

1.9 The objective of the audit was to assess the effectiveness of agencies' governance arrangements for monitoring and implementing agreed ANAO performance audit recommendations.

Audit scope

1.10 The agencies included in the audit were all subject to the FMA Act and included the Department of Education, Employment and Workplace Relations (DEEWR); the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA); the Department of Finance and Deregulation (DoFD); and the Department of Infrastructure and Transport (DIT).⁶

1.11 The ANAO examined the agencies' implementation of applicable recommendations made in the following reports:

- ANAO Audit Report No.20 2008–09, *Approval of Funding for Public Works*, tabled in February 2009;
- ANAO Audit Report No.31 2009–10, *Management of the AusLink Roads to Recovery Program*, tabled in April 2010;
- ANAO Audit Report No.11 2010–11, *Direct Source Procurement*, tabled in September 2010;
- ANAO Audit Report No.25 2010-11, *Administration of the Trade Training Centres in Schools Program*, tabled in February 2011;

⁶ The Department of Infrastructure and Transport (DIT) was included in the audit at the request of the Joint Committee of Public Accounts and Audit (JCPAA). In May 2012, the JCPAA conducted a review of ANAO reports. The Committee report (Report 430, *Review of Auditor-General's Reports Nos. 47 (2010-11) to 9 (2011-12) and Reports Nos. 10 to 23 (2011-12)*, Canberra, May 2012 p.xviii) recommended that the ANAO include DIT in the performance audit 'Agencies' Implementation of ANAO Audit Recommendations.'

- ANAO Audit Report No.30 2010–11, *The Digital Education Revolution Program – National Secondary Schools Computer Fund*, tabled in February 2011;
- ANAO Audit Report No.33 2010–11, *The Protection and Security of Electronic Information Held by Australian Government Agencies*, tabled in March 2011; and
- ANAO Audit Report No.38 2010–11, *Management of the Certificate of Compliance Process in FMA Act Agencies*, tabled in April 2011.

Audit criteria

1.12 To reach a conclusion against the audit objective, the ANAO assessed whether the selected agencies had:

- effective governance systems in place to monitor ANAO performance audit reports and provide oversight of implementation of relevant recommendations;
- reporting arrangements that were accurate and timely, with appropriate intervention mechanisms if required; and
- adequately implemented agreed ANAO recommendations.

1.13 The audit was conducted in accordance with ANAO auditing standards at a cost to the ANAO of \$494 814.

Report structure

1.14 The structure of the report is outlined in Table 1.1.

Table 1.1

Report structure

Chapter	Chapter overview
2. Governance Arrangements to Monitor Audit Recommendations	Considers agencies' internal governance arrangements for monitoring the implementation of performance audit recommendations.
3. Implementation of Performance Audit Recommendations	Examines a selection of ANAO recommendations and assesses the implementation of these recommendations by the four agencies.

2. Governance Arrangements to Monitor Audit Recommendations

This chapter considers agencies' internal governance arrangements for monitoring the implementation of performance audit recommendations.

Introduction

2.1 Governance refers broadly to the processes by which organisations are directed, controlled and held to account.⁷ In relation to implementing audit recommendations the main elements of governance are the oversight and review of agency responses to external audits by an agency's audit committee and monitoring and reporting by an agency's internal audit function. The oversight provided through these two arrangements can assist an agency in managing delivery risks, where these have been identified through ANAO's audits, and to hold agency management accountable for the appropriateness of management responses to external audit.

2.2 For these governance arrangements to be effective, agencies need to put in place effective systems for identifying relevant recommendations and tracking associated implementation. Agencies also need to ensure that the program management areas responsible for implementing recommendations provide timely and accurate information on implementation approaches, status and achievements so that the agency's audit committee can effectively fulfil its oversight role.

Audit committees and internal audit

2.3 The important role audit committees play in the governance framework of public sector entities flows from the legislative base established by government.⁸ Audit committees do not displace or change the management accountability arrangements within entities, but enhance the existing governance framework, risk management practices, and control environment, by providing independent assurance and advice on key elements of an entity's

⁷ ANAO Better Practice Guide—*Public Sector Governance: Framework, Processes and Practices*, July 2003, Canberra, p. 6.

⁸ Section 46 of the *Financial Management and Accountability Act 1997* provides that (1). A chief executive must establish and maintain an audit committee.

operations.⁹ The precise role each agency audit committee undertakes should be determined by the chief executive in consultation with the audit committee, within the context of each entity's governance framework and other assurance mechanisms.

2.4 As noted in paragraph 1.10, the focus of this audit was on four agencies subject to the FMA Act and their arrangements for the monitoring and implementation of agreed ANAO performance audit recommendations. FMA Regulations specifically provide for the audit committee to review the content of reports of internal and external audit, to assess the adequacy of management responses and for the purpose of identifying material that is relevant to the agency, and advising the chief executive about good practices. Internal audit supports the audit committee in meeting these responsibilities and carrying out its functions¹⁰ through among other things, monitoring and providing advice on the implementation of audit recommendations.¹¹

Program manager responsibilities

2.5 During the final stages of an ANAO audit, recommendations are discussed with the program management area that was subject to audit. When audit recommendations are agreed by the department, this signifies that all parties are satisfied with the content of the report and that the program area agrees, where applicable, to implement the recommendations. The implementation of ANAO recommendations then becomes the responsibility of program managers and the action management takes should accord with the formal responses provided by agencies and documented in the audit reports. Approval of proposed actions in relation to the implementation of recommendations should be through the established lines of responsibility and accountability found in normal departmental reporting structures. In this context, progress reports through routine departmental structures are likely to be more frequent than reports to the audit committee, which tend to meet on a less frequent basis.

⁹ ANAO Better Practice Guide *Public Sector Audit Committees*, 2011, Part 1.

¹⁰ *ibid.*, p. 12.

¹¹ For further information on better practice for internal audit and audit committees, see the following ANAO Better Practice Guides: *Public Sector Internal Audit: An Investment in Assurance and Business Improvement*, September 2012; and *Public Sector Audit Committees: Independent assurance and advice for Chief Executives and Boards*, August 2011.

Consultation with internal audit

2.6 As discussed above, there is an active role for internal audit in maintaining an appropriate process for monitoring the status of agreed audit recommendations. On occasions where internal audit is not satisfied with progress in implementing a recommendation, the matter should be escalated to senior program management in the first instance, and if not effectively resolved, reported to the audit committee.

2.7 When an agency is not the direct subject of an audit, such as in some cross-agency audits, internal audit also has a role in engaging with the appropriate program area to share applicable key messages from the audit, following publication of the report. When it is relevant for a program area to implement recommendations from such audits, internal audit should include these in the monitoring process.

Differences in agency size and approach

2.8 ANAO performance audits involve the independent and objective assessment of the administration of agency programs. The number of performance audits that are conducted in any given agency is a function of agency size, the number of programs it is responsible for, and an assessment of risk. As a result, the number of performance audit recommendations extant at a point in time is subject to a wide range of variables. Governance arrangements for monitoring the implementation of ANAO recommendations will therefore vary depending on an entity’s size, complexity and nature, and the number of recommendations that are agreed. A measure of the relative sizes of the agencies included in this audit is shown in Table 2.1.

Table 2.1

Number of employees by agency at 30 June 2012

	DEEWR	FaHCSIA	DoFD	DIT
Number of employees ¹	4 199	3 167	2 023	1 019

Source: ANAO from departmental Annual Reports.

Note 1: Figures in the table represent a head count of total staff, (including ongoing and non-ongoing employees, and those engaged on a full time and part time basis) at 30 June 2012.

Systems for monitoring recommendations

2.9 Agency systems for monitoring ANAO audit recommendations generally involve a process managed by internal audit, where details of recommendations are entered into databases and responsibilities for

implementation are assigned. Records are periodically updated from information supplied by the responsible program management areas for reporting to, and consideration by, the audit committee. The approaches of each of the agencies are shown in Table 2.2.

Table 2.2

Agency systems for monitoring the implementation of ANAO recommendations

	DEEWR	FaHCSIA	DoFD	DIT
System for tracking recommendations	SharePoint ¹ application with ongoing updates from program areas	SharePoint ¹ application with six monthly updates from program areas	Electronic spreadsheets	Electronic tables
Presentation of recommendation information to the audit committee	Tables with 'traffic lights' ² extracted from SharePoint	Tables with 'traffic lights' ² extracted from SharePoint	Table presentation	Table with 'traffic lights' ²

Source: ANAO from departmental records.

Note 1: Microsoft SharePoint is a web-based application used for intranet content and document management.

Note 2: 'Traffic light' indicators are used in status reports to summarise progress with implementation.

2.10 The summary in Table 2.2 shows that all agencies have developed a system to capture external audit recommendations, and monitor their implementation. The monitoring systems differ amongst agencies and this also influences the style of reporting provided to the audit committees. Two agencies have developed an electronic database that tracks progress and records action taken in response to ANAO audit recommendations. Other agencies employ a system based on spreadsheets and tables, which are emailed to program management areas for update. While this approach provides for direct communication with the relevant program managers, it can limit the effectiveness of agency oversight and make it difficult to track continuity of actions for a particular recommendation because historical information may be stored in discrete spreadsheets. Manual system processes and controls need to recognise and address the inherent risks of emailing important documents for updating throughout a widely dispersed organisation, noting that reports to the audit committee drawn from the updates, form an important part of an agency meeting its accountability obligations.

Information provided to audit committees

2.11 To assist audit committees in assessing the appropriateness and timeliness of actions taken in response to recommendations, reporting by program management areas to internal audit should include the necessary information and be an accurate representation of implementation status in program management areas.

2.12 Program management areas in the four agencies generally responded to the respective internal audit areas with clear actions against the recommendations in order that a preliminary assessment on the appropriateness of proposed actions could be made. Senior management sign-off for the closure of recommendations was required in two agencies, however following up on the implementation status provided by program management areas was not emphasised in all cases. A summary of the different approaches employed by agencies is at Table 2.3.

