Australian National Audit Office

Human Resource Management Performance Audit

December 2008

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KPMG

3 December 2008

Dear Mr President
Dear Mr Speaker

I have undertaken a performance audit of the Australian National Audit Office (ANAO), in accordance with the authority contained in the *Auditor-General Act 1997*. I present this report of the audit to the Parliament. The report is titled *Australian National Audit Office – Human Resource Management Performance Audit.*

Yours sincerely

Geoff Wilson
Independent Auditor
Appointed under Section 41 of
The Auditor-General Act 1997

Contents

Disclaimer

This KPMG report has been prepared at the request of the Joint Committee of Public Accounts and Audit (JCPAA) in connection with our engagement to perform services as detailed in the Contract for the Appointment of an Independent Auditor for the ANAO (The Contract of Appointment) and Section 2 of this report. Other than our responsibility to the JCPAA and management of the ANAO, neither KPMG nor any member or employee of KPMG undertakes responsibility arising in any way from reliance placed by a third party on these terms of reference. Any reliance placed is that party's sole responsibility.

We believe that the statements made in this work plan are accurate, but no warranty of accuracy or reliability is given in relation to information and documentation provided by ANAO management and personnel.

1. Executive Summary

1.1 Introduction

The Australian National Audit Office (ANAO) supports the Auditor–General to provide an independent view of the performance and financial management of public sector entities. The *Auditor–General Act 1997* sets out the Auditor–General's functions, mandate and powers. The Act establishes a unique, independent relationship between the Auditor–General and the Australian Parliament.

The primary client of the ANAO is the Australian Parliament. The ANAO's main point of contact with Parliament is the Joint Committee of Public Accounts and Audit (JCPAA), although liaison does occur with other parliamentary committees in providing advice on public administration and the outcomes of audit coverage.

The ANAO delivers a program of financial and performance audits through the Assurance Audit Services Group (AASG) and the Performance Audit Services Group (PASG). The Professional Services Branch (PSB), through the provision of technical assistance, and the Corporate Management Branch (CMB), through the provision of practice management related services, supports the two 'operational' areas.

Human resources are critical to the delivery of the services provided by the ANAO. Indeed, employee related costs account for approximately half ($31 million) of the ANAO's 2007–08 Departmental budget ($65 million). In addition, supplier costs associated with procuring contractor services to assist in the delivery of the ANAO's program of work, either through 'contracting in' or 'contracting out' arrangements, accounted for approximately $18 million in 2007–08.

Given the current 'tight' labour market and the fact that human resource management remains one of the highest risks for many Australian Government agencies, including the ANAO, KPMG, as part of the *Contract for the Appointment of an Independent Auditor for the ANAO* (The Contract of Appointment) undertook a human resource (HR) management performance audit.

Key features of ANAO's HR management and strategic framework are referenced in the *ANAO Workforce Plan (WFP) 2006–08*. The WFP (ANAO's first) was developed in March 2006, ahead of many other organisations. The aim of the WFP was to focus collective organisational attention on workforce and business success. As a first plan, ANAO's workforce plan concentrated on identifying and implementing high priority tasks rather than addressing all ANAO workforce issues, facilitating a managed approach to the maintenance and improvement in ANAO capability, while continuing to meet business objectives.

KPMG's focus of this audit was on the state of implementation of the WFP 2006–08 and its relationship with ANAO's HR management and strategic framework.

The WFP identifies four strategies which are supported by management actions. The WFP is due to be updated in 2008.

The four strategies outlined in the WFP are**:**

1. To closely manage workforce costs in an environment of increasing budget pressure.
2. To better understand the current and anticipated organisational capabilities and optimal workforce requirements necessary for business success.
3. Recruitment, motivation and retention of a sustainable, highly skilled, long–term workforce capability.
4. To further develop and sustain a work environment and employment relations that are consistent with the ANAO being a preferred employer.

1.2   Objective

The objective of this performance audit was to address the following focusing tasks:

1. Identify the key risks associated with Human Resource Management at the ANAO, and consider the rigour and adequacy of strategies implemented by the ANAO to manage these risks;
2. Compare the ANAO's HR strategies and performance to available industry data, and draw parallels to identify areas where the ANAO could make improvements;[1]
3. Undertake a current state assessment of the extent of implementation of the ANAO WFP, and identify any factors that have impeded its implementation; and
4. Develop recommendations designed to inform the process to refresh the ANAO WFP.

1.3   Summary of Findings and Recommendations

In conducting this audit, KPMG, as per the agreed Audit Work Plan, identified the key risks associated with Human Resource Management at the ANAO (refer to **Appendix 3**). A total of twelve key risks were identified as a result of this exercise, many of which are similar to the HR risks that are faced by professional services firms. The risks identified are also broadly consistent with the challenges identified in the WFP. This process also identified that the ANAO has initiated many strategies to assist in mitigating and controlling the impacts of these risks.

These have been documented as part of the risk assessment and include:

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[1]   Refer to limitations to scope outlined in Section 2.2.

- Conduct of an annual independent staff survey
- Comprehensive learning and development framework
- Remuneration committee and guidelines to monitor remuneration levels
- The introduction of a rewards and recognition scheme
- Use of a referral fee

- Establishment of a performance assessment scheme
- The existence of a workplace diversity program
- Increasing the number of staff recruited through the graduate recruitment process
- Development of a learning and development handbook incorporating a capability assessment

Review of the WFP revealed that the Plan contains all the key elements of a robust and sustainable plan. Adopting a 'traffic light' assessment approach, a current state assessment of the extent of implementation of the WFP was completed as part of this audit (refer to **Appendix 4**). The current state assessment revealed that out of 23 actions contained within the WFP:

- 14 have been adequately addressed (green);
- eight are 'in progress' but have not been finalised and implemented (amber); and
- one action has not been adequately addressed (red).

KPMG have made a total of seven findings and recommendations as a result of this audit, which are summarised below, with details provided in Section 4 of this report. The recommendations have also been summarised at **Appendix 1**.

Integration with Business Planning

The ANAO Corporate Plan and annual Business Plan are the prime direction setting and planning documents for the ANAO. They both have a focus on people issues through taking a 'balanced scorecard' approach. Review of the more comprehensive WFP however, reveals that it is not fully integrated into these planning documents. After discussions with staff responsible for business planning at the ANAO, and those that were responsible for the development of the WFP, it is understood that a more formal link to the WFP will be established as part of the 2007–08 business planning cycle. KPMG supports these developments, and notes that ANAO does undertake annual contingent workplace planning centred around development of work plans, which is used as an input to determine contract labour needs. This type of staff resource assessment is also undertaken on an 'ad hoc' basis throughout the year, which is usually triggered by staff turnover.

KPMG recommends that workforce planning be integrated into the existing business planning processes and frameworks. To be effective, the process will need to be

adequately funded. As part of the business planning process, both the operational and strategic requirements of the organisation's labour force (competencies and demand) will inform the strategies and actions developed as part of the next updated WFP, and the development of goals and actions as part of the Business and Strategic Plans. For this to be effectively achieved there will be a need to ensure that the process is adequately funded.

Workforce Risk Assessment

While the WFP does outline organisational challenges and service group strengths and weaknesses in the context of consideration of workforce needs and labour market trends, a formal workforce risk assessment which involved consultation with staff from across the ANAO, was not conducted as part of the WFP's development. Consistent with advice provided by the ANAO to agencies in the 2004–05 Workforce Planning performance audit,[2] the WFP contained an assessment of the demand and supply of labour.

The ANAO risk management plan and Group risk management plans are linked back to ANAO's Corporate and Business Plans through key result areas developed as part of the 'balanced scorecard' approach. However, it was noted that HR risks identified in the risk management plans, do not explicitly link to the actions and strategies identified in the WFP. It is recommended that the ANAO as part of the development of their next WFP conduct a formal workforce risk assessment to help inform the development of targeted strategies and actions, and that this be incorporated in the WFP to link it to the broader planning documentation and processes.

Regular Monitoring and Reporting of the Workforce Plan

There has been limited regular monitoring of progress against actions identified in the WFP. Since the launch of the WFP, progress on the implementation of the plan has only been reported twice to the Executive Board of Management (EBOM); once in June 2006 and again in February 2008. It is understood that the Executive do discuss workforce issues in forums such as weekly Executive meetings, and SES planning meetings conducted twice a year.

KPMG recommends that current and future WFPs be supported by a framework designed to monitor the implementation of all actions identified in the WFP, and that progress against those actions be reported to management. To date, monitoring of the implementation of the WFP has largely been executed by business groups and reported and coordinated by the Corporate Branch. KPMG recommends that the ANAO consider expanding the role of the Remuneration Committee to encompass consideration of wider workforce planning issues and that actions in future workforce plans be allocated to positions providing clear lines of accountability for actions.

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2 Workforce Planning, Audit report No. 55 (2005)

Outcome of the Current State Assessment of the WFP Actions

The 2006–2008 WFP represents the ANAO's first attempt at developing a WFP, and our review of it, revealed that it contained all of the key elements of a robust and sustainable plan. The current state assessment of the implementation of the WFP (refer to **Appendix 4**) conducted as part of this audit revealed that of the 23 actions identified; 14 actions were completed and implemented, eight actions had been partially completed and one action had not received adequate formal attention. Given the significance of successful human resource management to the ANAO, continued focus to implement these and any future actions identified in the updated WFP is essential to ensuring ANAO achieves optimal outcome against each of the strategies.

There is potential for the ANAO to improve on existing monitoring arrangements. To assist in the successful implementation of future WFPs, and more importantly the actions and strategies contained therein, we have recommended that the WFP needs to be supported by a framework which:

- Monitors progress against the WFP actions and strategies; and
- Regularly reports the results of the monitoring process to EBOM.

Communication of Human Resource Management Initiatives

In conducting the current state assessment, it was revealed that the ANAO has undertaken many HR management initiatives to assist in the retention and attraction of resources. Interviews with staff within Human Resources and a sample of Executive management from across the ANAO, revealed that some of the papers/policies supporting the initiatives were dated and/or management interviewed were not universally aware of them. While it needs to be the responsibility of all managers to assist in the implementation of HR initiatives, it is recommended that the Remuneration Committee and the Corporate Management Branch take a more proactive role to promote initiatives by ensuring that initiatives are:

- 'Launched' in ways that reach the widest possible audience; and
- Staff members are periodically reminded of HR initiatives, or modifications to initiatives as they occur.

Some mechanisms have been suggested to assist with this.

Ongoing Review and Evaluation of the WFP

In Section 6 of the WFP (titled *Review and Evaluation*), in addition to the need to regularly *monitor* the implementation of the WFP (refer to 4.2 of this report), is the requirement the WFP should be *reviewed* annually, and that as part of that process, consideration should be given to the ongoing relevance of the WFP and its four strategies. While *monitoring* of the WFP has occurred formally twice, once in June 2006 and again in February 2008, the WFP, has not been reviewed and challenged for ongoing relevance since it was introduced in March 2006. It is recognised that the

WFP is due to be updated in 2008, and it is understood that the ANAO Executive have already considered at a strategic level the basis for the update of the WFP, and is in the process of developing a formal plan and timetable for the task.

As has been recognised in the WFP, a review and evaluation process and framework needs to be established and implemented. To ensure that the review and evaluation process is appropriately informed, consistent with the development of the previous WFP, it has been recommended that results of the latest staff survey, and labour market trends and indicators need to be considered. Further, in the interest of efficiency and to achieve integration with the business planning process, the review and evaluation process should be done to coincide with the annual business planning cycle.

EBOM Reporting

HR management is a standing agenda item for EBOM meetings, and HR reports are provided from each of the Groups as well as the HR Section to inform discussion. Review of EBOM papers spanning a 12 month period, revealed:

- The HR statistics reported could benefit from enhanced analysis by the business groups;

- Consistency of presentation could be improved, acknowledging different operational requirements and focus of business groups; and

- The format and content of reports generated by the Human Resources section changed a number of times throughout the year in response to specific requests by EBOM to refine monitoring data.

It is recommended that EBOM further consider the HR information they require in the context of the update of the WFP. Further, statistics that are requested, should be supported by enhanced and rigorous analysis aimed at providing strategic insight relating to the information that is being presented.

HR Management Reporting

The ANAO have a subscription with InfoHRM. This subscription provides access to the InfoHRM database, which contains ANAO HR statistics as well as those for other similar agencies, allowing a level of benchmarking to be performed. Subscription to the InfoHRM database comes by way of an annual fee (approximately $30 000) and the contribution of ANAO HR statistics for use in benchmarking. Outside of EBOM reports, reliance on information contained in the InfoHRM database is the primary source of HR related information for management.

Discussion with sample of Group Executive Directors and through trying to gain access to the InfoHRM database as part of this audit, it was revealed that the subscription to the InfoHRM database is not being fully utilised. KPMG recommend that the ANAO maintain their subscription to the InfoHRM database, and review the staff that have access to it, with a view to improving the extent to which the database is being utilised, to ensure that value is being achieved from the InfoHRM subscription.

1.4   Assessment

The current Australian labour market is 'tight', and forecasts at a national and local level indicate that this trend will continue, as the Australian population grows at a decreasing rate, and the labour force participation rate falls as the proportion of the population of traditional working age declines.[3] As recognised in the *State of the Service Report 2006–07*,[4] these skills shortages are, and will continue to have, a noticeable impact on agencies ability to achieve outcomes.

With the demand for skills in accounting and information communication technology (ICT) growing at a rate greater than that being experienced in other occupations,[5] the ANAO are faced with added challenges, similar to those being experienced by professional services firms, as they seek to attract and retain resources with these skills. In identifying the key risks associated with HR management at the ANAO as part of this audit, the risk profile was not dissimilar to that of professional service firms, with the key risk being the 'inability to attract and retain the appropriate number of personnel with the necessary skills and qualifications'.