Table 2.3

Level of authority required for closure of recommendations

Agency	Level of authority
DEEWR	Associate and Deputy Secretaries
FaHCSIA	Closure must be agreed by Chief Internal Auditor or the Audit Committee depending on level of risk.
DoFD	Deputy Secretary
DIT	Program Manager (Senior Executive Service Band 1 or 2)

Source: ANAO.

Note 1: FaHCSIA internal audit guidance indicates that a copy of the finalised traffic light report is sent to relevant Group Managers a week prior to the audit committee meeting. FaHCSIA risk ratings are discussed in more detail at paragraph 2.15 below.

2.13 Generally, updates were included into monitoring and reporting systems, having been cleared through the program management area and extracted for the audit committee as required. None of the audited agencies audit committees required supporting documentation from program management areas to support the closure of recommendations. In DEEWR, ANAO recommendations are considered by program management area governance committees, which are chaired at the Associate or Deputy Secretary level. DEEWR and DoFD both require finalised status reports to be endorsed by (at least) the Deputy Secretary level, prior to consideration by the audit committee.

2.14 There were a number of instances where the process for the closure of ANAO recommendations set out in Table 2.3 was not followed. In some cases the recommendations were not being monitored in agency systems, which indicates that internal audit was not well placed to advise audit committees of the extent of implementation. This is discussed in more detail at paragraph 2.16. However, there were other examples in the sample of ANAO recommendations, where the available record in all four agencies suggests that program managers at branch manager or group manager level were signing off implementation of ANAO recommendations, rather than as indicated in Table 2.3.

2.15 Only one of the agencies (FaHCSIA) assigned a differential risk rating to the implementation of ANAO recommendations. For example, in FaHCSIA, when entering recommendations into its monitoring system, internal audit allocates a risk rating in consultation with the program area. Most ANAO recommendations are allocated a medium risk rating which generally means FaHCSIA's program area has 18 months to complete the implementation before its status will be brought to the attention of the audit committee. Where audit recommendations are assigned a high risk rating, 12 months is allowed for implementation before an extension is required. None of the other agencies consistently allocated timeframes for the implementation of ANAO recommendations. This is discussed further in Chapter 3.

Status of ANAO recommendations in agency systems

2.16 The ANAO assessed the implementation by the four agencies of 48 recommendations made in seven ANAO audit reports. ANAO analysis (at Table 2.4 below) shows that the status of 25 of the 48 recommendations was not accurately recorded in agency systems. The four agencies subject to this audit have had recommendations either marked as complete in their monitoring systems that were either partially implemented, or not adequately implemented in the ANAO's assessment. The analysis also shows that in some cases, applicable recommendations from cross-agency audits including those that have been adequately implemented, were not being monitored in agency systems.

2.17 Agencies are required to make judgements about how to address recommendations, especially when circumstances change and the recommendations may no longer be appropriate or are overtaken by other events. In some cases, recommendations are ongoing in nature and can influence the point at which closure is recorded. For example, recommendation

four from ANAO Audit Report No.11 2010–11 *Direct Source Procurement* requires agencies to regularly analyse their procurement activities. Each agency has marked this recommendation as complete in the monitoring system although the intent of the recommendation is for analysis at periodic intervals. This is an example of a recommendation designed to achieve an outcome over the longer term. Full implementation of the recommendation requires agencies to demonstrate adequate changes to processes and/or systems. DEEWR has advised that it established processes to ensure procurement activities are regularly analysed and on that basis, removed the recommendation from further monitoring.

Table 2.4

Status of ANAO recommendations

Agency	DEEWR	FaHCSIA	DoFD	DIT	Total
Partially implemented recommendations recorded as complete in agency systems	1	1	1	3	6
Not adequately implemented recommendations recorded as complete in agency systems	1	-	1	1	3
Adequately implemented recommendations not monitored in agency systems	2	2	1	7	12
Partially implemented recommendations not monitored in agency systems	-	2	-	-	2
Not adequately implemented recommendations not monitored in agency systems	-	1	-	1	2
Total	4	6	3	12	25

Source: ANAO.

2.18 Table 2.4 also shows that all agencies had adequately implemented ANAO recommendations which were not recorded in the respective agency monitoring systems. As a result, there is no record of whether the respective audit committees were informed of the audit reports, their recommendations and the risks each were intended to address.

2.19 The analysis above suggests there is a need for agencies to strengthen the controls over implementation of ANAO recommendations. The existence of recommendations that were only partially complete, or recommendations

that are being implemented but not monitored, and are not visible to internal audit and the audit committee, underline the need for agencies to strengthen the controls over implementation of ANAO recommendations to obtain sufficient assurance that the risks initially identified by ANAO audits are appropriately controlled and managed.

Monitoring systems by agency

DEEWR

2.20 DEEWR's Internal Audit Group (IAG) employs a database application, the *Audit Recommendation dnet*¹² site (ARds) to monitor internal and external audit recommendations and other parliamentary reports.

2.21 Recommendations from ANAO audits specific to DEEWR are initially included in ARds for monitoring when the audit report is tabled. The department advised its practice is to assess all ANAO reports, including cross-agency audits, and then pass relevant information to the DEEWR Executive in formal correspondence. Copies of the correspondence are tabled at audit committee meetings and as a result, all appropriate recommendations relating to DEEWR can be included in the ARds either at the request of the Chief Internal Auditor (CIA), the Executive, or the audit committee. Table 2.4 shows that DEEWR had two cross-agency recommendations examined as part of this audit that were finalised under the department's previous monitoring arrangements and were not included in the ARds.

2.22 DEEWR has configured the ARds system so that the status of implementation of audit recommendations can be updated at any time. Nominated co-ordinators throughout the department are authorised to update implementation details as required.¹³ The Audit Manual for Business Areas provides guidance to the nominated co-ordinators to ensure a consistent approach is taken across the department. The ARds automatically logs data input changes and IAG, as the system administrator, performs quality control checks and monitors any modifications to system data. As well, in preparation for the audit committee meeting every four months, IAG prompts program areas to ensure ARds has been updated, including the traffic light summary of

¹² DNET is the name of the department's intranet site.

¹³ The Audit Manual for Business Areas (February 2012) advises that the frequency of review of audit recommendations is a decision for each Cluster (section of the department under a Deputy Secretary), however it suggests two monthly reviews.

progress status.¹⁴ The traffic light summary includes all open audit recommendations, including cross-agency ANAO audit recommendations.

2.23 The status report is required to be endorsed at the Deputy Secretary level in the program management area. Similarly, the process for closing ANAO recommendations and archiving completed recommendations in ARds requires the agreement of the relevant Deputy Secretary that this is accurate. In order to ensure that audit recommendations are implemented in a timely manner, the audit committee examines the implementation of audit recommendations three times per year,¹⁵ and notes any delays or extensions to the original implementation date. Supporting documentation is considered by program area governance committees, which are chaired at the Associate or Deputy Secretary level.

2.24 When reporting against the implementation of ANAO recommendations, priorities or risk ratings are not assigned, however, as indicated above, DEEWR IAG records a planned implementation date. Timeliness of implementation is discussed in more detail in Chapter 3.

DEEWR Conclusion

2.25 DEEWR is the largest agency included in the audit and the introduction of ARds early in 2012 has been an appropriate initiative to gain efficiencies in managing the implementation of ANAO performance audit recommendations. DEEWR's practice of requiring Deputy Secretary level agreement before audit recommendations are removed from the monitoring system encourages sound practices throughout the department. The ARds also improves department wide visibility of agency performance in the monitoring and implementation of ANAO recommendations and provides a platform for continuous improvement, particularly in regard to managing the timeliness of implementation. Overall, DEEWR's governance arrangements for the implementation of ANAO recommendations are effective and appropriately targeted.

FaHCSIA

2.26 FaHCSIA's Audit Assurance and Risk Branch (AARB) also utilises an intranet database application, the *Audit Management Database* (AMD), to record

¹⁴ Information included in DEEWR's traffic light report can be found at Appendix 2.

¹⁵ Four meetings are held each year, one of which focuses on matters in relation to the agency's financial statements.

and monitor (external and internal) audit recommendations. The AMD has been in place since 2009 and has incorporated data from a range of previous systems to ensure continuity of records. FaHCSIA enters into the AMD monitoring system only those ANAO performance audit recommendations that are specifically directed to the department. Cross-agency audit recommendations where FaHCSIA is not included are not entered into the AMD. AARB forwards details of relevant cross-agency audits to appropriate program managers after the report is tabled, however no further action is taken by AARB regarding the recommendations of cross-agency audits.

2.27 The audit committee meets five times per year, however updates to the status of ANAO recommendations are undertaken on a six monthly cycle. The AMD system automatically generates messages for the responsible managers to update relevant records every six months. When the update process is finalised, recommendation information is extracted from AMD as a 'traffic light' report and included in the audit committee papers.¹⁶ As discussed at paragraph 2.15, a due date and a risk rating is allocated to all ANAO recommendations by AARB in consultation with the program management area. Low to medium risk recommendations are generally allowed 18 months for implementation, while high risk recommendations are expected to be implemented within 12 months. If a recommendation has not been implemented within these time-frames, extensions may be granted with appropriate justification from the relevant program manager.

2.28 Low or moderate risk recommendations that are ready to be closed are assessed by the Chief Internal Auditor (CIA), based on recommendations from program managers. FaHCSIA has a process for further discussions with the CIA if program management area actions in response to the recommendation are considered inappropriate. High risk recommendations are assessed by the audit committee prior to closure. Once the CIA or audit committee accepts that a recommendation is appropriately implemented, it is finalised in the AMD system.

2.29 Although not directly related to the implementation of ANAO recommendations, FaHCSIA has introduced a process of follow up audits covering the implementation of high risk internal audit recommendations. These additional audits were conducted to satisfy the requirements of the

¹⁶ Information included in FaHCSIA's traffic light report can be found at Appendix 3.

Institute of Internal Auditors (IIA) Standard 2500–*Monitoring Progress*,¹⁷ which requires a chief audit executive to establish a follow-up process to ensure that management actions have been effectively implemented, or that senior management has accepted the risk of not taking action. The resultant internal audit report is considered by the audit committee and aims to support a culture of compliance with audit recommendations in the department.

2.30 As noted in paragraph 2.26, cross-agency recommendations are not included in FaHCSIA's monitoring system. ANAO Audit Report No.33 2010–11, *the Protection and Security of Electronic Information Held by Australian Government Agencies* was not included in FaHCSIA's system. Recommendations from this report have been implemented by FaHCSIA, although there is no record held by internal audit or in the audit committee papers that shows when implementation commenced and was completed. Further, there is no record of whether the audit committee was informed of the report, its recommendations and the risks it was intended to address.

FaHCSIA Conclusion

2.31 FaHCSIA's governance arrangements for the implementation of ANAO performance audit recommendations provide a reasonable balance of control and flexibility for the department's executive. The categorisation of recommendations according to risk and expectations of timeliness in implementation provide a basis to assess the extent and efficiency of implementation. The AMD system is a sound platform for internal audit to produce 'traffic light' reports and a point of focus for the audit committee to scrutinise areas of high risk. The lack of focus on broader ANAO cross-agency audit recommendations and their exclusion from the AMD system is an important aspect of the governance arrangements that should be addressed. The ANAO suggests that FaHCSIA includes relevant cross-agency audit recommendations to ensure it effectively capitalises on the investments it has made in the AMD system, and draws maximum benefit from ANAO recommendations.

DoFD

2.32 The Office of the Chief Audit Executive (OCAE) performs the internal audit function in the Department of Finance and Deregulation (DoFD). As

¹⁷ Available at: <http://www.iaa.org.au/technicalResources/standards.aspx>

indicated in Table 2.2, OCAE uses a system of electronic spreadsheets and workbooks to record and monitor the implementation of (internal and external) audit recommendations. DoFD monitors all agency-specific ANAO audits (where DoFD is directly audited), however follow up of ANAO cross-agency audit recommendations is considered by OCAE on a case by case basis.

2.33 Implementation due dates are assigned to internal audit recommendations only and ANAO recommendations are not given a due date for implementation. The audit committee meets five times per year, and the department requires that program management areas update the implementation¹⁸ status of ANAO audit recommendations before each audit committee meeting through spreadsheets emailed to relevant areas of the department. The update process can result in the program management area providing to OCAE a due date for implementation of ANAO recommendations, although this is at the discretion of the program manager.

2.34 The update process results in a new consolidated workbook approximately every three months, which includes a spreadsheet for recommendations still in progress, and a spreadsheet for the history of closed recommendations. Over time, the iterative data manipulation involved in updating multiple spreadsheets is susceptible to error and omissions. While DoFD's approach provides for direct communication with the relevant program managers, it can limit the effectiveness of agency oversight and make it difficult to track continuity of actions for a particular recommendation because historical information may be stored in discrete spreadsheets.

2.35 The spreadsheets are used to compile two tables of information that are reported to the audit committee on the status of implementation of recommendations. One table shows recommendations that are closed, and the other table shows open recommendations that have exceeded the due date (if it has been provided) by more than six months.¹⁹ In the absence of an initial due date, the operation of the system described above means that neither the OCAE nor the audit committee has full visibility of the status of ANAO recommendations that have not yet been implemented.

¹⁸ DoFD advised that responses to all recommendations provided by program areas are endorsed at Deputy Secretary level.

¹⁹ The information included in the tables can be found at Appendix 4.

2.36 The tables provided to the audit committee are a summarised version of information drawn from the consolidated workbook. The summary tables do not identify the manager responsible for implementation, or a history of responses from the program area, although this information is available if required. The original tabling date of ANAO reports is also not included in either table. Completion dates are also not included in the table of closed recommendations. DoFD indicated that the audit committee prefers to focus on whether the program area response is reasonable and appropriate, rather than the timeliness of implementation. Timeliness of implementation is discussed in more detail in Chapter 3.

DoFD Conclusion

2.37 DoFD is responsible for the implementation of recommendations to which DoFD has agreed and to monitor its own processes and systems to ensure successful implementation. As well, DoFD is required to provide advice to other FMA Agencies on the appropriate actions to be undertaken to implement ANAO recommendations where these relate to the government's financial framework. The governance arrangements for monitoring the implementation of ANAO recommendations within DoFD are designed to support internal processes but provide limited support and oversight to those responsibilities that arise from its function as a central agency.

2.38 DoFD's audit committee advised the ANAO that it considers that monitoring the timeliness of implementation is of lower importance than the appropriateness of responses to ANAO recommendations. Nevertheless, timeliness and appropriateness are both important if the benefits of the recommendation are to be maximised. A more systematic approach to recording due dates and actions completed in relation to ANAO recommendations would provide opportunities to improve the clarity of reporting for the audit committee.

DIT

2.39 DIT's Audit and Risk Section (ARS) uses a system of tables to record and monitor the implementation of agreed (internal and external) audit recommendations. There is no formal process for the management of ANAO cross-agency audit recommendations, however where the ARS considers a

cross-agency report or recommendation to be relevant or of interest to the department, these are discussed with relevant program management areas.²⁰

2.40 The DIT audit committee meets four times per year and the status of implementation of ANAO audit recommendations is provided by program management areas prior to audit committee meetings, to allow the information to be included in the committee papers. The updates are automatically included in the ARS manual system, and there is no requirement for supporting documentation. When reporting against the implementation of internal audit recommendations, priorities are assigned according to control risk together with a planned implementation date. The reporting system would be enhanced if the risk and implementation date parameters were used to provide a basis for accountability for achieving the implementation of ANAO recommendations.

2.41 In reports²¹ to the audit committee, the department employs a 'traffic light' colour coding system in green, yellow and red format to focus audit committee attention on the status of recommendations.²² The report also shows individual recommendations that are active or completed and the date of completion. Audit committee papers reviewed by the ANAO show that no recommendations had been highlighted red in the last three years, although some recommendations had been outstanding for 72 months. Timeliness is discussed in more detail in Chapter 3. The ANAO suggests that there would be benefit in DIT considering the introduction of follow up procedures to provide a higher level of assurance over the status of ANAO recommendations. As well, DIT should consider a more systematic approach to tracking the recommendations of ANAO cross-agency audits.

DIT Conclusion

2.42 The governance arrangements over the implementation of ANAO performance audit recommendations in DIT reflect both the relatively small size of the agency and fewer recommendations to be managed. While the underlying processes employed by DIT are sound, the department could improve its processes and documentation to provide a higher level of support

²⁰ DIT advised the ANAO that audits on programs have been discussed with program managers in a general and informal sense.

²¹ A full listing of the information presented to the audit committee is shown at Appendix 5.

²² Green indicates that implementation is progressing; red indicates there is cause for concern and requires further review, whilst yellow indicated that the recommendation has been implemented and will be removed from the next report.

to the audit committee. Provision of supporting documentation, prior to audit committee acceptance of implementation of recommendations would disseminate a strong message throughout the department of the standard required. A more systematic approach to the monitoring of ANAO cross-agency audit recommendations would also assist the department in capturing key messages that may be applicable more broadly throughout the department.

Conclusion

2.43 As part of their governance arrangements, each of the four audited agencies had developed systems to capture external audit recommendations, monitor implementation and provide support to audit committees. The monitoring systems differed amongst agencies and this also influenced the style of reporting provided to the audit committees. Two agencies, DEEWR and FaHCSIA have developed an electronic database that tracks progress and records action taken in response to ANAO audit recommendations. The other agencies, DoFD and DIT, employ a system based on spreadsheets and tables, which are emailed to program areas for updating. While this latter approach provides for direct communication with the relevant program managers, it can limit the effectiveness of agency oversight and make it difficult to track continuity of actions for a particular recommendation because historical information may be stored in discrete spreadsheets.

2.44 The ANAO assessed the implementation by the four agencies of 48 recommendations made in seven ANAO audit reports. ANAO analysis shows that the status of 25 of the 48 recommendations was not accurately recorded in agency systems. The four agencies subject to this audit have had recommendations either marked as complete in their monitoring systems that were either partially implemented, or not adequately implemented in the ANAO's assessment. The analysis also shows that in some cases, applicable recommendations from cross-agency audits including those that have been adequately implemented, were not being monitored in agency systems.

2.45 Information on the status of recommendations and their completion was in all cases provided to internal audit having first been cleared through the relevant program management area of an agency. In DEEWR, ANAO recommendations are considered by program area governance committees, which are chaired at the Associate or Deputy Secretary level. DEEWR and DoFD both require finalised status reports to be endorsed at the Deputy Secretary level, prior to consideration by the audit committee. In FaHCSIA and

DIT, updates are entered into monitoring and reporting systems having been signed off at program manager (senior executive service) level. None of the audited agencies' audit committees required supporting documentation from program areas to support the closure of recommendations. Most of the recommendations (13 out of 15) that were assessed by the ANAO as partially implemented or not adequately implemented, had been either marked as complete in the respective agency monitoring systems, or were not monitored at all. This underlines the need for agencies to strengthen the controls over implementation of ANAO recommendations to obtain sufficient assurance that the risks initially identified by ANAO audits are appropriately controlled and managed.

2.46 The most significant difference in the governance arrangements observed across the audited agencies was in the approach to ANAO cross-agency audits. Cross-agency audits offer a unique perspective on government arrangements and processes, and recommendations are intended to be useful for all agencies. Three of the four agencies, FaHCSIA, DoFD and DIT, did not have a systematic way of capturing the recommendations of cross-agency audits, although this did not necessarily mean that cross-agency recommendations are not addressed by the agencies. For example, in the sample of recommendations assessed by the ANAO, three cross-agency recommendations have been adequately implemented in FaHCSIA while in DIT, four cross-agency recommendations were adequately implemented. However, there is no record of whether the respective audit committees were informed of the audit reports, their recommendations and the risks each was intended to address.