In recognition of these workforce challenges, and consistent with better practice advice to take a systematic approach to workforce planning,[6] in 2006 the ANAO developed the WFP. Review of this WFP and its state of implementation, which has been the focus of this review, has revealed that on the whole the WFP contains all the key elements of a robust and sustainable plan, and that the ANAO have many good initiatives and actions to assist in the attraction and retention of staff. Of most significance is the conduct of an annual staff survey. A number of actions flowing from the WFP however, have not been fully implemented.

Review of the WFP and in conducting the current state assessment of the extent of its implementation (**Appendix 4**), has lead to the identification of a number of opportunities for improvement, which should assist in the revision of the ANAO's WFP, which is scheduled to take place during 2008.

These opportunities include:

- improving the integration of workforce planning into existing business planning processes;
- supporting future WFPs with an enhanced framework designed to better monitor the implementation and review of actions;

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3   CofA, Intergenerational report 2007 (2007).

4   APSC (2007).

5   DEEWR, Job Search – Job Outlook (2008).

6   MAC, Managing and sustaining the APS Workforce (2005) and APSC, State of the Service Report 2006–07 (2007).

- expanding the role of the Remuneration Committee to include the oversight of the WFP and the communication of HR initiatives; and

- reviewing the nature and content of HR reporting.

In order to take advantage of these improvement opportunities, and indeed to successfully execute the strategies and actions identified in the next iteration of the ANAO WFP, the level of investment into WFP related projects will need to increase to a level that ensures that they have an adequate level of resources and funding.

Other than the recommendations made in this report, which largely centre on suggestions to improve and enhance implementation and monitoring of the WFP, no fundamental gaps in strategy or new actions appropriate for an audit practice operating in the current labour market were identified.

2. Audit Objective, Scope and Methodology

2.1 Objective

The objective of this performance audit was to address the following focusing tasks:

1. Identify the key risks associated with Human Resource Management at the ANAO, and consider the rigour and adequacy of strategies implemented by the ANAO to manage these risks;

2. Compare the ANAO's HR strategies and performance to available industry data, and draw parallels to identify areas where the ANAO could make improvements; [7]

3. Undertake a current state assessment of the extent of implementation of the *ANAO WFP*, and identify any factors that have impeded its implementation; and

4. Develop recommendations designed to inform the process to refresh the *ANAO WFP*.

ANAO management were also interested in;

- identifying the key risks associated with HR management at the ANAO;

- obtaining the context of the HR environment in which the ANAO is operating in, by comparing the ANAO's HR strategies and performance to available industry data, and draw parallels to identify areas where the ANAO could make improvements; and

- Obtaining input to the planned update of the ANAO WFP.

2.2 Scope

The scope for the audit was developed after consultation with key stakeholders and consideration of a number of ANAO HR papers and reports.

Personnel interviewed as part of the scoping process included:

- The Deputy Auditor General;

- The Group Executive Director, Corporate Support Group

- The Executive Director, Corporate Management Branch;

- The Senior Director Human Resources, Corporate Management Branch;

- The Director, People and Strategy, Corporate Management Branch;

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[7] Refer to limitations to scope outlined in Section 2.2

- The Business Manager, Corporate Management Branch; and
- The Manager from Oakton Limited responsible for the delivery of the internal audit program.

The scoping process identified that the ANAO are due to update and refresh the WFP during 2008. As such, it was agreed that the outcomes of this audit would contribute to that process.

Scoping identified 'recruitment', 'development' and 'retention' processes to be of the greatest concern to management. Processes and systems associated with payroll, occupational health and safety, time recording, physical and protective security, remuneration, learning and development and termination, were only to be considered so far as they impact attraction, recruitment and retention strategies, but were otherwise considered 'out of scope' for this audit.

Our fieldwork was necessarily undertaken at a high level and was limited to interviews with key staff from the ANAO and the consideration of relevant information (including available industry data). An inherent limitation in the conduct of this type of audit is that our findings, recommendations and resultant conclusions are limited largely by the availability of documentation and staff from the ANAO.

2.2.1   Special consideration

In scoping this engagement, KPMG investigated the availability of HR related benchmarking data that would be of use to the ANAO. In doing this we found that the availably of quality benchmarking data is limited. Data that is available comes on a fee for service basis, and participation in industry surveys. Further, the ANAO have access to benchmarking data through their subscription to InfoHRM.

We also understand that ANAO is in the process of expanding benchmarking data available to them, particularly as it relates to the private sector. It is understood that this data has been sought to both assist in negotiation of the new workplace agreement and as a backdrop to update the WFP. As a result, detailed benchmarking was not undertaken as part of this assignment.

Where possible, comparisons have been made to data produced by the Department of Employment, Education and Work Place Relations (DEEWR), the Australian Public Service Commission (APSC), and practice management knowledge sourced from KPMG's audit experience.

2.3   Audit Methodology

Our work was conducted in accordance with Australian Auditing and Assurance Standards, specifically that relating to performance auditing (AUS 806). Specifically, we:

- Considered the ANAO and relevant service group risk management plans to assist in the identification of key risks and mitigating strategies associated with HR management at the ANAO;

- Considered the ANAO Corporate Plan, Business Plan, and ANAO WFP, and their underpinning HR policies and procedures, to gain a detailed understanding of the ANAO's HR strategies and actions associated with those strategies;

- Held interviews with the; Group Executive Director Corporate Support Group, Executive Director CMB, Director Human Resources, and a sample of Group Executive Directors and Executive Directors to:

  o verify and document the key risks associated with HR management at the ANAO;

  o identify and document the strategies in place to manage and mitigate the risks identified;

  o assess the effectiveness of strategies implemented to manage these risks;

  o determine the extent to which the HR strategy has been implemented and the factors that have impacted the delivery of the strategy; and

  o gain an understanding of the nature and timing of existing and future HR initiatives at the ANAO.

  o Considered documentation and deliverables supporting the HR risk mitigating strategies identified, and application of the WFP;

  o Identified any business improvement opportunities for the HR management activities considered; and

  o Conducted exit interviews with the Auditor General, Deputy Auditor General, and the Group Executive Director, Corporate Support Group.

2.4   References

In addition to the internal ANAO documentation reviewed, the following documents were referred to in completing this audit:

- Australian Bureau of Statistics (ABS), *ACT in Focus*, 2007

- Australian National Audit Office (ANAO), W*orkforce Planning Performance Audit*, 2005

- Australian Public Service Commission (APSC), *Building Business Capability through Workforce Planning*, 2006

- Australian Public Service Commission (APSC), *Thinking about Planning Checklist*, 2006

- Australian Public Service Commission (APSC), *State of the Service Report 2006–07*, 2007

- Commonwealth of Australia, *Intergenerational Report 2007*, 2007

- Department of Education, Employment and Workplace Relations (DEEWR), *Australian Jobs*, 2007

- Department of Education, Employment and Workplace Relations (DEEWR), *Australian Labour Market Update 2008*, 2008

- Department of Education, Employment and Workplace Relations (DEEWR), *Australian Job Search – Job Outlook*, 2008

- Management Advisory Committee (MAC), *Managing and Sustaining the APS Workforce*, 2005

- Management Advisory Committee (MAC), *Organisational Renewal*, 2003

- State and Territory Governments, *My Future*, 2007

2.5 Structure of this report

The findings, risks and recommendations identified by this audit, and additional information are presented in the report in the following way:

Section 3	Background and Context
Section 4	Audit Findings and Recommendations
Appendix 1	Summary of Recommendations
Appendix 2	Workforce Profile Statistics
Appendix 3	Key Risks Associated with Human Resource Management at the ANAO
Appendix 4	Current State Assessment of the extent of Implementation of the ANAO WFP

3. Background and Context

3.1 Workforce planning

3.1.1 What is workforce planning?

The APSC[8] describe workforce planning as a process, taking into consideration the organisation's current context and future requirements, to identify immediate and longer term workforce planning strategies to build organisational capability through developing:

- The organisation;
- The current workforce; and
- The future workforce.

3.1.2 Why undertake workforce planning?

As identified as part of the human resource management risk assessment conducted as part of this audit and identified in the ANAO's WFP, the key risks and challenges facing the ANAO relate to the attraction and retention of staff to meet its business objectives. The Management Advisory Committee (MAC)[9] and the Australian Public Service Commissions (APSC)[10] recognise that in order to address HR management issues such as these, a systematic approach to workforce planning should be undertaken.

As highlighted by the ANAO in their 2004–05 *Workforce Planning* performance audit, workforce planning practices in the APS are influenced by the size of the agency, its complexity, and the context in which it is operating. Given that agencies rely on specialist skills in certain areas, organisational capability may be adversely impacted if appropriately skilled staff members are not available.

3.1.3 How to undertake workforce planning

The APSC have produced the '*Thinking About Planning checklist*' that provides some guidance to agencies in undertaking workforce planning. One of the essential elements identified for the successful development and implementation of a workforce plan is the need to '*obtain visible senior leadership support.*'

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8   APSC website.

9   Managing and Sustaining the APS Workforce (2005).

10   State of the Service Report 2006–07 (2007).

The diagram below illustrates the ongoing workforce planning process. It is consistent with the processes outlined by the APSC and indeed that presented by the ANAO in their 2004–05 *Workforce Planning* performance audit.

Figure 1

ANAO Workforce Planning Process
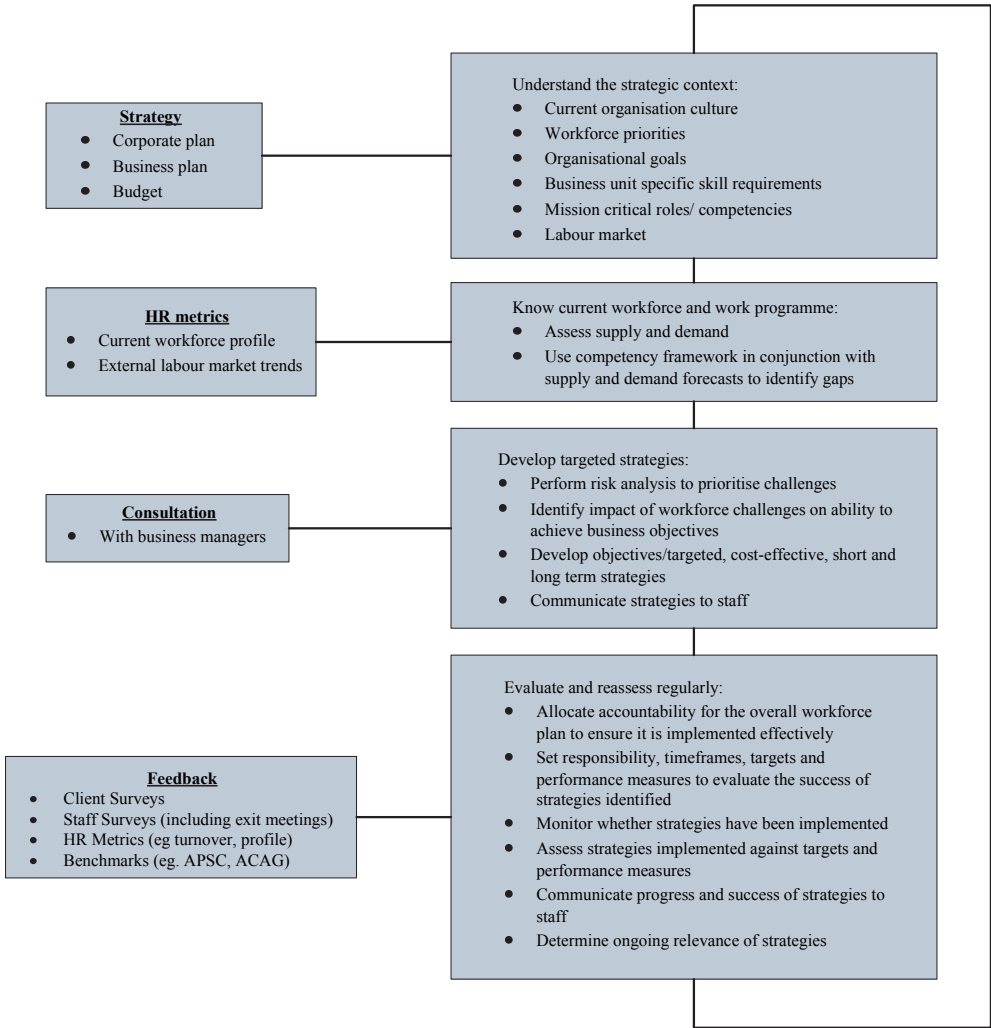
MAC[11] highlighted that the key to workforce planning is understanding attraction, retention and separation factors and trends specific to the organisation. Both MAC and the APSC[12] identified that these differ by organisation, and it is important that they are understood so that they can be capitalised on or addressed.

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[11]   Organisational Renewal (2003).

[12]   2006–07 State of the Service Report (2007).

MAC[13] also highlight that it is important not only to consider how an organisation can best recruit, develop and manage people, but also the culture and working environment provided. Again the report recommends an '*urgent need for systematic workforce planning and succession planning processes*', and *a process that changes in response to changes in the wider environment*".

3.1.4   What should APS agencies be doing?

For some time it has been reported that while agencies are undertaking forms of workforce planning, progress is often operational rather than strategic.[14] For this reason, and in order to ensure that an organisations WFP is adequately developed and implemented, it is crucial that it has the full support of the organisation's leadership group.

The APSC *2006–07 State of the Service Report* concludes that succession planning and talent management strategies are two of the measures to deal with workforce challenges that either had not been implemented or were in the process of being developed in most agencies. The report felt that these measures could have a significant impact on addressing the challenges faced by agencies. The report also highlights the importance for agencies to identify and utilise their specific attraction and retention attributes in their recruitment strategies (including recruitment processes).

Embedding WFP links in governance structures, achieving commitment at senior levels, and adequate funding and resourcing of the HR function is required to realise this in practice. There is potential for agencies to look more strategically at the issues that attract and retain employees to their organisation, remembering that the attributes that attract are not necessarily the ones that retain. Retention strategies should be targeted at both specific groups and skill sets, as well as at existing staff more broadly.

The 2006–07 *State of the Service Report* identifies a number of general challenges that are being faced by public sector agencies, and which must be addressed in order to ensure the sustainability of the APS in the future. Some of the key challenges identified in the report are:

- The need for a greater focus on agency health and culture. Corporate health is seen as a measure of the effectiveness of governance in the areas of organisational direction, leadership, organisational capability, corporate governance processes, relationships and integrity and agency culture. High levels of corporate health are directly linked to high levels of overall performance which enable agencies to overcome challenges and achieve desired outcomes.

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[13]   MAC, Managing and Sustaining the APS Workforce (2005).

[14]   APSC, State of the Service Report 2006–2007 (2007); MAC, Organisational Renewal (2003); ANAO, Workforce Planning 2004–05 (2005).

- Building organisational capacity to support new ways of working – technological advancement, globalisation, different generational expectations and the changing workforce profile are leading to changes in the way the APS does business. It is necessary to take a more strategic look at what these challenges mean for governance frameworks and organisational capacity.

- Modernising APS employment is seen as an essential part of attracting and developing people with the skills to meet these challenges. Skill shortages in many areas, but particularly in ICT, finance and accounting, are having a noticeable impact on agencies ability to achieve outcomes. Combined with the ongoing impact of an ageing workforce, the highly competitive employment market makes positioning the APS as a modern, flexible and attractive employer an imperative. A key part of this is streamlining agency employment processes to ensure that they are timely and efficient. Agencies must develop tailored attraction and recruitment strategies that clearly market the set of organisational and job attributes valued by the candidates they wish to attract, and by broadcasting this information widely. Corporate areas of agencies need to support line areas in a strategic way to achieve their goals through effective employment arrangements, setting strategic directions, HR management, succession planning and talent management, financial management, learning and development, and records management.

- Developing and sustaining the capacity of leaders to meet these challenges – survey results around leadership suggest that agencies could benefit from focussing more on improving the effectiveness of communication between senior leaders and other employees, the leadership capability of the EL2 group and more strategic approaches to talent management.

3.2   Overview of the ANAO

The Australian National Audit Office (ANAO) assists the Auditor–General to provide an independent view of the performance and financial management of public sector entities. The Auditor–General Act 1997 sets out the Auditor–General's functions mandate and powers. The Act establishes a unique, independent relationship between the Auditor–General and the Australian Parliament.

The Primary client of the ANAO is the Australian Parliament. The ANAO's main point of contact with Parliament is the Joint Committee of Public Accounts and Audit (JCPAA), although liaison does occur with other parliamentary committees in providing advice on public administration and the outcomes of audit coverage.

The ANAO delivers a program of financial and performance audits through the Assurance Audit Services Group (AASG) and the Performance Audit Services Group

(PASG). The Professional Services Branch (PSB), through the provision of technical assistance, and the Corporate Management Branch (CMB), through the provision of practice management related services, supports the two 'operational' areas.

Human resources are critical to the delivery of the services provided by the ANAO. Indeed, employee related costs accounted for approximately half ($31 million) of the ANAO's 2007–08 budget ($65 million). In addition, supplier costs associated with procuring contractor services to assist in the delivery of the ANAO's program of work, either through 'contracting in' or 'contracting out' arrangements, accounted for approximately $18 million in 2007–08.

3.2.1 The ANAO WFP

The *ANAO Workforce Plan* 2006–08 was developed in March 2006, and was the ANAO's first attempt at producing a WFP. The aim of the WFP was to focus collective organisational attention on workforce and business success. As the WFP encompassed a relatively short timeframe, it concentrated on identifying and implementing high priority tasks rather than address all ANAO workforce issues. The intention was that by adopting a managed approach to the maintenance and improvement of the ANAO's capability, would assist in ensuring that business objectives would be achieved and that the work of the ANAO would continue to be seen as relevant and of high quality.

Key objectives of the ANAO WFP were to:

- Improve organisational capability analysis, including the assessment and forecasting of business needs;

- Align workforce decisions with desired business outcomes and the ANAO's strategic direction. It was recognised that workforce planning needed to be fully integrated with all of the ANAO business strategies including, strategies relating to human capital management; and

- Improve responsiveness to change, drive desired changes, and facilitate management of that change.

3.3 ANAO Workforce Analysis

As part of this audit, KPMG performed a high level analysis of ANAO's workforce profile, as a means to identify changes in the ANAO workforce overtime. Where relevant, comparisons were made to the APS data reported in the *APSC 2006–07 State of the Service Report*. Details of this analysis have been documented in **Appendix 2**. Statistics to conduct this analysis were extracted from the ANAO payroll system by ANAO payroll staff, and were considered accurate as at February 2008.

Key statistics and outcomes of the analysis include:

- The ANAO employ approximately 286 full time equivalent (FTE) staff, which has been consistent over the last five years.

- The percentage of part time staff has increased from seven per cent to 10 per cent over the course of the last three years. The average number of part time staff across the APS is 11.7 per cent.

- The ANAO's 2007–08 annualised turnover rate is 28.7 per cent, which has increased over prior year's rates which have been around 19 per cent, and is above the ANAO target of 18 per cent.

- The gender profile has remained consistent at around 54 per cent female.

- The ANAO's staffing rate (percentage of staff aged 55 to <65) has increased from approximately eight per cent in 2005–06 to 10 per cent in 2007–08. Whilst the staffing rate remains lower in AASG and PASG than other business areas, the staffing rate of these business areas is on an increasing trend.

- The ANAO's average workforce tenure has declined from 6.4 years to 5.8 years since 2004–05. In comparison the APS average tenure has decreased from nine years to seven years. The business areas with the lowest tenure continue to be AASG and PASG which continue to decline.

- At 67 per cent, the percentage of staff with less than five years experience is reasonably constant over recent year. However, it remains considerably higher than the 36.2 per cent reported for the APS. Five per cent of AASG staff have less than five years experience.

The APSC 2006–07 State of the Service Report indicates that a younger age profile may be favourable in that agencies with a relatively high proportion of employees aged 45 years and over may face more critical and different workforce planning and knowledge management issues that those with a younger age profile.

However, as indicated in the ANAO's WFP, the high level of demand for graduates and the high number of ANAO staff in the <35 years bracket (49 per cent) has resulted in high turnover.

3.4 Human Resource Risks

3.4.1 Summary of ANAO HR Risks

As part of this audit KPMG were asked to identify the key risks associated with HR management at the ANAO. In order to do this, KPMG held discussions with a sample of Executive Directors and Group Executive Directors from across the Business Groups, staff from CMB responsible for HR and risk management, and reviewed the organisational and Group Risk Management Plans. The outcomes of the risk assessment process, which incorporates identified mitigating strategies, is presented at **Appendix 3**. These risks expand on issues broadly identified in the ANAO Risk Plan, and workforce challenges documented in the WFP.

To summarise, the key risks identified are:

1. Inability to attract and retain the appropriate number of personnel with the necessary skills and qualifications.

2. Inability to deliver program of work within budget as a result of the cost of obtaining the right staff mix.

3. Increasing pressure to deliver program of work to quality requirements.

4. High work demands and pressures impact the ability to attract and retain staff.

5. Poor performance and career management processes impact the ability to retain and attract staff.

6. Remuneration levels are not market competitive, impacting the ability to attract and retain appropriate staff.

7. Remuneration is not adequately supported by an appropriate rewards and recognition program.

8. Failure to deliver against actions and strategies in the WFP.

9. Inadequate learning and development program.

10. Failure to develop an inclusive culture (diversity) impacts the ANAO's ability to attract and retain an appropriate staff mix.

11. Poor OH&S practices in place.

12. Lack of awareness/ acceptance by management that people management represents a key threat area for the ANAO

3.4.2 APS and Professional Services Firms' HR Risks

Comparing the HR risks identified for the ANAO summarised above, to those being faced by professional services firms such as KPMG, reveals that the HR risk profiles are very similar. That said, the top seven HR related challenges being faced by APS agencies as reported in the *APSC 2006–07 State of the Service Report* do also align

with the risks identified for the ANAO. The table below lists some of the key HR risks being faced by professional service firms such as KPMG, as well as the seven HR related challenges outlined in the *APSC 2006–07 State of the Service Report*.

Professional Service Firm HR Risks	APS HR Challenges [15]
1. Insufficient access to talent based on emerging economy 2. Retaining talent (inadequate talent management) 3. Failure to develop an inclusive culture could reduce the talent pool 4. Higher stress levels, burnout, work/life balance affecting quality of work 5. Restrictive independence requirements limiting ability to attract and retain 6. Existing staff skill sets do not meet business needs 7. Inability/unwillingness to remain competitive with aggressive benefits offered by competitors	1. Difficulty recruiting people 2. Loss of mature aged employees 3. Ensuring that employees skills and/or knowledge meet the agencies requirements 4. Lack of sufficiently strong leadership skills 5. Loss of valued employees recruited as part of graduate program 6. Higher than acceptable employee turnover 7. Difficulty recruiting graduates with required skills.

3.5   Key ANAO HR Initiatives

In his foreword to the 2008–09 ANAO Business Plan, the Auditor General recognises that the ANAO "*continue to enjoy the confidence of Parliament and other clients for the way we discharge our statutory responsibilities. This widespread support challenges us to continue to produce a range of well targeted, high quality products and services*". Reflecting these challenges, an observation made as result of this audit is that the performance of senior ANAO staff is skewed towards Key Result Area (KRA) 1 (*Our Clients*), and KRA 2 (*Our Products and Services*).

The majority of staff interviewed recognised that their ability to achieve these targets was driven by KRA 3 (*Our people*) and KRA 4 (*Our business performance*). That is, they recognised that improving their ability to attract, retain and motivate staff, and increasing the efficiency of business processes would make it easier for their area to meet their target and deliver outcomes. This is seen to have resulted in people management being implemented more at an operational level rather than being systematically assessed and strategically planned for.

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[15]   APSC, 2006–07 State of the Service Report (2007).

That said, the ANAO has in place a range of HR related initiatives many of which related to actions outlined in the WFP, and others that were identified as part of conducting the HR risk assessment (**Appendix 3**).

In summary, some of the key ANAO HR initiatives that were observed as part of this audit were:

- Conduct of an annual independent staff survey

- Use of a referral fee

- Remuneration committee and guidelines to monitor remuneration levels

- Development of a learning and development handbook incorporating a capability assessment

- The introduction of a rewards and recognition scheme

- Establishment of a performance assessment scheme

- The existence of a workplace diversity program

- Increasing the number of staff recruited through the graduate recruitment process

The ANAO needs to be commended for taking these initiatives, but as identified in Section 4 (Audit Findings and Recommendations), and **Appendix 4** (Current State Assessment of the Extent of Implementation of the WFP), there remain a number of initiatives that have not been fully implemented, or which could be modified to be more effective. Further, in section 4 it is also stressed that effective workforce planning requires the ongoing monitoring of the implementation of actions, and the periodical (at least annually) evaluation of strategies and actions to ensure that they remain relevant to the organisation's strategic direction.

3.5.1 The ANAO Staff Survey

One of the key initiates taken by the ANAO to ascertain perceptions and attitudes towards working at the ANAO, is the conduct of an annual staff survey. The last staff survey was undertaken by ORIMA Research, and was conducted in April 2007.

ORIMA concluded that the survey results were '*...positive overall and indicate that the organisation is performing effectively in people management.*' The survey did however identify a number of opportunities for improvement; in particular ORIMA concluded that taking action to improve staff perceptions in a number of areas had the potential to significantly improve staff job satisfaction.

The areas identified were;

- Recognition/feeling valued by the organisation;

- Intrinsic rewards/personal meaning of work;

- Work group climate/interpersonal support; and

- Feeling autonomy/empowerment.

Staff surveys are an important means to obtain staff feedback across a broad range of issues effecting their work environment. As highlighted in Section 4.4, the results of staff surveys need to be used to inform the process to review and evaluate the strategies outlined in the WFP.

3.6 General Labour Force and Labour Market Trends

3.6.1 Australian Labour Force and Labour Market

The *2007 Intergenerational Report* projects that Australia's population will continue to grow over the next 40 years, although at a slower rate. Despite this, labour force participation is expected to fall as the proportion of the population of traditional working age (15–64) declines. This reduction in the labour force comes largely due to the expected increase in the ageing of the population from 2010 as the baby boomer generation reach age 65.

DEEWR[16] report continued strong growth in the Australian labour market. The strongest areas of growth and the lowest unemployment rates by occupation are in the occupations of *Managers and Administrators and Professionals*. In addition, DEEWR[17] show that there continues to be growth in each of the main occupations that the ANAO employ (Accounting and ICT professionals), and unemployment is below average.

There is a greater concentration of employment of professionals, managers and administrators and associate professionals in the ACT relative to the whole of Australia due to the prevalence of work in the government administration and defence sector.[18]

At 72.5 per cent, the labour force participation rate in the ACT continues to be one of the highest in Australia which has an average 65 per cent.[19] The ACT labour force is also highly competitive with unemployment continually declining and well below the national rate. In January 2008, the ACT had an unemployment rate of 2.7 per cent compared to 4.4 per cent for Australia.[20]

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[16]   Department of Education, Employment and Workplace Relations, Australian Labour Market Update (2007).

[17]   Australian Job Search – Job Outlook (2008).

[18]   State and Territory Governments, My Future – (based on 2006 Australian census) (2007).

[19]   ABS, ACT in Focus, (2007).

[20]   DEEWR, Australian Labour Market Update, (2008).