Recommendation No.1

2.47 To better support the application of relevant recommendations, the ANAO recommends that agencies establish, or review existing procedures for assessing the relevance of recommendations from ANAO cross-agency audits, and subsequent monitoring.

DEEWR Response:

2.48 *Noted. DEEWR considers it is in a very strong position with respect to having implemented this recommendation. The proposed report confirms this view concluding that overall, DEEWR's governance arrangements for the implementation of ANAO recommendations are effective and appropriately targeted. As outlined throughout the proposed report DEEWR has in place a comprehensive and structured approach to the*

assessment of recommendations for all tabled ANAO reports, including examination of cross-agency reports. This involves analysing each report, formally informing the DEEWR Executive regarding the relevant information and providing copies of this correspondence to the audit committee. At audit committee meetings the committee reviews progress of all audit recommendations. ANAO recommendations relevant to DEEWR, including cross agency recommendations, are recorded in the department's electronic monitoring system—the Audit Recommendations dnet system (ARds)—and are subject to ongoing monitoring at cluster governance forums as well as by the audit committee.

FaHCSIA Response:

2.49 *Agreed. FaHCSIA's Internal Audit Practice ascertains the relevance to FaHCSIA's functional responsibilities of each ANAO report as they are tabled. This includes directing the relevant Group Managers and Branch Managers to the recommendations they should consider and/or act upon.*

2.50 *Current reporting arrangements to FaHCSIA's Assurance, Audit and Risk Committee include reporting and monitoring the progress towards completion of internal audit report recommendations and ANAO specific recommendations to FaHCSIA. This will be extended to include reporting and monitoring of progress towards completion of ANAO cross-agency audit report recommendations.*

DoFD Response:

2.51 *Agreed.*

DIT Response:

2.52 *Agreed.*

3. Implementation of Performance Audit Recommendations

This chapter examines a selection of performance audit recommendations and assesses the implementation of these recommendations by the four agencies.

Introduction

3.1 ANAO audit recommendations highlight actions arising from an audit that, when implemented by the agency, are expected to improve agency performance. Recommendations also generally address risks to an agency's successful delivery of its outcomes. This chapter considers the implementation of ANAO recommendations directed specifically to agencies, as well as recommendations from cross-agency audits, where selected agencies may not have been included in the audit.

3.2 As discussed in Chapter 2, when audit recommendations are agreed by the agency, it indicates that the agency management is satisfied with the audit report content and has committed to responding appropriately. Implementation of cross-agency recommendations should be managed in the same way as direct audit recommendations, subject to an assessment in individual agencies of applicability of the recommendations to its operations.

Audit approach

3.3 Seven completed ANAO audits were selected to assess the implementation of recommendations. These audits had been completed during the period February 2009 to April 2011 and include audits specific to agencies as well as cross-agency audits.²³ Due to the inclusion of cross-agency reports, three to five audits were applicable to each agency resulting in a total of 48 recommendations for assessment. An overview of the number of recommendations that applied to each agency is provided in Table 3.1.

²³ Details of the audits can be found at paragraph 1.11. For FaHCSIA, all applicable recommendations were from cross-agency audits.

Table 3.1**Overview of recommendations included in the audit by agency**

Agency	DEEWR	FaHCSIA	DoFD	DIT	Total
Total recommendations for assessment	14	9	13	12	48

Source: ANAO.

3.4 The ANAO reviewed agency documentation, interviewed key staff, and extracted data from agency monitoring systems to assess the implementation of the recommendations. Documentation was also assessed against better practice guidance when appropriate. Action taken to implement the recommendations was compared to the advice provided to internal audit and the audit committee for the period January 2009 to March 2013 inclusive.

3.5 The extent to which implementation has been achieved was considered in the context of the program management area's progress towards the intended outcome of the recommendation. The method used in assessing the extent of the implementation of the recommendations is provided in Table 3.2.

Table 3.2**Categorisation of implementation**

Category	Explanation
Implementation adequate	The action taken met the intent of the recommendation, and sufficient evidence was provided to demonstrate action taken.
Partial implementation	This category encompasses two considerations: <ul style="list-style-type: none"> Action taken was less extensive than recommended by ANAO. Action either fell short of the intent of the recommendation, or only addressed some of the identified risks. The agency may have established a process or procedure to address an issue, however, the specific action noted in the recommendation was not complete at the time of this assessment.
Not adequate implementation	This category encompasses two considerations: <ul style="list-style-type: none"> There is no supporting evidence that action has been undertaken. The action taken does not address the recommendation.

Source: ANAO.

ANAO assessment of implementation of recommendations

3.6 The agencies included in this audit and the applicable recommendations both vary according to a number of factors, including scale, complexity and financial materiality. As a result, the implementation of any particular ANAO recommendation will be influenced by its priority relative to other business priorities and the internal processes involved in implementation. The ANAO's assessment of the agencies' implementation of the recommendations is summarised in Table 3.3.

Table 3.3

Implementation overview by total number of recommendations

Agency	DEEWR	FaHCSIA	DoFD	DIT	Total	% of Total
Implementation adequate	10	5	11	7	33	69%
Partial implementation	3	3	1	3	10	21%
Not adequate implementation	1	1	1	2	5	10%
Total	14	9	13	12	48	

Source: ANAO.

3.7 The agencies had adequately implemented 69 per cent of the recommendations, with a further 21 per cent partially implemented. Based on the ANAO's examination, 10 per cent of the recommendations were not adequately implemented.

3.8 The 48 ANAO recommendations that were included in the audit sample can be divided into two categories:

- those recommendations that were specifically directed to the agency; and
- applicable recommendations from cross-agency audits.²⁴

3.9 The number of ANAO recommendations in the two categories, and the extent of their implementation, is shown for each agency in Table 3.4.

²⁴ It is necessary to make a distinction in this classification for the Department of Finance and Deregulation (DoFD), which as a central agency, has responsibilities for the Australian Government's financial framework. Of the seven audits included for follow up in this audit, DoFD programs were not directly audited. However, a number of the recommendations from cross-agency audits specified a particular role for that department. Where this was the case, the recommendations were classified as specifically directed to DoFD

Table 3.4**Implementation overview by recommendation type**

Recommendation type	DEEWR		FaHCSIA		DoFD		DIT		Total	
	Direct	Cross Agency	Direct	Cross Agency	Direct	Cross Agency	Direct	Cross Agency	Direct	Cross Agency
Adequate	3	7	0	5	5	6	0	7	8	25
Partial	2	1	0	3	0	1	3	0	5	5
Not Adequate	0	1	0	1	0	1	1	1	1	4
Total	5	9	0	9	5	8	4	8	14	34

Source: ANAO.

3.10 A total of 33 ANAO recommendations were assessed as having been implemented adequately, of which eight were directed to specific agencies and 25 were cross-agency recommendations.

3.11 For recommendations assessed as adequately implemented, there was generally an appropriate level of involvement of senior program management, including by setting clear expectations for implementation and endorsing implementation status. In addition, the implementation of recommendations from cross-agency audits was given close attention within the agency. Regular and accurate reporting on implementation of recommendations within program management areas and to internal audit featured commonly amongst recommendations that had been adequately implemented.

3.12 In general, for recommendations assessed as partially implemented at the lower end of the assessment range, and for recommendations assessed as not adequately implemented, the agencies had not applied a strong outcomes focus to the implementation of the recommendation. As a result, the actions taken did not satisfy the underlying intent of the recommendation. For example, two of the recommendations that were less than adequately implemented related to published performance information. In both cases, the recommendations were directed towards enhancements of Portfolio Budget Statements measures through the development of a balanced set of deliverables and key performance indicators. The relevant agencies made some changes in response to the recommendations to external reporting arrangements. However, neither agency established a measure or set of measures that met the intent of the recommendation, which was to report to external stakeholders on the effectiveness of the program.

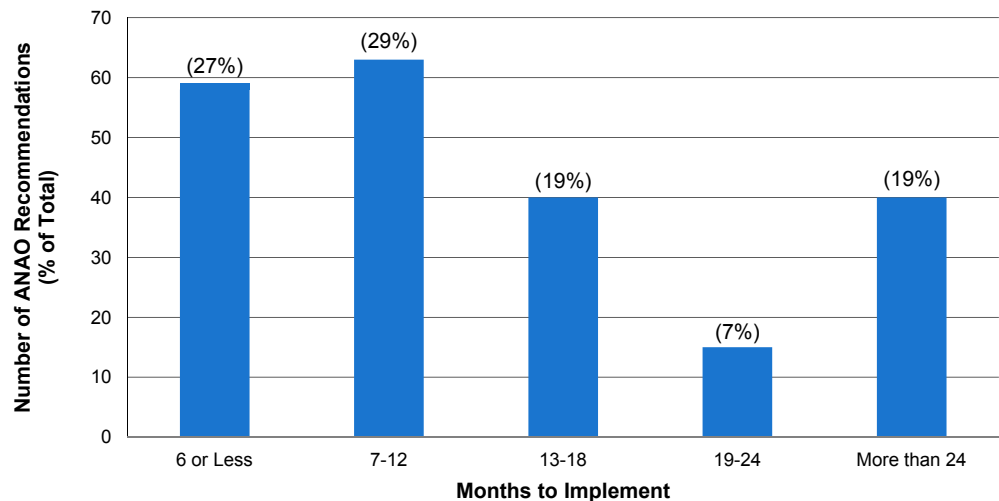
Timeliness of implementation

3.13 ANAO recommendations can vary in scope and complexity, and as a consequence, the implementation task can involve coordination among a range of program delivery and support functions within an agency. The risks involved and the time taken to implement ANAO recommendations will vary across and within agencies. However, if implementation is not progressed as quickly as possible, and identified risks remain untreated, the full value of the audit is not being achieved. In this context, it is important that internal audit and the audit committee keep the agency chief executive informed on progress with implementing recommendations that are complex, difficult or are overdue.