3.6.2 Australian Public Service (APS)

APS employment has shown continued growth since the late 1990s as the Government has extended the range of services, programmes and regulations it provides through the APS with an increase in total employees from 146 234 to 155 482 from 2005–06 to 2006–07 (six per cent increase).[21] The scale and complexity of government work has created a higher demand for skilled workers.

MAC, APSC, and DEEWR have issued various materials identifying the challenges faced by agencies due to the ageing workforce, changes in skill requirements, changes in working preferences of employees and the tight labour market.

MAC[22] predicted that over the next couple of decades, agencies would face significant challenges for capability development, workforce planning and knowledge management due to a more competitive labour market placing greater pressure on attracting and retaining staff.

MAC,[23] reiterated that the APS faces a big challenge in continuing to attract, retain and develop the people it needs. In addition to the challenges raised in the 2003 report, the 2005 report found that:

- employees now pursue greater diversity of career patterns and working arrangements; and

- the staff replacing the current SES and EL staff were likely to have less experience as they would progress faster through those levels to combat the expected high turnover of SES and EL in the next 10 years.

A growing number of agencies reported skills shortages in the *2006–07 State of the Service Report*, particularly in the areas of information technology, financial management and accounting. The APSC concluded that the results confirm that there are skill shortages in the majority of agencies that are impacting their ability to achieve business goals. As reported by MAC,[24] most APS agencies that require staff with accounting qualifications are located in Canberra. Other agencies that employ large numbers of Accountants outside Canberra have had fewer issues to date.

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[21] State of the Service report, APSC (2007).

[22] Organisational Renewal (2003).

[23] Managing and Sustaining the APS Workforce, (2005).

[24] ibid.

4. Audit Findings and Recommendations

4.1 Development of the ANAO WFP

One of the key objectives of workforce planning is to ensure that an organisation's workforce is able to support the strategic direction of the organisation while meeting its immediate operational needs. Consequently, it is important that workforce planning is integrated with an organisation's business planning process so that:

> **1.** The strategies and actions developed as part of the WFP are informed by the operational and strategic requirements of the organisation's labour force (competencies and demand); and

> **2.** The development of goals and actions as part of the operational and strategic plans are informed by the ability of the organisation's labour force to support existing and future needs (capability and supply).

The ANAO in their cross agency *Performance Audit on Workforce Planning* (Audit Report No.55), also acknowledge the importance and benefit of integrating workforce and business planning:

"*A key element of workforce planning is considering the implications for the workforce of the strategic direction of the agency*".

As part of the report, the ANAO encouraged agencies to ensure that workforce planning is integrated into the broader planning process.

Strategy two (To better understand the current and anticipated organisational capabilities and optimal workforce requirements necessary for business success) of the ANAO's WFP, reflects this advice. Indeed Action 2a which supports the strategy focuses on the need to synchronise planning to "*...guide workforce strategies that reflect business needs*". Further, the ANAO's Corporate and Business Plans are designed around a 'balanced scorecard approach focused on Key Result Areas (KRAs), namely; Clients, Products, People, and Business Performance.

Review of the WFP against the ANAO 2007–08 Corporate and Business Plans reveals that aspects of the WFP could be better integrated into the established planning framework. While Section 6 of the WFP does attempt to link KPI's established as part of the WFP to KPI's and targets for the 'People' KRA[25] (KRA), the actions/targets communicated in the Corporate and Business Plans are not clearly linked or supported by the actions in the WFP. The WFP does not feature the strategic planning framework displayed diagrammatically in the Business Plan.

As discussed in Section 4.1.1 below, HR related risks identified in the ANAO Risk Management Plan and the Group Risk Management Plans, could be linked more explicitly to actions identified in the WFP. It is recognised that the Business Plan

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[25] The KPI's were taken from the 2005–2006 ANAO Business Plan

identifies the need to perform '*analysis and evaluation of Workforce Plan activities'*, although as discussed in Section 4.4 the uptake of this initiative could be strengthened.

Staff members are responsible for business planning at the ANAO, and those that were responsible for the development of the ANAO WFP, [26] recognise that the development of the WFP could be more explicitly integrated into the existing planning processes.

We were informed that establishing a more formal link to the WFP as an objective of the 2007/08 business planning cycle, and the process to review and update the WFP.

Recommendation 1
As identified in Strategy 2 of the WFP, workforce planning should be integrated into the existing business planning processes and framework. This will ensure that the operational and strategic requirements of the organisation's labour force (competencies and demand) inform the strategies and actions developed as part of the WFP, and the development of goals and actions as part of the Business and Strategic Plans are informed by the ability of the organisation's labour force to support existing and future needs (capability and supply).
To best achieve this, we recommend the implementation of a rolling three year strategic WFP which is updated annually to take account of the outcomes of the risk management and business planning processes, and other factors such as the outcome of the annual staff survey. Further, for this to be effectively achieved, there will be a need to ensure that the process has adequate funding and resourcing, and that the shorter term operational planning process does not inhibit the strategic planning process.

ANAO Comment

Agree. Planning and development of the next ANAO workforce plan has commenced and the workforce plan is intended to cover the period 2009–11. For some years the ANAO has been using a balanced scorecard approach to its business planning incorporating the following four key elements into our planning process:

- our clients
- our products and services
- our people
- our business performance

In addition, the ANAO has been undertaking staff surveys since 1995–96 and will continue to draw upon outcomes of the annual staff survey in not just its workforce planning, but many other aspects of the operation and management of the ANAO. We agree that we should further integrate workforce planning issues into our business

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[26] The Workforce Plan 2006–08 was developed by staff from PASG who were responsible for undertaking the 2004–05 Workforce Planning Performance Audit. ANAO business planning is the responsibility of staff in CMB.

planning, in particular through consideration of the 'people' and 'products and services' aspects of planning. We also acknowledge the benefits of the proposed rolling approach to workforce planning and will incorporate this into our current planning framework.

We also appreciate the importance of ensuring the process has adequate funding and resourcing and, in the context of our constrained resource budget, will factor this consideration into our strategic planning and decisions on budget allocations.

4.1.1 Workforce Risk Assessment

Documented in the WFP are 'workforce challenges' that were used in the development of strategies and actions contained in the WFP. Discussions with staff responsible for the development of the WFP revealed that these challenges were determined after consideration of the ANAO's strategic direction, and labour market trends being experienced by professional auditing practices. Discussions also revealed that the process used to arrive at the challenges was not well documented and did not involve consultation across the ANAO, as would be expected of a robust risk assessment process. Supporting this is the fact that the HR risks identified in the ANAO Risk Management Plan and the Group Risk Management Plans, do not explicitly link to the actions and strategies identified in the WFP.

As highlighted above, outcomes of business risk assessments should inform workforce planning to help ensure that resulting strategies and actions adequately reflect and consider the broader organisational risks. Adding rigour to this process by undertaking a more formal work force risk assessment, which involves consultation across the organisation and the documentation of key controls and risk ratings, could help ensure that actions and strategies also give adequate consideration to direct and immediate workforce related risks, which may not have been captured in the broader Organisational or Group Risk Management Plans.

Recommendation 2
It is recommended that the ANAO as part of the development of their next WFP formally conduct a workforce risk assessment to help inform the development of targeted strategies and actions. Consideration could be given to developing the risk assessment in consultation with stakeholders from across the ANAO, and for that reason efficiencies could be gained by developing the workforce risk assessment as part of the business planning and organisational risk management processes. Consideration could also be given to prioritising the risks identified by allocating them a risk rating. To assist in the development of an ANAO workforce risk assessment, key workforce risks identified in the conduct of this audit have been documented at **Appendix 3**.

ANAO Comment

Agree. ANAO's first workforce plan, *ANAO Workforce Plan 2006–08*, made an assessment of the strengths and weaknesses of ANAO staffing models, with particular emphasis to organisational capability. This assessment was made with ANAO outcomes and objectives as its context, taking into consideration labour market trends affecting the professional audit practice environment in which the ANAO operates. While a formal workforce plan risk assessment was not undertaken, all the potential risks identified by the audit in Appendix 3 had been identified by the ANAO as potential risks in either in its Corporate and business plans, risk plan and assessment or its workforce plan.

ANAO agrees that as part of its development of its next workforce plan, the specific incorporation of a workforce risk assessment would help inform the development of targeted strategies and actions and the integration of workforce planning into existing planning processes.

4.2 Monitoring the ANAO WFP

4.2.1 Regular Monitoring and Reporting

There has been limited regular monitoring of progress against actions identified in the WFP. It is understood that the Executive discuss workforce issues in forums such as weekly Executive meetings, and SES planning meetings conducted twice a year.[27] However, since the launch of the WFP, progress on the implementation of the WFP has only be formally reported twice to the Executive Board of Management (EBOM); once in June 2006 and again in February 2008. Above all however, it is crucial that the WFP continues to have the full support of the organisation's leadership group.

Section 6 of the WFP (*Review and Evaluation*), does identify indicators and the frequency they should be reviewed (annually or quarterly), to assist in the regular monitoring and the assessment of workforce planning processes. While progress against these indicators has not been followed, of greater significance is the fact that a formal framework that involves regular reporting to EBOM against the indicators identified in the WFP and the progress that is being made against each of the strategies and actions, has not been established.

In conducting the current state assessment of the extent of implementation of the WFP actions, it was evident that lack of specific individual ownership and accountability of the WFP actions has contributed to some of the action items being 'in progress' rather than fully implemented..

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[27] Executive meetings focus on anticipated staff gains and losses and impact on execution of workplans. SES planning have an organisational planning context focus, including review and update of business plans, risk plans and considered matters such as contract labour strategies, initiatives ANAO might implement to further respond to issues associated with attraction and retention of staff, and budget responses to business strategies.

Responsibility for each of the action items are documented in a table at Attachment four of the WFP. In addition to the responsibility for the actions, the table lists sponsors for each of the actions. Responsibility for the actions has predominantly been allocated to a group of individuals (eg CMB, EBOM, all Executive Directors etc), rather than having been delegated to a specific position. As a result, ownership and accountability for the completion of the actions has been diluted.

Recommendation 3
Current and future WFPs need to be supported by a framework designed to monitor the implementation of all actions, and report formally the progress against those actions to management. In establishing this framework, it is recommended that the Remuneration Committee's role could be expanded to include tracking progress of the implementation of WFP actions, and that this be reported to EBOM on a regular (for example quarterly) basis.   Further, the ANAO might consider enhancing the consultative role of the Workplace Consultative forum as part of the process to update and implement the WFP. The responsibility for actions identified as part of future workforce plans be delegated to specific positions to ensure clarity of accountability and ownership for execution.

ANAO Comment

Agree. ANAO has already expanded the role of the Remuneration Committee and its members to include more strategic organisational HR management issues e.g. members of the Remuneration Committee are performing the role of a Steering Committee on the development of the next ANAO workplace agreement. Further, ANAO plans to consult with all service groups and the workplace consultative forum in the development of the next workforce plan and has already conducted several specific meetings with the SES regarding attraction and retention of staff and one of the two SES conferences this year has the workforce plan as a significant component of the agenda.

Responsibility for each action item in the current workforce plan was documented including sponsors for each action item. We acknowledge that many actions were predominantly allocated to groups within ANAO and we accept use of 'lead individuals' could be incorporated in the next plan to ensure better clarity of ownership of execution of action items.

Consistent with the arrangements in place for the first ANAO workforce plan, allocation of responsibilities to complete specific actions contained the plan will be made. Under the new plan, ANAO will put in place steps to improve monitoring progress against those actions regularly by the Executive management group and will improve reporting to staff, including through engagement of the Workplace Consultative Forum.

4.3 Implementation of the WFP

4.3.1 Outcomes of the Current state Assessment of the WFP Actions

A current state assessment of the extent of implementation of the WFP was undertaken as part of this audit. The outcome of this process has been documented in a traffic light report and has been provided at **Appendix 4** of this report. KPMG notes this was ANAO's first attempt to develop a workforce plan and implement specific high priority actions flowing from it. Our review of the workforce plan indicated it contained all the key elements of a robust and sustainable plan.

The current state assessment revealed that out of 23 actions contained within the WFP:

- 14 have been adequately addressed (green);

- eight are 'in progress' but have not been finalised and implemented (amber); and

- one action has not been adequately addressed (red).

Given the significance of successful human resource management to the ANAO, continued focus to implement these and any future actions identified in the updated WFP is essential to ensuring ANAO achieves an optimal outcome against each of the strategies. Successful implementation requires adequate resourcing and funding, and will depend largely on the continued support by the ANAO leadership group.

4.3.2 Communication of Human Resource Management Initiatives

In conducting the current state assessment, it was revealed that the ANAO has undertaken many HR Management initiatives to assist in the retention and attraction of resources. For example initiatives include; a workforce diversity program, an awards and recognition scheme, a study assistance policy, an annual staff survey, a mentor program, a recruitment strategy and more recently the development of a learning and development handbook.

While the ANAO are commended for undertaking these initiatives, discussions with staff within Human Resources and across the ANAO more broadly revealed that some of the papers/policies supporting the initiatives are dated and/or staff were not universally aware of them.. As long as this occurs, there is a risk that much of the benefit derived from having such initiatives in place is lost. Most importantly, from a retention and attraction perspective, this includes the continued promotion of the ANAO as an attractive place to work.

Recommendation 4

The ANAO needs to refine strategies to help ensure that all staff are aware of and take advantage of HR management initiatives, thereby helping to ensure that the initiatives are successfully implemented.

While it needs to be the responsibility of all managers to assist in the implementation of HR initiatives, it is recommended that relevant Committees and Corporate Management Branch take a more proactive role to ensure that initiatives are:

1. Launched' in ways that reach to widest possible audience; and

2. Staff members are periodically reminded of HR initiatives, or modifications to initiatives as they occur.

Mechanisms which have been observed to work well in raising the awareness of HR initiatives and issues more broadly, include:

- The continued regular promulgation of a 'People' newsletter;

- Incorporating the news of the introduction of new initiatives in the regular correspondence issued from the organisations CEO or equivalent;

- The use of 'quick links' and portals on an organisations intranet site to promote and provide staff access to 'People' news, including new initiatives and changes to existing policies and procedures; and

- The use of staff meetings to promote, discuss and obtain feedback on new and existing HR initiatives.

ANAO Comment

Agree. ANAO already publishes a variety of material in its staff newsletter *Auditorium*. A review of the use and content of the newsletter was recently conducted and enhanced HR reporting, including HR initiatives will be included in the modified newsletter, along with other changes designed to provide consistent ANAO messages and meet audience and office needs. Further work groups within ANAO have regular meetings that increasingly involve Corporate Management Branch participation, providing the opportunity to 'promote' HR and other organisational initiatives.

The ANAO is also making some revisions to its intranet and internet sites. Revisions have been made to the Intranet to make it more functional and easier to navigate and include sections for HR policies, agreements and improved searching and navigation based on a full range of expected user life cycle HR requirements.

The ANAO will look to incorporate introduction of new initiatives into its regular newsletter to clients – *Opinions* and in the regular newsletter from the Auditor–General to other CEO's, Parliamentarians and Parliamentary Committees – *Audit Focus*.

4.4   Review and Evaluation of the ANAO WFP

4.4.1   Ongoing Review and Evaluation

In Section 6 of the WFP; *Review and Evaluation*, in addition to the need to regularly monitor the implementation of the WFP (refer to 4.2 of this report), is the requirement the WFP should be reviewed annually, and that as part of that process, consideration should be given to the ongoing relevance of the WFP and its four strategies. Further, the review process should involve updating information on labour market trends and ANAO workforce trends.

While monitoring of the WFP has occurred formally twice, once in June 2006 and again in February 2008, the WFP, has not been reviewed and challenged for ongoing relevance since it was introduced in March 2006. It is understood that the WFP will be reviewed and evaluated during 2008, and that the ANAO Executive have already considered at a strategic level the basis for review of the WFP and its update, but are yet to be provided a formal plan and timetable for the review and evaluation task.

As long as the WFP is not regularly reviewed and evaluated, there is a risk that anticipated benefits associated with the introduction of the WFP may not be being realised and that the actions and/or strategies documented within the WFP may no longer be valid or relevant given; changes in the workforce trends, staff survey results, changes in the organisations strategic direction, or the fact that some actions have not been achieved.

Recommendation 5
As has been recognised in the WFP, a review and evaluation process and framework needs to be established and implemented. As has been identified in the WFP, the review and evaluation process needs to involve: ▪ Updating information on labour market trends and ANAO workforce trends; ▪ Review of the ongoing relevance and progress being made on the strategies and supporting action items; ▪ Review and revision of performance measures (as required); and ▪ Review of the ANAO workforce environment to determine whether benefits have been achieved. To ensure that the review and evaluation process is appropriately informed, results of the latest staff survey, and labour market trends and indicators need to be considered, consistent with the development of the current WFP, as part of the evaluation process. Further, in the interest of efficiency and to achieve integration with the business planning process (as recommended in Section 4.1.1) the review and evaluation process should been done to coincide with the annual business planning cycle.

ANAO Comment

Agree. Evaluation of the Current workforce plan is underway as an input into the development of the new workforce plan. In addition, consistent with the development of the current plan, analysis of the latest staff survey results and updates to labour market trends will be considered as input to development of the new workforce plan.

4.5   HR Reporting

4.5.1   EBOM reporting

HR management is a standing agenda item for EBOM meetings, and HR reports are provided from each of the Groups as well as the HR section to inform discussion. The reports cover statistics such as; head count, separations, full time versus part time staff, and staff that are on extended leave.

Review of EBOM papers spanning a 12 month period, revealed:

- The HR statistics reported could merit from enhanced analysis by the Business Groups;

- Consistency of presentation could be improved, acknowledging different operational requirements and focus of business groups; and

- The format and content of reports generated by the Human Resources section for EBOM changed a number of times throughout the year, in response to specific requests or to refine monitoring data to respond to developing workforce issues.

Discussions with staff from HR, Performance Audit Services Group (PASG) and Assurance Audit Services Group (AASG) that are responsible for developing the EBOM HR reports revealed that there is a lack of clarity around the nature of HR information to be reported. As such, HR have been 'experimenting' with the nature and format of information that they are presenting. Further, through discussion, it is understood that representatives from PASG and AASG are working together to ensure their reports are consistent.

Recommendation 6

It is recommended that EBOM consider the HR information they require in the context of updating the WFP. Further, statistics that are requested, should be supported by enhanced and rigorous analysis aimed at providing strategic insight relating to the information that is being presented. Integrating workforce planning into the business planning process (as recommended in Section 4.1.1) should assist in providing clarity around the nature of HR information to be reported, as the link to the strategic direction and the risks faced by the ANAO will be more transparent.

ANAO Comment

Agree. ANAO agrees with the recommendation and as noted above, has agreed that a more integrated workforce plan and business planning would bring organisational benefits. EBOM has recognised the need for enhanced HR data analysis, and report formats have been progressively changed in response to specific requests to refine reported data to respond to developing workforce issues.

4.5.2   HR Management Reporting

Outside of the EBOM, management are not provided with HR reports. Discussions with a sample of Executive Directors however, revealed that they are generally aware of HR issues within their area of responsibility. Group Executive Directors also do not receive HR reports outside of the EBOM reports they receive, however they have access to the InfoHRM database. The InfoHRM database contains ANAO HR statistics as well as those for other similar agencies, allowing a level of benchmarking to be performed. Subscription to the InfoHRM database comes by way of an annual fee (approximately $30 000) and the contribution of ANAO HR statistics for use in benchmarking.

As a result of discussion with sample of Group Executive Directors and through trying to gain access to the InfoHRM database as part of this review, it was revealed that the subscription to the InfoHRM database is not being fully utilised.

Review of InfoHRM revealed that it contains a large amount of statistical information that can be used to identify general labour market trends and trends occurring in the ANAO, and information from other labour market sectors that can be used to benchmark against ANAO data. The information available in InfoHRM would also greatly assist in the development of EBOM reports discussed above.

Recommendation 7
KPMG recommend that the ANAO maintain their subscription to the InfoHRM database but review the staff that have access to it, with a view to improving the extent to which the database is being utilised.
Assuming the number of people allowed to have access to InfoHRM is limited, consideration should be given to removing access rights of Executive Directors, and providing access to Group Administrators and/or designated HR 'champions' within each Group, who would better utilise the InfoHRM subscription because of their roles and responsibilities

ANAO Comment

Agree. The ANAO will take steps to better target the use of its HR Database.

A   Appendices

A.1   Summary of Recommendations

#	Recommendation
1	As identified in Strategy 2 of the WFP, workforce planning should be integrated into the existing business planning processes and framework. This will ensure that the operational and strategic requirements of the organisation's labour force (competencies and demand) inform the strategies and actions developed as part of the WFP, and the development of goals and actions as part of the Business and Strategic Plans are informed by the ability of the organisation's labour force to support existing and future needs (capability and supply).
	To best achieve this, we recommend the implementation of a rolling three year strategic WFP which is updated annually to take account of the outcomes of the risk management and business planning processes, and other factors such as the outcome of the annual staff survey. Further, for this to be effectively achieved, there will be a need to ensure that the process has adequate funding and resourcing, and that the shorter term operational planning process does not inhibit the strategic planning process.
2	It is recommended that the ANAO as part of the development of their next WFP formally conduct a workforce risk assessment to help inform the development of targeted strategies and actions. Consideration could be given to developing the risk assessment in consultation with stakeholders from across the ANAO, and for that reason efficiencies could be gained by developing the workforce risk assessment as part of the business planning and organisational risk management processes. Consideration could also be given to prioritising the risks identified by allocating them a risk rating.
	To assist in the development of an ANAO workforce risk assessment, key workforce risks identified in the conduct of this audit have been documented at Appendix 3.

#	Recommendation
3	Current and future WFPs need to be supported by a framework designed to monitor the implementation of all actions, and report formally the progress against those actions to management. In establishing this framework, it is recommended that the Remuneration Committee's role could be expanded to include tracking progress of the implementation of WFP actions, and that this be reported to EBOM on a regular (for example quarterly) basis. Further, the ANAO might consider enhancing the consultative role of the Workplace Consultative forum as part of the process to update and implement the WFP. The responsibility for actions identified as part of future workforce plans be delegated to specific positions to ensure clarity of accountability and ownership for execution.
4	The ANAO needs to refine strategies to help ensure that all staff are aware of and take advantage of HR management initiatives, thereby helping to ensure that the initiatives are successfully implemented. While it needs to be the responsibility of all managers to assist in the implementation of HR initiatives, it is recommended that relevant Committees and Corporate Management Branch take a more proactive role to ensure that initiatives are: ■ 'Launched' in ways that reach to widest possible audience; and ■ Staff members are periodically reminded of HR initiatives, or modifications to initiatives as they occur. Mechanisms which have been observed to work well in raising the awareness of HR initiatives and issues more broadly, include: 1. The continued regular promulgation of a 'People' newsletter; 2. Incorporating the news of the introduction of new initiatives in the regular correspondence issued from the organisations CEO or equivalent; 3. The use of 'quick links' and portals on an organisations intranet site to promote and provide staff access to 'People' news, including new initiatives and changes to existing policies and procedures; and 4. The use of staff meetings to promote, discuss and obtain feedback on new and existing HR initiatives.

#	Recommendation
5	As has been recognised in the WFP, a review and evaluation process and framework needs to be established and implemented. As has been identified in the WFP, the review and evaluation process needs to involve: ▪ Updating information on labour market trends and ANAO workforce trends; ▪ Review of the ongoing relevance and progress being made on the strategies and supporting action items; ▪ Review and revision of performance measures (as required); and ▪ Review of the ANAO workforce environment to determine whether benefits have been achieved. To ensure that the review and evaluation process is appropriately informed, results of the latest staff survey, and labour market trends and indicators need to be considered, consistent with the development of the current WFP, as part of the evaluation process. Further, in the interest of efficiency and to achieve integration with the business planning process (as recommended in Section 4.1.1) the review and evaluation process should been done to coincide with the annual business planning cycle.
6	It is recommended that EBOM consider the HR information they require in the context of updating the WFP. Further, statistics that are requested, should be supported by enhanced and rigorous analysis aimed at providing strategic insight relating to the information that is being presented. Integrating workforce planning into the business planning process (as recommended in Section 4.1.1) should assist in providing clarity around the nature of HR information to be reported, as the link to the strategic direction and the risks faced by the ANAO will be more transparent.
7	KPMG recommend that the ANAO maintain their subscription to the InfoHRM database but review the staff that have access to it, with a view to improving the extent to which the database is being utilised. Assuming the number of people allowed to have access to InfoHRM is limited, consideration should be given to removing access rights of Executive Directors, and providing access to Group Administrators and/or designated HR 'champions' within each Group, who would better utilise the InfoHRM subscription because of their roles and responsibilities.

A.2   Workforce Profile Statistics

The ANAO provided a number of workforce statistics extracted from their payroll system. The statistics were based on the following assumptions:

- Headcount excludes staff absent for 12 weeks or more. All other information includes in–operatives;

- Workforce tenure relates to ANAO service only (no other APS service counted). Where ANAO service is broken (ie. an employee is rehired), and the break exceeds six months, only the service since rehire has been counted;

- Commencements for 2007–08 have been annualised (with the exception of Graduates and Undergraduates); and

- Terminations and turnover for 2007–08 have been annualised.

The statistics were analysed at a high level to assess any change in the ANAO workforce as a result of implementation of strategies and actions outlined in the WFP. Where relevant, comparisons are made to the APS data reported in the *APSC 2006–07 State of the Service Report.*

The section below contains a summary of this information. This information is not intended to be a complete and detailed assessment of the ANAO's current workforce profile.

A.2.1   Headcount, full time equivalents, and part time staff

As at February 2008 the ANAO employ 297 staff (286.4 full time equivalent staff). The trend of headcount and FTE have been consistent over time.

The percentage of part time staff has increased marginally from seven to ten per cent since the WFP was approved, slightly lower than the 11.7 per cent reported by the APS.

A.2.2   Gender

The ANAO workforce remains around 54 per cent female, consistent with the 57 per cent reported by the APS. Females at the ANAO tend to be younger and occupy more junior positions.

A.2.3   Age

The average age of the ANAO's workforce has remained consistent at around 38 years since 2004–05. The APS average age is 42 years. There has been little change in the percentage of ANAO/ APS staff in each age bracket. With the main change being an increase in the percentage of ANAO staff aged 25 to <35.

The percentage of ANAO staff in the <25 and 25 to 35 age brackets remains 5 per cent and 10 per cent higher respectively than that of APS and ANAO staff 35 to <45, 45 to

<55 10 per cent lower. The percentage of ANAO staff 55 and over is lower than the APS which in turn is lower than the Australian labour force (14.8 per cent).

The ANAO's staffing rate (percentage of staff aged 55 to <65) has increased from around 8 per cent in 2005–06 to 10 per cent in 2007–08. Whilst the staffing rate remains lower in AASG and PASG than other business areas, the staffing rate of these business areas is on an increasing trend.