3.14 The ANAO examined all performance audit recommendations marked as complete in agency monitoring systems from January 2009 to March 2013—a total of 216 recommendations. Because of the differences between systems and processes used by the different agencies (outlined in Table 2.2), the information required to report against planned implementation dates was not consistently collected and recorded, particularly where planned implementation dates were later extended. The data that was available relates only to implementation (see Figure 3.1) and shows that in overall terms, about half (56 per cent) of all recommendations are recorded as implemented within a year and 75 per cent within 18 months. A relatively small proportion (seven per cent) of ANAO recommendations are recorded as implemented between 18 and 24 months, and the remaining 19 per cent have been outstanding for more than two years.

Figure 3.1

Reported time to implement ANAO performance audit recommendations, January 2009–March 2013 – Overall



Source: ANAO from agencies data.

Note: Percentages do not add to 100 per cent due to rounding.

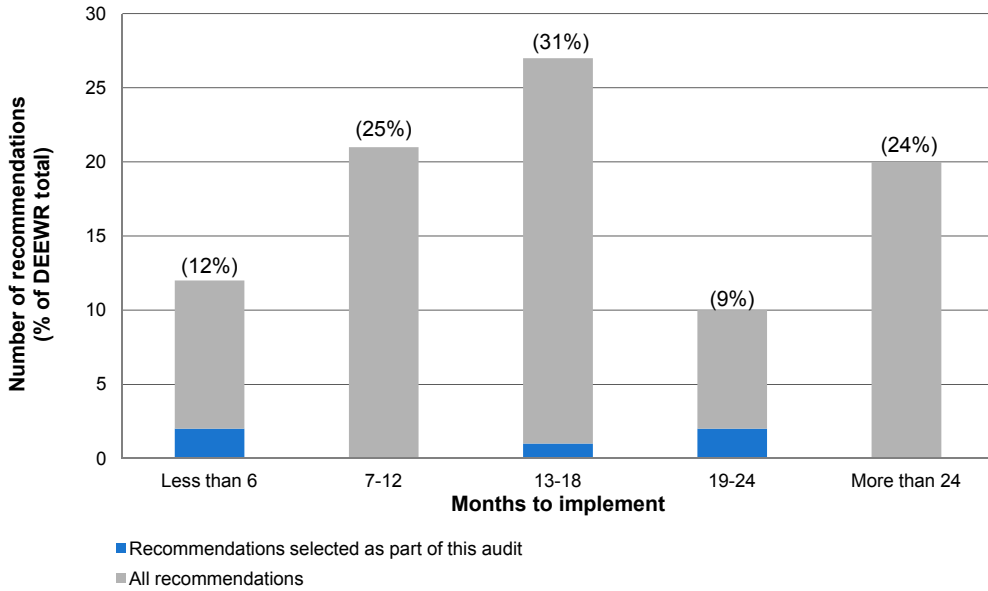
3.15 The timeliness of individual agencies in the implementation of ANAO recommendations is discussed in more detail below.

Timeliness of implementation – DEEWR

3.16 The timeliness of implementation of ANAO recommendations in DEEWR is shown in Figure 3.2.

Figure 3.2

Reported time to implement ANAO performance audit recommendations, January 2009–March 2013 – DEEWR¹



Source: ANAO from DEEWR data.

Note 1: The data in Figure 3.2 does not include 9 ANAO Recommendations that remain 'open' in the DEEWR system. Six of these are less than 18 months old, while 3 have been ongoing for two years or more.

Note 2: Percentages do not add to 100 per cent due to rounding.

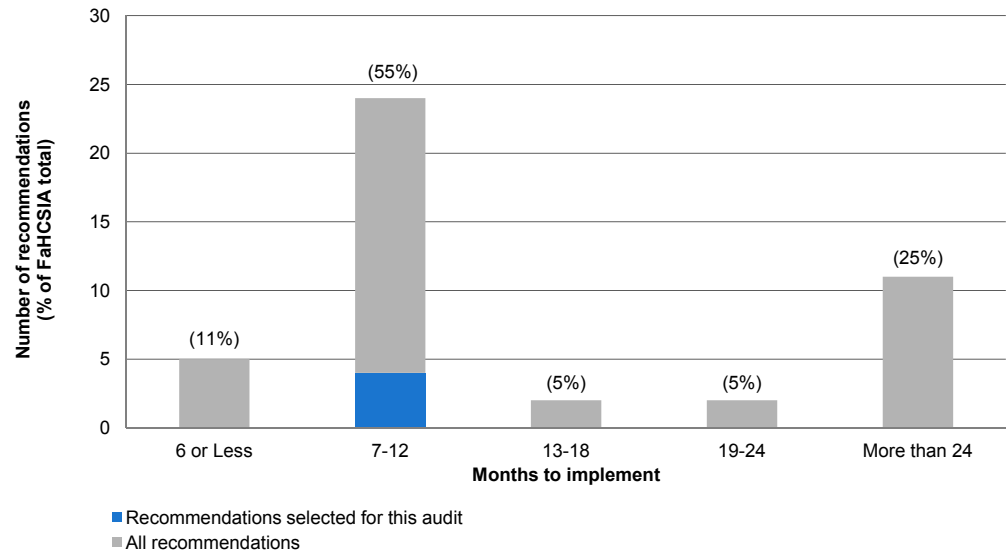
3.17 DEEWR recorded as completed 67 per cent of ANAO performance audit recommendations within 18 months, while 24 per cent were recorded as taking more than 2 years to implement. There were three recommendations that had been marked as ongoing for two years or more by DEEWR. At the end of March 2013, one of the recommendations had been outstanding for 45 months. The reasons for the length of time taken to implement this recommendation are not readily available from DEEWR's monitoring system or the records of internal audit. Unnecessary delays in implementation mean that the full benefit of a recommendation may not be achieved. As discussed in Chapter 2, the DEEWR's monitoring and reporting system (ARds) requires the program management areas to provide target dates for implementation.

Timeliness of implementation – FaHCSIA

3.18 The timeliness of implementation of ANAO performance audit recommendations in FaHCSIA is shown in Figure 3.3.

Figure 3.3

Reported time to implement ANAO performance audit recommendations, January 2009–March 2013¹ – FaHCSIA²



Source: ANAO from FaHCSIA data.

Note 1: As discussed at paragraph 2.26, the data in Figure 3.3 does not include ANAO cross-agency audit recommendations unless FaHCSIA was included in the audit, as these are not entered into the FaHCSIA monitoring system.

Note 2: The data in Figure 3.3 does not include 9 ANAO recommendations that remain 'open' in the FaHCSIA system. Eight of these are less than 18 months old, while one has been ongoing for more than two years.

Note 3: Percentages do not add to 100 per cent due to rounding.

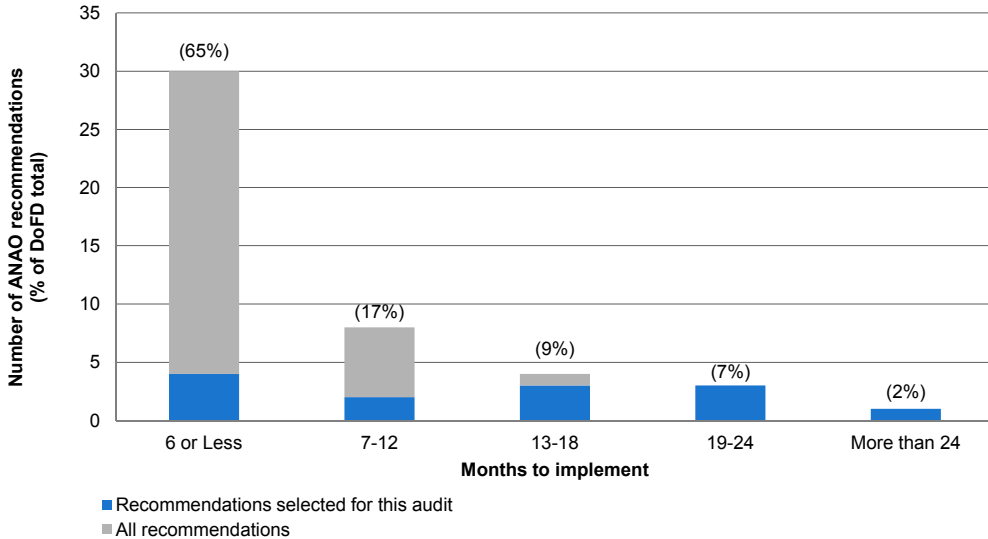
3.19 The data shows that 70 per cent of ANAO performance audit recommendations were recorded as completed within 18 months, and 66 per cent within 12 months. In addition, 25 per cent of recommendations were recorded as taking more than 2 years to implement. Within this context, FaHCSIA assigns a risk rating to the implementation of ANAO recommendations. FaHCSIA's risk rating system links to planned implementation dates, which is a systematic way of taking into account the complexities involved and ensuring the time being taken to implement ANAO recommendations is reviewed by internal audit and the audit committee at regular intervals.

Timeliness of implementation – DoFD

3.20 The timeliness of implementation of ANAO performance audit recommendations in DoFD is shown in Figure 3.4.

Figure 3.4

Reported time to implement ANAO performance audit recommendations, January 2009–March 2013 – DoFD¹



Source: ANAO from DoFD data.

Note 1: The data in Figure 3.4 does not include 12 ANAO recommendations that remain 'open' in the DoFD system. Eight of these are 18 months old or less, while two have been ongoing for more than two years, and two others for more than three years.