Percentage of staff by age

Legend: < 25, 25 to < 35, 35 to < 45, 45 to < 55, 55 to < 65, 65+
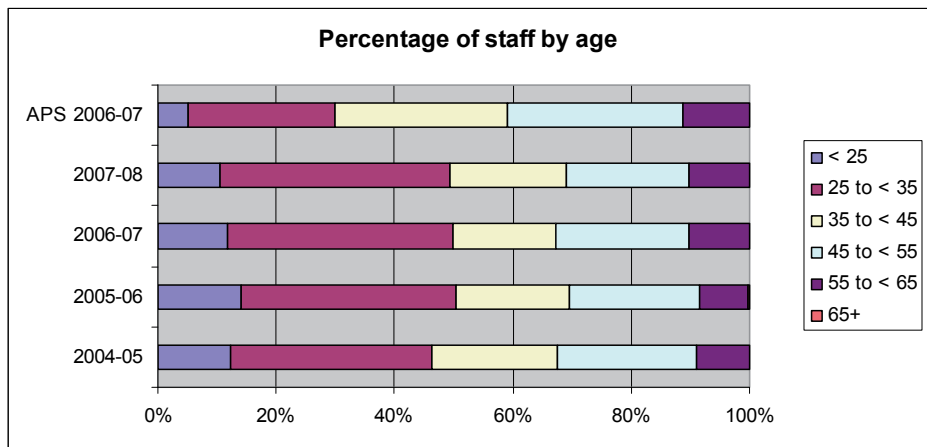
A.2.4   Length of tenure

The ANAO's average workforce tenure has declined from 6.4 years to 5.8 years since 2004–05. In comparison the APS average tenure has decreased from 9 years to 7 years. The business areas with the lowest tenure remain to be AASG and PASG which continued to decline.

Average workforce tenure by group

Legend: 2004-05, 2005-06, 2006-07, 2007-08
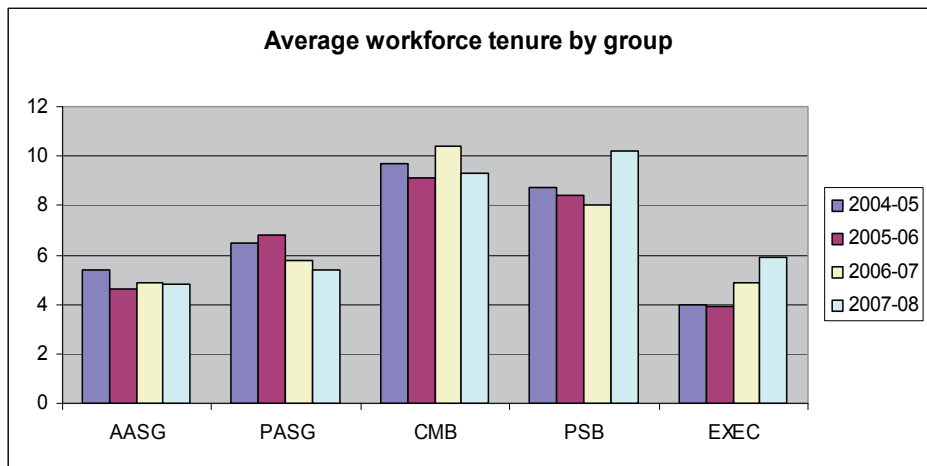
Length of tenure of staff aged <25 and 25 to <35 remained at around 1.4 years and 3.2 years respectively. Of concern is the decrease in length of tenure of staff in the 45 to <55, and to a lesser extent, the 35 to <45 age bracket.
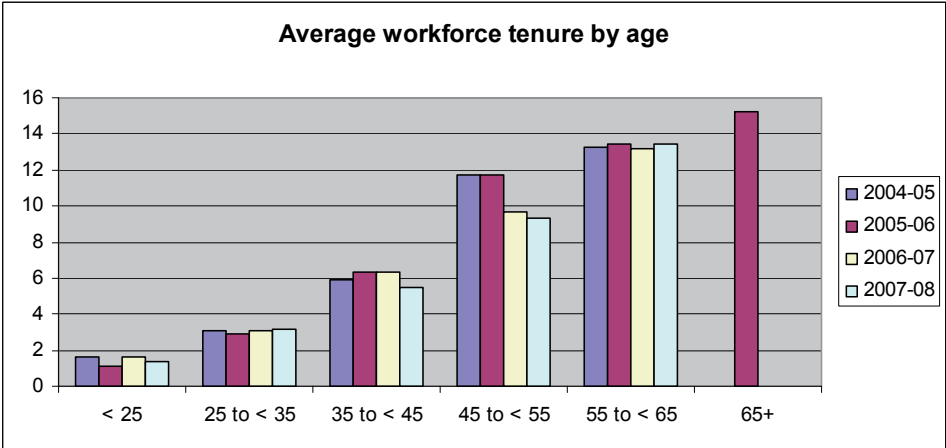
Average workforce tenure by age

At 67 per cent, the percentage of staff with less than five years experience is reasonably constant over recent years. However it remains considerably higher than the 36.2 per cent reported for the APS.

There was a small increase in the percentage of employees with 5–10 years experience and a small reduction in the percentage of staff with more than 10 years experience.

Percentage of staff by length of tenure
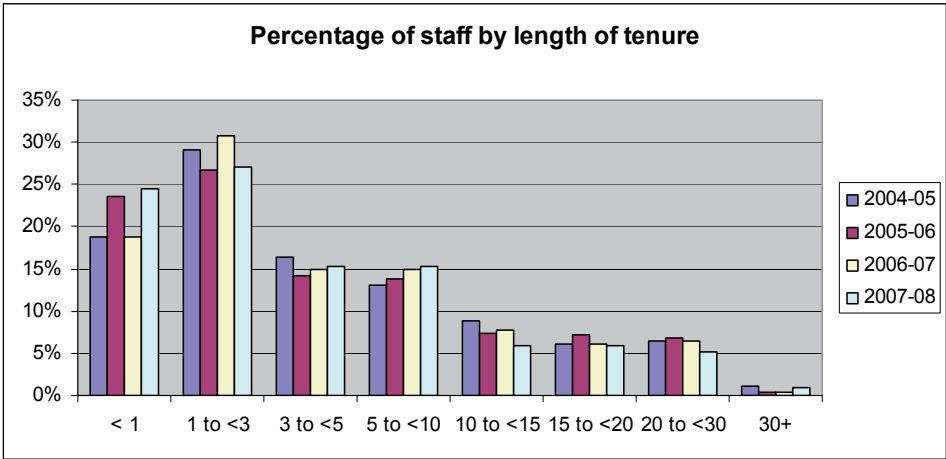
The main reduction in length of tenure has been in AASG and PASG. 75 per cent of AASG staff have less than five years experience. There was a reduction of 2.4 years in the length of tenure of those aged 45–55.

Average workforce tenure by age
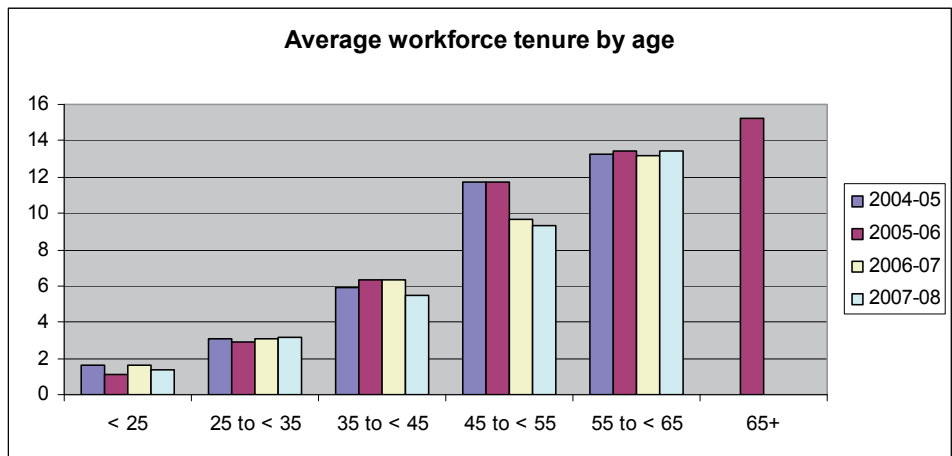
A.2.5 Separations

In February 2008, the ANAO's turnover (annualised) was 28.7 per cent, an increase from 19 per cent in recent years and well above the ANAO's target of 18 per cent. In more recent years, turnover in PASG has been higher than that of AASG. This differs from the situation at the time of the approval of ANAO's WFP.

ANAO, AASG and PASG turnover
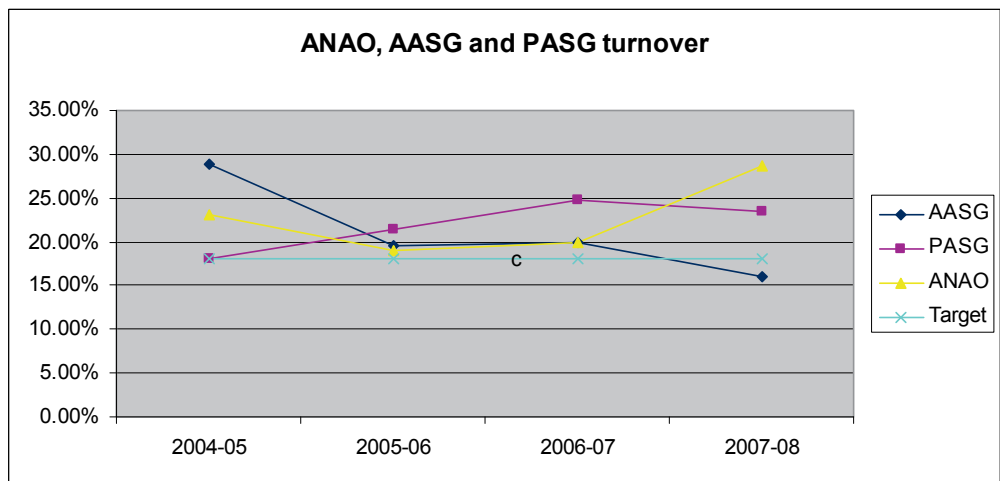
30–40 per cent of separations form the ANAO tend to be due to transfer/ promotion within the APS.

There has been an increase in the percentage of staff leaving that have less than 1 year experience.

Tenure at separation

Legend: 2004-05, 2005-06, 2006-07, 2007-08

Tenure	2004-05	2005-06	2006-07	2007-08
< 1	9	19	14	23
1 to <3	28	18	19	29
3 to <5	15	11	16	14
5 to <10	13	6	10	14
10 to <15	2	2	4	6
15 to <20	1	3	1	3
20 to <30	1	2	3	3
30+	1	1	2	2
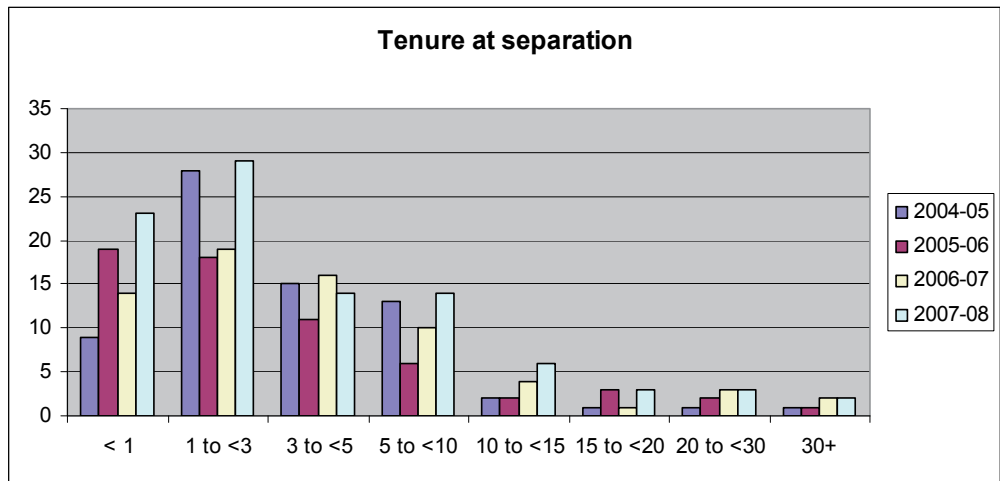
The graph below shows an increasing trend in turnover in staff aged 35 years and over and a reducing trend in those aged below 35 years. In 2006–07 and 2007–08 turnover has been highest in those aged 35–45 years.

Turnover by age

Legend: 2004-05, 2005-06, 2006-07, 2007-08

Age	2004-05	2005-06	2006-07	2007-08
< 25	33%	22%	14%	19%
25 to < 35	35%	22%	23%	20%
35 to < 45	15%	16%	30%	23%
45 to < 55	9%	17%	22%	17%
55 to < 65	17%	20%	21%	14%
65+		100%		
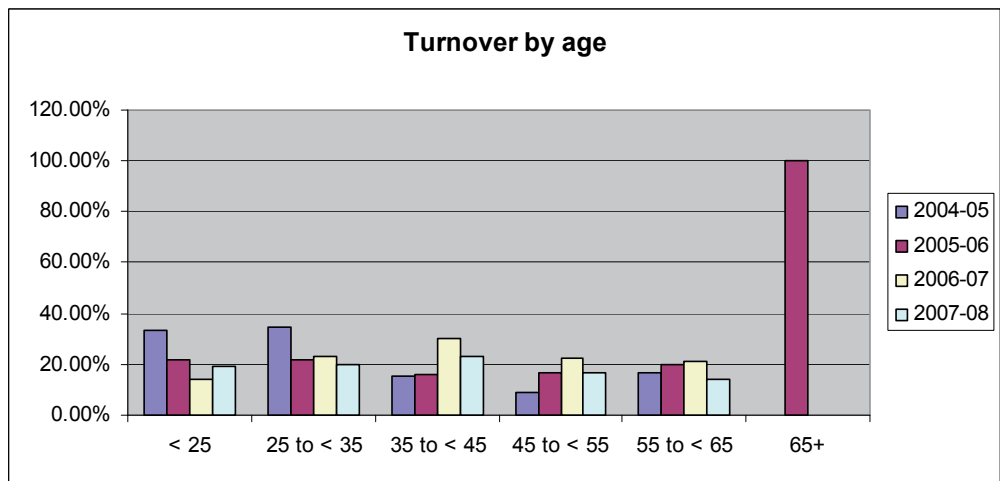
A.2.6 Commencements

Whilst the highest percentage of commencements are in the <25 and 25–35 age brackets, commencements have increased in the 35–55 age bracket and reduced in the <25 age bracket since 2004–05.

Commencements by age
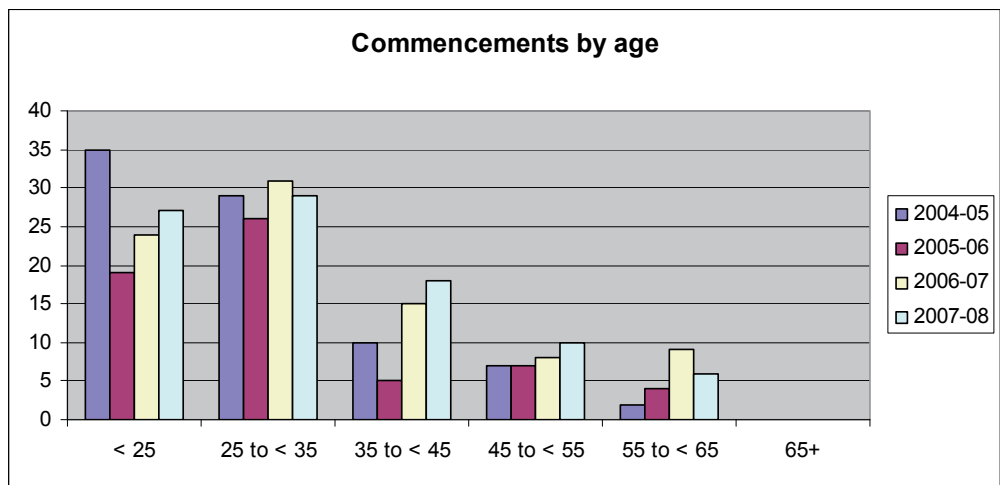
A.3 Key Risks Associated with Human Resource Management at the ANAO

As part of this audit KPMG were asked to identify the key risks associated with Human Resource Management at the ANAO. In order to do this, KPMG held discussions with a sample of Executive Directors, Group Executive Directors from across the Business Groups, staff from CMB responsible for HR and risk management, and reviewed the organisational and Group Risk Management Plans. As a result of this, KPMG have identified 12 key risks associated with Human Resource Management at the ANAO.

The risks have been given both an inherent risk rating and a residual risk rating (rating after the operation and impact of controls have been taken into account in the final assessment that management have made as to the nature and type of risk). The risk rating matrix at the end of the risk table has been used to rate the risks, and is based the fundamentals and principles outlined in the *Australian/New Zealand Risk Management Standard (AS/NZ 4360:2004)*

Risk ID	Potential Risk	Contributing factors / detailed risk considerations	Inherent Risk Rating	Controls / Mitigating Factor	Residual Risk Assessment		
					Consequence Rating	Likelihood Rating	Risk Rating
1	**Attraction and Retention** Inability to attract and retain the appropriate number of personnel with the necessary skills and qualifications.	• High demand in the labour market (domestic and international) for individuals with required skills (accounting, auditing and IT qualifications). • Budgetary pressure, brought about by the need to meet the requirements of the efficiency dividend, make it increasingly difficult to meet remuneration expectations of individuals with the required skills.	🔴	• Recruiting of generalists (particularly in PASG), ie; individuals without accounting and auditing qualifications and/or experience. • Increasing graduate intake, and introduction of an undergraduate program in 2004 as part of a broader strategy to 'grow' staff internally and insulate against staff turnover. • Investment in the way the ANAO promotes itself as an	Major	Likely	🟠

Risk ID	Potential Risk	Contributing factors / detailed risk considerations	Inherent Risk Rating	Controls / Mitigating Factor	Residual Risk Assessment		
					Consequence Rating	Likelihood Rating	Risk Rating
		• Skills and experience acquired at the ANAO are highly transferable to the private or public sector. • Security clearance requirements means that foreign nationals are generally not considered for employment by the ANAO. • Security clearance process can take between 2–10 weeks to complete which can result in potential candidates obtaining employment elsewhere.		employer (eg Career fairs, Sponsoring CPA and ICPAA events, ongoing presence on employment websites). • Referral fee introduced in 2005 for the successful recruitment of non APS staff to the ANAO. • Remuneration committee and remuneration guidelines in place to help ensure that ANAO remuneration remains competitive. • Benefits to supplement remuneration (secondments, rewards and recognition, CA/CPA/ CISA sponsorship,			

Risk ID	Potential Risk	Contributing factors / detailed risk considerations	Inherent Risk Rating	Controls / Mitigating Factor	Residual Risk Assessment		
					Consequence Rating	Likelihood Rating	Risk Rating
				on going learning and development, performance bonuses). • Recruitment agencies used to identify suitable individuals.			
2	**Management Awareness / Acceptance of the Importance of 'People'** Lack of awareness/ acceptance by management that people management represents a key threat area for the ANAO.	• People are the ANAO's primary resource and they underpin its ability to deliver its program of work. • People management issues require the support of the leadership team, to ensure that they are effectively addressed and implemented. • Management and the leadership team are		• 'People' risks feature in the ANAO Risk Management Plan, and each of the Groups' Risks Management Plans • Annual participation in an independently coordinated staff survey, which benchmarks outcomes to APS results. • Use of client surveys which provide feedback on the staff used on engagements. • Retention of staff is reflected	Moderate	Possible	

Risk ID	Potential Risk	Contributing factors / detailed risk considerations	Inherent Risk Rating	Controls / Mitigating Factor	Residual Risk Assessment		
					Consequence Rating	Likelihood Rating	Risk Rating
		responsible for setting the budget and the PASG program of work, both of which are impacted by 'People'.		in SES performance agreements			
3	**Budget Management** Inability to deliver program of work within budget as a result of the cost of obtaining the right staff mix.	• Increasing cost of skilled staff as demand for them increases • Tightening' of budget with introduction of 2 per cent efficiency dividend • Program of work remaining constant.	🔶	• Auditor General sets the budget in consultation with Finance and the JCPAA. • Monthly review of the budget to actual information by EBOM. • Flexibility does exist in the number of reports delivered by PASG	Major	Possible	🔶
4	**Quality Management** Increasing pressure to deliver program	• Recruiting less experienced and qualified staff to meet staffing requirements in an increasingly 'tight'	🔶	• A Learning and Development Handbook has been developed, which provides a capability assessment by Group and Staff level. The	Moderate	Possible	🟡

Risk ID	Potential Risk	Contributing factors / detailed risk considerations	Inherent Risk Rating	Controls / Mitigating Factor	Residual Risk Assessment		
					Consequence Rating	Likelihood Rating	Risk Rating
	of work to quality requirements	market place. • Level creep occurs as a strategy to retain staff.		Handbook links the capabilities to the learning and development options that are available to each staff level. • PASG and AASG both have a quality review process • Recruitment of individuals with specialist skills assists in improving the quality of the 'Product'.			
5	**Workload and Conditions** High work demands and pressures impact the ability to attract and retain staff.	• Difficulty to recruit suitably qualified / experienced staff puts pressure on existing staff to deliver program of work. • Change in skills /experience profile puts increasing pressure on shrinking pool of staff	🟠	• Use of 'Contractor In' and 'Contractor Out' arrangements assist to smooth workload in the absence of suitable ANAO resources. • The Learning and Development Handbook has been developed to assist in ensuring that staff members	Moderate	Possible	🟡

Risk ID	Potential Risk	Contributing factors / detailed risk considerations	Inherent Risk Rating	Controls / Mitigating Factor	Residual Risk Assessment		
					Consequence Rating	Likelihood Rating	Risk Rating
		with accounting/auditing skills, and/or those with the necessary experience • Nature of AASG work means that deadlines are 'tight' and work demands are high in July, August and September.		have particular capabilities. • OH&S Committee have introduced incentives to keep fit (eg annual fitness test, flu vaccinations). • Regular 'celebration of performance' by the organisation or an individual, and the introduction of a rewards and recognition program.			🟡
6	**Performance/career management** Poor performance and career management processes impact the ability to retain and attract staff.	• Recruitment strategy to increase the graduate intake may have an impact on the number of managers to staff. • General focus on the delivery of the 'Product' rather than the 'People'.	🟠	• Performance expectations are documented in individual performance agreements /certified agreements. • Performance management sessions are held on a six monthly basis, where an individual's performance is measured and rated			

Risk ID	Potential Risk	Contributing factors / detailed risk considerations	Inherent Risk Rating	Controls / Mitigating Factor	Residual Risk Assessment		
					Consequence Rating	Likelihood Rating	Risk Rating
				(annually), against the documented performance agreement and assessment guidelines. • Development of a talent management program aimed at developing the careers of high achievers.			
7	**Remuneration** Remuneration levels are not market competitive, impacting the ability to attract and retain appropriate staff.	• The demand for skilled and talented people puts upward pressure on remuneration levels.		• A remuneration committee is responsible for ensuring that the ANAO has a remuneration policy and that individual remuneration arrangements are consistent with the policy. • Remuneration guidelines and a model have been developed to add transparency to the remuneration process. • Employment contract provides flexibility in the way	Moderate	Possible	

Risk ID	Potential Risk	Contributing factors / detailed risk considerations	Inherent Risk Rating	Controls / Mitigating Factor	Residual Risk Assessment		
					Consequence Rating	Likelihood Rating	Risk Rating
				that employees are remunerated.			
8	**Rewards and recognition** Remuneration is not adequately supported by an appropriate rewards and recognition program.	• Increasing expectation that remuneration will be supplemented by a rewards and recognition program. • The magnitude and/or nature of a reward/recognition needs to be tailored to staff level, in order to be effective.	🟡	• Regular 'celebration of performance' by the organisation or an individual, and the introduction of a rewards and recognition program. • Performance assessment scheme (annual bonuses). • Auditor General Awards (Australian Day awards and outstanding achiever awards). • Secondment program favours high achievers.	Minor	Possible	🟡
9	**Workforce planning** Failure to deliver	• Lack of management/leadership support of WFP.	🟠	• Progress against the WFP has been reported to EBOM on an 'ad hoc' basis	Moderate	Likely	🟠

Risk ID	Potential Risk	Contributing factors / detailed risk considerations	Inherent Risk Rating	Controls / Mitigating Factor	Residual Risk Assessment		
					Consequence Rating	Likelihood Rating	Risk Rating
	against actions and strategies in the WFP. • Strategies do not assist the ANAO to anticipate organisational capabilities and optimal workforce requirements necessary for business success.	• Failure to actively monitor and report progress against the strategies and actions in the WFP. • Failure to update the WFP to keep pace with the operating environment.		• Actions which are linked to the strategies have been allocated an area of responsibility.			
10	**Learning and Development** Inadequate learning and development program.	• Staff are not adequately 'equipped' to perform their job. • Impact on the ability to attract and retain staff.	🟠	• Performance assessment scheme incorporates the development of an individuals development plans. • The Learning and Development Handbook has been developed to	Moderate	Possible	🟡

Risk ID	Potential Risk	Contributing factors / detailed risk considerations	Inherent Risk Rating	Controls / Mitigating Factor	Residual Risk Assessment		
					Consequence Rating	Likelihood Rating	Risk Rating
		• Inability to foresee learning needs, and to deal with technical issues as and when they emerge. • Delivery of a poor quality product.		assist in ensuring that staff have access to a structured Learning and Development program. • Leadership courses to be implemented from March 2008. • The Professional Services Branch provides technical assistance and advice to audit groups. • A Learning and Development Committee has been established to assist in identify learning needs and solutions.			
11	**Diversity** Failure to develop an inclusive culture (diversity) impacts the ANAO's ability to attract and retain an appropriate staff mix.	• To attract and retain staff, there is a need to accommodate individuals from diverse backgrounds. • Increasing complexity and diversity in workforce with intergenerational differences emerging.	(yellow)	• ANAO staff are required to comply with the APS code of conduct and values. • The ANAO have in place a workplace diversity program. As part of this a flyer has been distributed to staff which defines diversity and outlines their responsibilities. • Diversity discussions	Minor	Unlikely	(green)

Risk ID	Potential Risk	Contributing factors / detailed risk considerations	Inherent Risk Rating	Controls / Mitigating Factor	Residual Risk Assessment		
					Consequence Rating	Likelihood Rating	Risk Rating
				incorporated as part of induction program. • Feedback and findings as part of staff survey.			
12	**Occupational Health and Safety** Poor OH&S practices in place.	• Impact on the ability to attract and retain staff. • High rate of absenteeism due to health and safety issues puts pressure on workforce.		• Occupational health and safety committee in place to manage OH&S issues. • The ANAO is bound by the APS OH&S standards / legislation. • Designated ANAO Rehabilitation Officer.	Moderate	Unlikely	

ANAO RISK MATRIX

Colour Key

Colour	Meaning
Extreme	Immediate action required by the Executive with detailed planning, allocation of resources and regular monitoring
High	High Risk, senior management attention needed
Medium	Management responsibility must be specified
Low	Managed by routine procedures

		Consequence				
People		Minor Skills Impact	Minor Impact to capability	Unavailability of core skills affecting services	Unavailability of critical skills or personnel	Protracted unavailability of critical skills/people
		Minor Injury	First Aid Treatment	Medical Treatment	Major Injury	Death
Financial		1% of Project/Post Budget or <$10k	2-5% of Project/Post Budget or <$100K	>5% of Project/Post Budget or <$1M	>10% of Project/Post Budget or <$10M	>25% of Project/Post Budget or >$10M
Reputation		Self-improvement review Required	Scrutiny by Executive, internal committees or internal audit to prevent escalation	Scrutiny required by external committees or ANAO etc	Intense public, political and media scrutiny. Eg: front page headlines, TV, etc	Royal Commission, Parliamentary inquiry or sustained adverse national/ international media
Business Process & Systems		Minimal impact on non-core business operations. The impact can be dealt with by routine operations	Some impact on business areas in terms of delays, systems quality but able to be dealt with at operational level	An impact on business resulting in reduced performance such that targets are not met. The project is not threatened, but could be subject to significant review of changed ways of operations.	Breakdown of key activities leading to reduction in business performance eg service delays, client dissatisfaction, loss of revenue, cost delays, legislative breaches. Survival of the project/ activity is threatened	Critical business failure, preventing core business activities from being performed. The impact threatens not only the survival of the project, but the ANAO itself

Likelihood			Insignificant	Minor	Moderate	Major	Catastrophic
Qualitative Likelihood	**Historical / Probability**						
Is expected to occur in most circumstances	Has occurred on an annual basis at the ANAO, in the past or circumstances are in train that will cause it to happen	**Almost Certain**	M	H	H	E	E
Will probably occur in most circumstances	Has occurred in the last few years at the ANAO or has occurred recently in other similar agencies or circumstances have occurred that will cause it to happen in the next few years	**Likely**	M	M	H	H	E
Might occur at some time	Has occurred at least once in the history of the ANAO or is considered to have a 5% chance of occurring in the next few years	**Possible**	L	M	M	H	H
Could occur at some time	Has never occurred at the ANAO but has occurred infrequently in other similar agencies or is considered to have a 1% chance of occurring in the next few years	**Unlikely**	L	L	M	M	H
May occur only in exception circumstances	Is possible but has not occurred to date in any similar agency and is considered to have very much less than a 1% chance of occurring in the short term	**Rare**	L	L	L	M	M

A.4 Current State Assessment of the Extent of Implementation of the ANAO WFP

In the table below we have presented the outcomes of the current state assessment of the extent of implementation of the ANAO WFP. The current state assessment has been prepared after:

- Consideration of controls and mitigating actions identified as part of the risk assessment process;

- Interviews with a sample of Group Executive Directors', Executive Directors' and HR personnel; and

- Review of the two updates that have been provided to EBOM on the state of implementation of the WFP (June 2006 and February 2008).