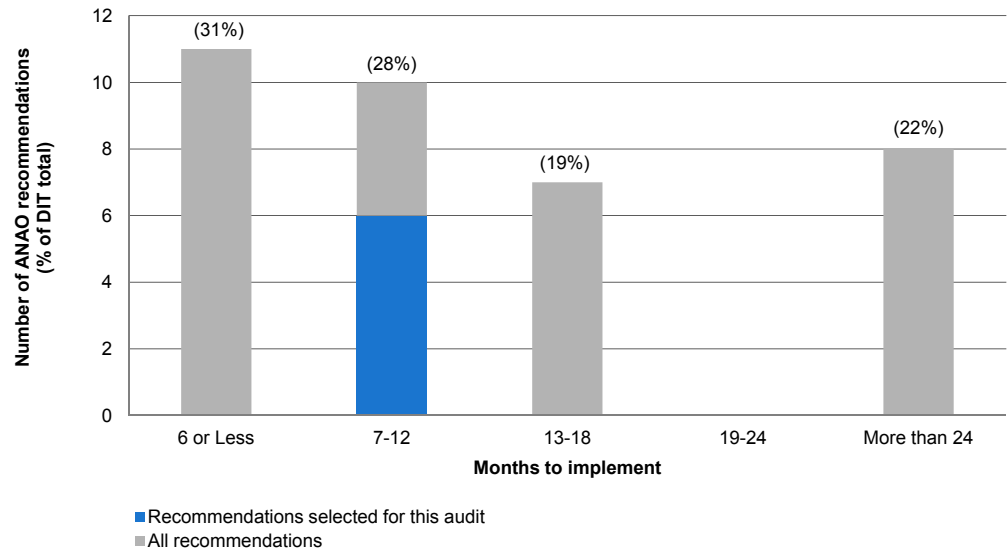
3.21 DoFD recorded that it had implemented 65 per cent of all recommendations within six months of the ANAO report. This compares with the average for the same measure for all the agencies of 28 per cent. In this context, the ANAO observed that some recommendations were reported to the DoFD audit committee as closed without any comments regarding the action taken, when the recommendation had not yet been implemented. For example, recommendation one from ANAO Report No.38, 2010–11, *Management of the Certificate of Compliance Process in FMA Act Agencies* was reported to the audit committee as closed in February 2012, however implementation was not completed until September 2012.

Timeliness of implementation – DIT

3.22 The timeliness of implementation of ANAO recommendations in DIT is shown in Figure 3.5.

Figure 3.5

Reported time taken to implement ANAO performance audit recommendations, January 2009–March 2013 – DIT¹



Source: ANAO from DIT data.

Note 1: The data in Figure 3.5 does not include 5 ANAO recommendations that remain 'open' in the DIT system. Three of these are less than two years old, while two (part recommendations related to ANAO report No.29 of 2006–07, *Implementation of the Sydney Airport Demand Management Act 1997*), had been ongoing for six years. These were scheduled to be completed on 31 March 2013.

3.23 The data shows that 78 per cent of ANAO performance audit recommendations were recorded as implemented within 18 months. The remaining 22 per cent were recorded as taking more than two years to implement.

3.24 The implementation of two of the part recommendations from ANAO Audit Report No.29, 2006–07, *Implementation of the Sydney Airport Demand Management Act 1997* had been ongoing for six years. The other four recommendations from that audit were reported as implemented after 26, 27, 49 and 67 months respectively. However, as discussed at paragraph 2.41, none of these recommendations were noted for consideration in the reports to the audit committee. At the same time, there were occasions where DIT has commenced action to implement ANAO recommendations before the audit was finalised, allowing a high proportion of recommendations to be finalised within the first six months.

Structured implementation approaches

3.25 ANAO Audit Report No.25 2012–13 *Defence's Implementation of Audit Recommendations*²⁵ discusses the value of developing an implementation management plan (IMP) in combination with other measures to assist with appropriate closure of ANAO recommendations. IMP's can be a useful tool for program management areas in responding to recommendations. The development of an IMP need not be onerous. An IMP may set out straightforward planning arrangements such as the objective of the recommendation, actions and milestones needed to achieve the objective, and responsible staff.

3.26 With the exception of DEEWR, none of the other agencies included in this audit applied a structured approach to the implementation of ANAO recommendations. A more structured approach would assist agencies to manage timeliness, completeness and adequacy of implementation, by allowing progress to be clearly targeted and monitored within the program management area. The information could form the basis of reports to internal audit for monitoring purposes, especially in support of program manager recommendations to the executive requesting sign-off on final implementation and closure.

Conclusion

3.27 As noted in Chapter 2, the ANAO undertook detailed assessment of 48 recommendations, of which 14 were directed to specific agencies and 34 were cross-agency recommendations. Agencies had demonstrably taken action in relation to 57 per cent (8 of 14) of direct recommendations and 74 per cent (25 of 34) of cross-agency recommendations. While the ANAO has assessed these actions to adequately address the recommendations, in 7 per cent (1 of 14) of direct recommendations and 12 per cent (4 of 34) of cross-agency recommendations, very limited action had been taken by agencies or the action taken did not adequately address the recommendation. In a larger number of cases, 36 per cent (5 of 14) of direct and 15 per cent (5 of 34) of cross-agency recommendations actions by agencies had generally sought to address the recommendation but implementation was less than complete.

²⁵ ANAO Audit Report No.25 2012–13, *Defence's Implementation of Audit Recommendations*, 27 February 2013, p. 35, paragraph 1.19.

3.28 Recommendations vary in their complexity, and the time taken to implement ANAO recommendations is expected to vary across and within agencies. However, if implementation is not progressed in a timely manner and identified risks remain untreated, the full value of the audit is not being achieved. DEEWR had one recommendation that had been outstanding for 45 months and DIT had two (part) recommendations marked as ongoing in its monitoring system for six years. The reasons provided by the relevant program management area for the length of time taken to implement these recommendations do not set out a comprehensive explanation as to why this was the case. It is important that internal audit and the audit committee keep the agency chief executive informed on progress with implementing recommendations that are complex, difficult or are overdue.

3.29 Other than DEEWR, none of the agencies included in this audit had developed a structured approach to the implementation of ANAO recommendations, involving planned implementation dates, and the allocation of responsibilities to guide the program management area and for reporting to audit committees. FaHCSIA assigns a risk rating to the implementation of ANAO recommendations. FaHCSIA's risk rating system links to planned implementation dates, which is a systematic way of taking into account the complexities involved and ensuring the time being taken to implement ANAO recommendations is reviewed by internal audit and the audit committee at regular intervals. Implementation of recommendations by agencies would be improved by a broader adoption of structured implementation approaches. This would generally include identifying a clear process and timelines, clear allocation of roles and responsibilities at each stage and appropriate senior management sign-off arrangements.

Recommendation No.2

3.30 In order to support timely and complete implementation of ANAO performance audit recommendations, the ANAO recommends that agencies establish, or strengthen implementation approaches, including documenting intended actions, timelines and setting out clear responsibilities for the outcome.

DEEWR Response:

3.31 *Agreed. As evidenced in the proposed report, DEEWR has in place a robust implementation framework. This framework incorporates the Associate and Deputy Secretary level governance focus on ANAO recommendations, the Audit*

Recommendations dnet site (ARds) and supporting guidance in the form of an Audit Manual for Business Areas. As stated in Appendix 2, the traffic light report which is included in the ARds contains information in relation to recommendations made by DEEWR internal audit, the ANAO and Parliamentary Committees where relevant. Specific information includes: audit name, the original recommendation, management response/update (includes a history of comments), group manager and responsible officer, implementation date (used for ANAO and internal reports), traffic light symbol, and traffic light status. The ANAO has stated that the introduction of ARds early in 2012 has been an appropriate initiative to gain efficiencies in managing the implementation of ANAO performance audit recommendations. In line with DEEWR's commitment to continuous improvement as new opportunities arise DEEWR will review and seek to further enhance current arrangements.

FaHCSIA Response:

3.32 *Agreed. FaHCSIA has an Audit Monitoring Database (AMD) that is used to generate reports on the progress against internal audit report recommendations and ANAO specific recommendations to FaHCSIA. The reports are provided to the Assurance, Audit and Risk Committee twice yearly so that the committee can monitor progress of associated management actions and assist to resolve any obstacles to completion as necessary.*

3.33 *The current process requires each recommendation to have a clear statement of the intended management actions, a target date for completion and allocation of a responsible senior executive who is required to manage the recommendation and report on progress. In future, cross agency audit recommendations will be included in this process for monitoring and review on an ongoing basis.*

DoFD Response:

3.34 *Agreed.*

DIT Response:

3.35 *Agreed.*



Ian McPhee
Auditor-General

Canberra ACT
25 June 2013

Appendices

Appendix 1: Agencies' Responses



Australian Government

Department of Education, Employment and Workplace Relations

Secretary
Lisa Paul AO PSM

Dr Andrew Pope
Group Executive Director
Performance Audit Services Group
Australian National Audit Office
GPO BOX 707
CANBERRA ACT 2601

Dear Dr Pope

Performance Audit of Agencies' Implementation of Performance Audit Recommendations

Thank you for your letter of 16 May 2013 and the proposed report *Agencies' Implementation of Performance Audit Recommendations*.

The Department of Education, Employment and Workplace Relations (DEEWR) appreciates the report's positive acknowledgement of the integrated and systematic approach undertaken in DEEWR to implement ANAO recommendations. Further, the report notes that the department's governance arrangements are effective and appropriately targeted, as they incorporate:

- Associate and Deputy Secretary level discussion of progress toward the implementation of recommendations at Cluster governance forums with signoff on completed recommendations included as part of that process.
- The development and utilisation of an electronic monitoring system, the Audit Recommendations dnet site (ARds), which enables direct and timely input of the status of recommendations at the Cluster level.
- The structured approach undertaken in DEEWR to the implementation of all ANAO recommendations, including cross-agency recommendations.

Embracing a whole of government perspective, DEEWR is open to sharing any aspects of these processes within the wider APS environment. DEEWR's response to the proposed recommendations is at [Attachment A](#) and the short summary is at [Attachment B](#).

If you require further clarification regarding these comments please contact Robyn Kingston, Chief Internal Auditor on (02) 6121 5002.

Yours sincerely

Lisa Paul

9 June 2013

50 Marcus Clarke Street, Canberra ACT 2601
GPO Box 9880, Canberra ACT 2601 | Phone (02) 6121 6000
www.deewr.gov.au | ABN 63 578 775 294



Australian Government

Department of Families, Housing,
Community Services and Indigenous Affairs

Finn Pratt PSM
Secretary

Dr Andrew Pope
Group Executive Director
Performance Audit Services
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Dear Dr Pope

Thank you for the opportunity to respond to the Section 19 audit report titled "Agencies' Implementation of ANAO Audit Recommendations" (the report) provided to us on 16 May 2013.

FaHCSIA agrees with the two recommendations in the report and provides the following comments to be tabled with the Section 21 report in Parliament.

Recommendation 1: Agreed. FaHCSIA's Internal Audit Practice ascertains the relevance to FaHCSIA's functional responsibilities of each ANAO report as they are tabled. This includes directing the relevant Group Managers and Branch Managers to recommendations they should consider and/or act upon.

Current reporting arrangements to FaHCSIA's Assurance, Audit & Risk Committee include reporting and monitoring the progress towards completion of internal audit report recommendations and ANAO specific recommendations to FaHCSIA. This will be extended to include reporting and monitoring of progress towards completion of ANAO cross-agency audit report recommendations.

Recommendation 2: Agreed. FaHCSIA has an Audit Monitoring Database (AMD) that is used to generate reports on the progress against internal audit report recommendations and ANAO specific recommendations to FaHCSIA.

The reports are provided to the Assurance, Audit & Risk Committee twice yearly so that the committee can monitor progress of associated management actions and assist to resolve any obstacles to completion as necessary.

The current process requires each recommendation to have a clear statement of the intended management actions, a target date for completion and allocation of a responsible senior executive who is required to manage the recommendation and report on progress.

PO Box 7576 Canberra Business Centre ACT 2610
Email Finn.Pratt@fahcsia.gov.au • Facsimile 02 6293 9692 • Telephone 1300 653 227
National Relay Service: TTY – 133 677, Speak and listen – 1300 555 727, Internet relay – www.relayservice.com.au
www.fahcsia.gov.au

In future, ANAO cross-agency audit recommendations will be included in this process for monitoring and review on an ongoing basis.

If you have any questions in relation to these comments, the contact officer within my Department is Andrew Lander. Andrew can be contacted on 6146 0162 or via email on andrew.lander@fahcsia.gov.au.

Yours sincerely



Finn Pratt

13 June 2013



Australian Government
Department of Finance and Deregulation

Reference: SEC0008820
Contact: Dean Edwards
Telephone: 02 6215 2250
e-mail: dean.edwards@finance.gov.au

Dr Andrew Pope
Group Executive Director
Performance Audit Services Group
Australian National Audit Office

Dear Dr Pope

**Proposed Report of Audit of Agencies' Implementation of
Performance Audit Recommendations**

Thank you for your letter of 16 May 2013 to the Secretary, Department of Finance and Deregulation, seeking comments on the proposed report of Audit of Agencies' Implementation of Performance Audit Recommendations as it affects the Department of Finance and Deregulation (Finance). Mr Tune has asked me to respond on his behalf.

We have no comments on the proposed report and request you formally record that Finance agrees with both recommendations contained within the report.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'D. Yarra'.

David Yarra
First Assistant Secretary
Chief Audit Executive
12 June 2013



Australian Government
Department of Infrastructure and Transport

Secretary

Dr Andrew Pope
Group Executive Director
Performance Audit Services Group
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear Dr Pope

Audit of Agencies' Implementation of Performance Audit Recommendations

Thank you for your correspondence of 16 May 2013 providing the proposed audit report on Agencies' Implementation of Performance Audit Recommendations pursuant to sub-section 19(1) of the *Auditor-General Act 1997*.

The Department's summary response, response to recommendations and formal comments on the proposed report are provided at Attachment A.

I would like to take this opportunity acknowledge the professional manner in which the ANAO staff have undertaken the audit.

Please contact Ms Glenda Kidman, General Manager, Governance and Reporting Branch on 6274 6854 if you would like to discuss this response.

Yours sincerely

Mike Mrdak

12 June 2013

Attachment A**Summary of agencies' responses (page 14)****Department of Infrastructure and Transport**

The Department of Infrastructure and Transport (DIT) welcomes the assurance provided by the ANAO that, in relation to the governance arrangements over the implementation of ANAO performance audit recommendations, the underlying processes employed by DIT are sound. DIT acknowledges a higher level of support could be provided to the Audit Committee with some improvement in processes and documentation. DIT agrees to both recommendations.

Recommendations (page 15)**Recommendation No.1**

DIT's Response: Agree

Recommendation No.2

DIT's Response: Agree

Formal comments on the proposed report (Appendix)**Department of Infrastructure and Transport**

The Department of Infrastructure and Transport (DIT) welcomes the assurance provided by the ANAO that, in relation to the governance arrangements over the implementation of ANAO performance audit recommendations, the underlying processes employed by DIT are sound. DIT acknowledges a higher level of support could be provided to the Audit Committee with some improvement in processes and documentation. DIT agrees to both recommendations.

With regard to the ANAO's assessment of the timeliness of the implementation of recommendations relating to the *ANAO Audit Report 29 2006-07 Implementation of Sydney Airport Demand Management Act 1997*, DIT successfully completed its response to the audit recommendations in March 2013. DIT worked with industry to develop a best practice response to the recommendations. In 2007, it formed a Slot Management and Compliance Scheme Working Group, the recommendations of which form its basis.

In 2010, following a breach of the Movement Limit, the Minister for Infrastructure and Transport requested DIT establish an Industry Working Group on the Movement Cap to investigate measures to mitigate the risk of future breaches. The findings of the group supported the measures proposed by the Slot Management and Compliance Scheme Working Group. Information provided by these groups enabled DIT to progress its implementation of its response to the audit recommendations to finalisation.

Appendix 2: DEEWR traffic light report information

DEEWR's traffic light report is presented to the DEEWR Audit Committee and includes the following information in relation to recommendations made by DEEWR internal audit, the ANAO and Parliamentary Committees where relevant.

- Audit Name (including year of tabling and whether the audit is an internal, ANAO or JCPAA report);
- The original recommendation;
- Management Response/Update (includes a history of comments);
- Group Manager and Responsible Officer;
- Planned Implementation date (used for ANAO reports);
- Agreed Implementation date (used for internal reports);
- Traffic light symbol; and
- Traffic light status (one word description related to the symbol).

Appendix 3: FaHCSIA traffic light report information

FaHCSIA's traffic light report was presented to the FaHCSIA audit committee in the form of a spreadsheet and included the following information headings on the implementation of internal and external recommendations:

- Assessment indicator (traffic light coding, including a unique colour to identify ANAO reports);
- Audit report title;
- Relevant Branch and Group;
- Audit recommendation number;
- Issue date;
- Initial completion target date;
- Last target date;
- New target completion date;
- Risk rating;
- Recommendation description;
- Response description; and
- Internal audit comments (including details of any granted extensions).

Appendix 4: DoFD implementation report information

DoFD's tables are presented to the DoFD audit committee with the following information headings on the implementation of internal and external recommendations:

- Group (responsible line area);
- Report Type (Internal audit, ANAO or other);
- Review Name (Report title);
- Issue (Recommendation number);
- Issue Rating (only applicable to Financial audits and not the subject of this audit);
- Recommendation/Management Action;
- Original Due Date (Only included in the table for recommendations that exceed their original due date by more than six months and not applicable to ANAO audits);
- Revised Due Date (Only included in the table for recommendations that exceed their original due date by more than six months); and
- Comments to Audit Committee.

Appendix 5: DIT implementation report information

DIT's implementation report is presented to the Audit Committee as a table and included the following information headings on the internal and external recommendations:

- Audit Name (includes tabling date);
- Category (ANAO recommendations or internal audits with the Control and Risk Category 1 or 2)²⁶;
- Recommendation number;
- Short recommendation (summary of a recommendation);
- Officer (responsible contact details);
- Original Target date;
- New Target date;
- Actual Completion date;
- Comments (This was also used to describe the outcome for implemented recommendations ready to be removed from the table); and
- Audit Manager's Recommendation.²⁷

²⁶ Internal audit recommendations at DIT were classified under the one of the following categories: Control and Risk Category 1 (CR1) – representing that one of the organisation's extreme or high business risks has not been adequately controlled. These recommendations require immediate management attention and would be considered an urgent priority. Control and Risk Category 2 (CR2) – representing that one of the organisation's moderate business risks has not been suitably controlled. These recommendations require timely management consideration. The Audit Committee requested that only ANAO recommendations, CR1 and CR2 recommendations were included in the Active Audit Recommendations table for Committee papers.

²⁷ A column allowing for comments from Audit and Risk was added to the table in 2010.

Index

A

AMD, 34, 35, 36

ARds, 33, 34, 49

ARS, 38

assurance, 10, 13, 15, 26, 33, 39, 41

audit committee, 11, 12, 13, 15, 23, 26, 28, 30, 34, 36, 38, 39, 40, 47, 50, 51

audit committees, 11, 23, 26, 27, 29, 30, 32, 40, 41, 54

C

chief executive, 10, 16, 22, 27, 47, 54

Commonwealth Authorities and Companies Act 1997, 23

cross-agency, 23, 28, 33, 35, 36, 37, 38, 39, 40, 43, 46, 53

D

DEEWR, 11, 13, 14, 15, 16, 24, 30, 32, 33, 34, 40, 48, 49, 53, 54, 64

DIT, 11, 14, 15, 24, 38, 39, 41, 51, 52, 54, 67

DoFD, 11, 14, 15, 24, 30, 36, 37, 38, 40, 50, 51, 66

F

FaHCSIA, 11, 14, 15, 16, 24, 31, 34, 35, 36, 40, 41, 49, 50, 54, 65

Financial Management and Accountability Act 1997, 23

FMA, 24, 27, 38, 51

FMA Act, 10

G

governance, 11, 14, 15, 24, 25, 30, 36, 38, 39

Governance, 11, 23, 26, 28

I

Institute of Internal Auditors, 36

internal audit, 23, 26, 27, 28, 30, 31, 33, 35, 36, 37, 39, 40, 44, 46, 47, 49, 54

M

monitor, 11, 12, 14, 29, 33, 35, 37, 38, 40

P

partially implemented, 13, 15, 31, 40, 45, 46

program management area, 11, 13, 16, 23, 26, 27, 29, 30, 34, 37, 39, 40, 44, 46, 49, 53

R

recommendations, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36

reporting, 10, 12, 14, 15, 16, 26, 27, 29, 30, 34, 38, 39, 41, 46, 49, 54

risks, 10, 14, 15, 16, 22, 23, 26, 29, 33, 36, 41, 43, 47, 54

S

status, 26, 28, 30, 33, 35, 37, 39, 40, 46

systems, 25, 26, 28, 29, 30, 31, 32, 35, 38, 40, 41, 44, 47

Series Titles

ANAO Audit Report No.1 2012–13

Administration of the Renewable Energy Demonstration Program

Department of Resources, Energy and Tourism

ANAO Audit Report No.2 2012–13

Administration of the Regional Backbone Blackspots Program

Department of Broadband, Communications and the Digital Economy

ANAO Audit Report No.3 2012–13

The Design and Conduct of the First Application Round for the Regional Development Australia Fund

Department of Regional Australia, Local Government, Arts and Sport

ANAO Audit Report No.4 2012–13

Confidentiality in Government Contracts: Senate Order for Departmental and Agency Contracts (Calendar Year 2011 Compliance)

Across Agencies

ANAO Audit Report No.5 2012–13

Management of Australia's Air Combat Capability—F/A-18 Hornet and Super Hornet Fleet Upgrades and Sustainment

Department of Defence

Defence Materiel Organisation

ANAO Audit Report No.6 2012–13

Management of Australia's Air Combat Capability—F-35A Joint Strike Fighter Acquisition

Department of Defence

Defence Materiel Organisation

ANAO Audit Report No.7 2012–13

Improving Access to Child Care—the Community Support Program

Department of Education, Employment and Workplace Relations

ANAO Audit Report No.8 2012–13

Australian Government Coordination Arrangements for Indigenous Programs

Department of Families, Housing, Community Services and Indigenous Affairs

ANAO Audit Report No.9 2012–13

Delivery of Bereavement and Family Support Services through the Defence Community Organisation

Department of Defence

Department of Veterans' Affairs

ANAO Audit Report No.10 2012–13

Managing Aged Care Complaints

Department of Health and Ageing

ANAO Audit Report No.11 2012–13

Establishment, Implementation and Administration of the Quarantined Heritage Component of the Local Jobs Stream of the Jobs Fund

Department of Sustainability, Environment, Water, Population and Communities

ANAO Audit Report No.12 2012–13

Administration of Commonwealth Responsibilities under the National Partnership Agreement on Preventive Health

Australian National Preventive Health Agency

Department of Health and Ageing

ANAO Audit Report No.13 2012–13

The Provision of Policing Services to the Australian Capital Territory

Australian Federal Police

ANAO Audit Report No.14 2012–13

Delivery of Workplace Relations Services by the Office of the Fair Work Ombudsman

Department of Education, Employment and Workplace Relations

Office of the Fair Work Ombudsman

ANAO Audit Report No.15 2012–13

2011–12 Major Projects Report

Defence Materiel Organisation

ANAO Audit Report No.16 2012–13

Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2011

Across Agencies

ANAO Audit Report No.17 2012–13

Design and Implementation of the Energy Efficiency Information Grants Program

Department of Climate Change and Energy Efficiency

ANAO Audit Report No.18 2012–13

Family Support Program: Communities for Children

Department of Families, Housing, Community Services and Indigenous Affairs

ANAO Audit Report No.19 2012–13

Administration of New Income Management in the Northern Territory

Department of Human Services

ANAO Audit Report No.20 2012–13

Administration of the Domestic Fishing Compliance Program

Australian Fisheries Management Authority

ANAO Audit Report No.21 2012–13

Individual Management Services Provided to People in Immigration Detention

Department of Immigration and Citizenship

ANAO Audit Report No.22 2012–13

Administration of the Tasmanian Forests Intergovernmental Contractors Voluntary

Exit Grants Program

Department of Agriculture, Fisheries and Forestry

ANAO Audit Report No.23 2012–13

The Australian Government Reconstruction Inspectorate's Conduct of Value for

Money Reviews of Flood Reconstruction Projects in Victoria

Department of Regional Australia, Local Government, Arts and Sport

ANAO Audit Report No.24 2012–13

The Preparation and Delivery of the Natural Disaster Recovery Work Plans for

Queensland and Victoria

Department of Regional Australia, Local Government, Arts and Sport

ANAO Audit Report No.25 2012–13

Defence's Implementation of Audit Recommendations

Department of Defence

ANAO Audit Report No.26 2012–13

Remediation of the Lightweight Torpedo Replacement Project
Department of Defence; Defence Material Organisation

ANAO Audit Report No.27 2012–13

Administration of the Research Block Grants Program
Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education

ANAO Report No.28 2012–13

The Australian Government Performance Measurement and Reporting Framework: Pilot Project to Audit Key Performance Indicators
Across Agencies

ANAO Audit Report No.29 2012–13

Administration of the Veterans' Children Education Schemes
Department of Veterans' Affairs

ANAO Audit Report No.30 2012–13

Management of Detained Goods
Australian Customs and Border Protection Service

ANAO Audit Report No.31 2012–13

Implementation of the National Partnership Agreement on Homelessness
Department of Families, Housing, Community Services and Indigenous Affairs

ANAO Audit Report No.32 2012–13

Grants for the Construction of the Adelaide Desalination Plant
Department of Sustainability, Environment, Water, Population and Communities
Department of Finance and Deregulation
Department of the Prime Minister and Cabinet

ANAO Audit Report No.33 2012–13

The Regulation of Tax Practitioners by the Tax Practitioners Board
Tax Practitioners Board
Australian Taxation Office

ANAO Audit Report No.34 2012–13

Preparation of the Tax Expenditures Statement

Department of the Treasury

Australian Taxation Office

ANAO Audit Report No.35 2012–13

Control of Credit Card Use

Australian Trade Commission

Department of the Prime Minister and Cabinet

Geoscience Australia

ANAO Audit Report No.36 2012–13

Commonwealth Environmental Water Activities

Department of Sustainability, Environment, Water, Population and Communities

ANAO Audit Report No.37 2012–13

Administration of Grants from the Education Investment Fund

Department of Industry, Innovation, Climate Change, Science, Research and Tertiary Education

ANAO Audit Report No.38 2012–13

Indigenous Early Childhood Development: Children and Family Centres

Department of Education, Employment and Workplace Relations

ANAO Audit Report No.39 2012–13

AusAID's Management of Infrastructure Aid to Indonesia

Australian Agency for International Development (AusAID)

ANAO Audit Report No. 40 2012–13

Recovery of Centrelink Payment Debts by External Collection Agencies

Department of Human Services

ANAO Audit Report No.41 2012–13

The Award of Grants Under the Supported Accommodation Innovation Fund

Department of Families, Housing, Community Services and Indigenous Affairs

ANAO Audit Report No.42 2012–13

Co-location of the Department of Human Services' Shopfronts

Department of Human Services

ANAO Audit Report No.43 2012–13

Establishment, Implementation and Administration of the General Component of the Local Jobs Stream of the Jobs Fund

Department of Education, Employment and Workplace Relations

ANAO Audit Report No. 44 2012–13

Management and Reporting of Goods and Services Tax and Fringe Benefits Tax Information

Australian Taxation Office

ANAO Audit Report No. 45 2012–13

Cross-Agency Coordination of Employment Programs

Department of Education, Employment and Workplace Relations

Department of Human Services

ANAO Audit Report No. 46 2012–13

Compensating F-111 Fuel Tank Workers

Department of Veterans' Affairs

Department of Defence

ANAO Audit Report No. 47 2012–13

AUSTRAC's Administration of its Financial Intelligence Function

Australian Transaction Reports and Analysis Centre

ANAO Audit Report No.48 2012–13

Management of the Targeted Community Care (Mental Health) Program

Department of Families, Housing, Community Services and Indigenous Affairs

ANAO Audit Report No.49 2012–13

Interim Phase of the Audits of the Financial Statements of Major General Government Sector Agencies for the year ending 30 June 2013

Across Agencies

ANAO Audit Report No.50 2012–13

Administration of the GP Super Clinics Program

Department of Health and Ageing

ANAO Audit Report No.51 2012–13

Management of the Australian Taxation Office's Property Portfolio

Australian Taxation Office

ANAO Audit Report No.52 2012–13
Management of Debt Relief Arrangements
Australian Taxation Office

Current Better Practice Guides

The following Better Practice Guides are available on the ANAO website.

Preparation of Financial Statements by Public Sector Entities	Jun 2013
Human Resource Management Information Systems – Risks and Controls	Jun 2013
Public Sector Internal Audit	Sept 2012
Public Sector Environmental Management	Apr 2012
Developing and Managing Contracts – Getting the right outcome, achieving value for money	Feb 2012
Public Sector Audit Committees	Aug 2011
Fraud Control in Australian Government Entities	Mar 2011
Strategic and Operational Management of Assets by Public Sector Entities – Delivering agreed outcomes through an efficient and optimal asset base	Sept 2010
Implementing Better Practice Grants Administration	Jun 2010
Planning and Approving Projects – an Executive Perspective	Jun 2010
Innovation in the Public Sector – Enabling Better Performance, Driving New Directions	Dec 2009
SAP ECC 6.0 – Security and Control	Jun 2009
Business Continuity Management – Building resilience in public sector entities	Jun 2009
Developing and Managing Internal Budgets	Jun 2008
Agency Management of Parliamentary Workflow	May 2008
Fairness and Transparency in Purchasing Decisions – Probity in Australian Government Procurement	Aug 2007
Administering Regulation	Mar 2007
Implementation of Program and Policy Initiatives – Making implementation matter	Oct 2006