Comments have been provided against each of the actions in the WFP, and the status has been summarised using 'traffic lights' where:

Key

Action has been taken or when implemented will adequately address the action item.

Action is in progress, but needs to be modified and/or finalised, and implemented

Action has not been adequately addressed

Action	Performance Measure	Completion Date	Responsibility	Comment	Status
Strategy 1 – To closely manage workforce costs in an environment of increasing budget pressure					
Manage Costs – EBOM to endorse a staffing cap of 300 FTE on average across the year for the period of the WFP.	Financial reports on staff expenditure against budgets show costs contained.	Ongoing financial reporting.	GED's / CFO	Staff expenditure against budget and staff number are reported to EBOM. Quarterly financial reports also include an analysis of areas that are under/over budget.	🟢
Strategy 2 – To better understand the current and anticipated organisational capabilities and optimal workforce requirements necessary for business success.					
Synchronise planning – Production of the ANAO Corporate Plan, Risk Management Plans and WFP will be fully synchronised to guide workforce strategies that reflect business needs.	All plans fully integrated.	2006–07	Deputy AG	The Corporate Plan and Business Plan are linked to the WFP through the 'People' Key Result Area (KRA). The Business Plan links to the WFP in that it identifies the need to perform 'Analysis and evaluation of WFP activities.' It is understood that a more formal link to the WFP is being established as part of the 2007–08 business planning cycle. Each of the HR related risks identified in the ANAO Risk Management Plan and the Group Risk Management Plans, could be linked more explicitly to actions identified in the WFP. It is recognised that further enhancement of the planning process including more explicit links to the WFP merits consideration.	🟠

Action	Performance Measure	Completion Date	Responsibility	Comment	Status
Business strategies – As part of the annual business planning process, EBOM will specifically consider whether there are aspects of our products, focus, environment or timeframes that should be changed including the impact on demand for relevant categories of staff in the short or longer term.	Strategic business initiatives canvassed.	Annually (Apr/May)	PASG & AASG Executive Directors	*PASG* has implemented an organisational restructure that provides more flexibility and opportunities for staff to move across Branches and audit teams, which will assist staff to obtain experience and skills in different areas. The revised structure will assist in aligning capability with the Audit Work Program which outlines audits to be conducted over a three year timeframe. *AASG* has implemented a revised organisational structure with on objective being to allow staff a strong group identity with particular areas of government auditing expertise. AASG have a 'resource managers' group, that meets regularly to focus on the assignment of staff within AASG. In doing this, consideration is given to resourcing outcomes that will achieve cohesion between business outcomes and development of individual member of staff. The group also provides a mechanism for the identification of any capability shortfalls for the attention of the Group Executive Directors.	🟢
Contingent workforce strategy An annual assessment of the state of ANAO's contingent workforce is undertaken in relation to the future outlook for the availability of contractors and any implications for the resourcing and quality of ANAO audits.	Contingent workforce strategies developed.	June 2007	Group Executive Directors	Contingent workforces strategies developed by PASG and AASG, as a result of the SES conferences. Strategies include: ▪ PASG contractor panel refreshed to ensure availability of required specialist skills and also to ensure that there is enough breath in the panel to meet all audit requirements; ▪ Developing ANAO staff, by using experienced contractors to lead a team made up of ANAO	🟢

Action	Performance Measure	Completion Date	Responsibility	Comment	Status
				resources; and ■ Using expert advisors to inform an audit by providing strategic input, rather than contracting out the entire audit.	
IT strategy – Over the life of the WFP, the strategic and operational requirements of the IT Audit Branch be specifically addressed and better defined.	IT audit strategy developed.	June 2007	Executive Director IT	An IT audit strategy was developed in 2004 and reviewed by EBOM, however there was never any agreement on the issues and allocation of the actions identified in that strategy documents. While no IT strategy document has been developed in response to the action in the WFP, discussion with the Director IT Audit, revealed that much of what is in the 2004 strategy document is still relevant and it would not be a substantial task to update that document in response to this action. IT audit has been integrated into AASG in an effort to better integrate IT effort into audits. This action is reflected in the ANAO Business Plan under KRA 2 as 'continue to strengthen our IT audit Capability'.	🔴
R&D strategy Over the life of the WFP, the strategic and operational requirements of the R&D Branch be specifically addressed and better defined.	R&D strategy developed.	June 2007	Executive Director R&D	A review of the R&D Branch and a paper outlining the strategic support and provision of technical services was agreed by EBOM in October 2006. Implementation of the strategy has been impeded as a result of the turnover of staff. Consultants have been used to manage workload at an operation level.	🟠

Action	Performance Measure	Completion Date	Responsibility	Comment	Status
Reporting to the Executive – Update the template for reporting to EBOM and the Senior Executive.	Reports to the Executive redesigned, aiding decision making.	2006–07 agreements	CMB	Updates to the EBOM reporting template and structure is ongoing. Key statistics relating to turnover and staff profile are provided to EBOM, as well as progress being made on the implementation of any key initiative (eg the L&D Handbook). Executive Directors and above have access to InfoHRM data and information through access to the InfoHRM web site.	🟠
Reports to Branch Heads – Develop the content of periodic reports to Executive and Group Directors to assist in monitoring and managing the workforce.	Reports to Branch Heads redesigned, aiding workforce management.	September 2006	CMB	Executive Directors and above have been provided access to InfoHRM data and information through access to the InfoHRM web site. Branch Heads may be provided with a debrief on the outcomes of EBOM meetings, and HR related issues are discussed at biannual SES conferences. Branch heads across the ANAO are not being provided with regular and consistent reports to assist in the management of their workforce (eg individual staff productivity, staff performance, turnover). The extent and nature of reporting for Branch Heads is dependent on whether they access InfoHRM (which they are typically not) and the Group to which they belong.	🟠
Competency requirements – Develop an annual statement of emerging workforce competency requirements prior to the development of the ANAO's Learning and Development Program.	Staff statements produced. ED's used in task allocation. Skill gaps identified.	June 2006	R&D	The L&D framework has been developed and is presented in the ANAO 2008 Learning and Development Handbook. The Handbook outlines the capabilities required by level and business area, and identifies the training available. The Performance assessment scheme incorporates the development of staff statements and development plans to address gaps that are identified.	🟢

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Mission Critical – Identify the roles, positions and/or individuals that are critical to fulfil the ANAO's strategic goals.	Identification complete. Integration with talent management underway.	Annually (Nov)	Group Executive Directors	Succession planning conducted on a regular and ongoing basis at the Group level helps to identify staff levels and individuals that are critical to the business. Key outcomes and issues identified as a result of succession planning are reported to EBOM through Group reports. Work is currently being undertaken to develop a talent management policy which will support the succession planning being done at the Group level.	🟠
Strategy 3 – Recruitment, motivation, and retention of a sustainable, highly skilled longer – term workforce capability					
AWAs – Consistent with the Government's position on moving towards AWA's, the ANAO will offer more individually tailored working arrangements aligned to business and individual needs.	AWA's developed for nominated personnel.	Ongoing	Executive Directors	With the introduction of the current government and the introduction of 'Work Choices', as AWA's expire they will be replaced by employment contracts. Development of the employment contract has commenced, and will allow flexibility to tailor working arrangements to align with the business and individual needs.	🟢
Certified Agreement (CA) – For those staff not wishing to enter into AWA's the ANAO will endeavour to indicate basic motivating factors in the Standards Certified Agreement package.	Certified Agreements linked to WFP.	June 2006	CMB	The CA objectives and intent is to link remuneration with the WFP incentives. In response to this action, a remuneration committee has been established which is responsible for ensuring that the ANAO has a remuneration policy and that individual remuneration arrangements are consistent with the policy. Further, a remuneration model and guidelines have been developed to	🟢

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				add transparency to the remuneration process.	
Talent management – Implement a talent management program (including leadership) that is closely aligned with the business strategy, improves the competencies and motivation of all staff, and improves the ANAO retention rate.	ED's have considered the performance and potential of each officer and initiated activities.	Annually (Nov)	Executive Directors	A paper outlining the key principles of succession planning and talent management was developed by the Deputy AG in 2006, and is available on the ANAO intranet site. A key part of talent management are *individual development plans* that are formed as part of the ANAO's Personal Development Scheme, after consideration of an individuals capabilities against the ANAO Capability Framework. At the time of the audit a talent management policy was in the process of being developed. The *Personal Development Scheme and Guide*, contains a list of personal development options and mechanisms (eg work assignments, work rotations, secondments, and remuneration) that are available to assist in talent management. Recent (January/February 2008) organisational changes in PASG created opportunities for people to move across branches and audit teams to assist in personal development and take advantage of talents identified through the *Performance Assessment Scheme*. Development of a 'leadership program' is also underway and is to be launched later in 2008. The aim of the program is to fast track the development of middle managers (Executive Level 1 and 2).	🟠
Retention – Performance agreements on an individual and/or team basis should reflect	Performance agreements reflect retention	2006–07	Executive Directors / CMB	The *Performance Assessment Scheme Guidelines* (revised September 2007), outlines the process for developing performance agreements, and identifies that each	🟢

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the role of managers in managing retention.	as a priority. Retention improving in every branch.			performance agreement must contain elements that relate to the ANAO Key Result Areas (KRA's). It is a requirement that the element, *using highly performing people* ('People' KRA) be given a minimum weighting of 15 per cent, and a maximum rating of between 30 per cent to 40 per cent. Statistics indicate the retention is remaining to be an issue for the ANAO with the annualised turnover rate of 28.7 per cent at February 2008, which is above the ANAO target of 18 per cent.	
Teams – The ANAO's team management practices and the ability to promote team behaviours will be an area of further consideration.	Opportunities explored. Pilot projects underway.	June 2007	Group Executive Directors	AASG moved from a Group to a Team structure in October 2007. The four teams have specific APS portfolio obligations. A key benefit of this structure is seen to be the ability to build a greater 'depth' of knowledge about a portfolio, within AASG. Similarly, PASG have adopted a structure based around ten teams. Work rotation is part of the personal development menu options which is part of the *Personal Development Scheme and Guide*, and is designed to allow staff to work across a number of teams and facilitate knowledge sharing.	🟢
Flexibilities – Make strategic use of flexible work practices to contribute to organisational capability, to facilitate retention and to promote the ANAO as a preferred employer.	Staff requests assessed against business requirements.	Ongoing	Executive Directors	The ANAO *Workforce Diversity Program* recognises, 'support staff in balancing their work and personal lives', as an Executive and management responsibility. Flexibilities are left to the discretion of Executive Directors. As at February 2008, the ANAO had approximately ten per	🟢

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				cent of its staff on flexible work arrangements, which represents an increase of 3 per cent since the WFP was approved. The state of the service report indicates that 11.7 per cent of staff members have entered into flexible work arrangements across the APS.	
Accommodation – Given the expiry of the 19 National Circuit lease in 2008, consideration should be given to issues relating to accommodation and their impact on retention, productivity, and our ability to leverage corporate knowledge.	Concepts explored with Executive and staff.	2008	Executive Director CMB	A decision to extend the lease at 19 National Circuit has been made, and the refit of the existing premises has commenced. Staff members are being consulted as part of the process to enhance the current work environment, in an effort to ensure that accommodation changes do not contribute to a decision by a staff member to leave the ANAO, and to improve productivity where possible. An Accommodation Steering Committee has been established to coordinate the refit process and manage stakeholder engagement. Updates on changes to the accommodation are posted on the ANAO 'Daily News' link on the ANAO intranet site periodically.	🟢
Mature–age – The ANAO's current program around the retention of mature–age employees, needs to be continued and regularly promoted.	Business requirements considered and staff approached.	Ongoing	CMB	Recently retired staff members have, and are being approached as part of the ANAO's recruitment policy. Information gathered as part of a Mature –Age Workers survey conducted in July 2004 has been used in an effort to attract and retain mature age workers.	🟢
Secondment & Exchange – The ANAO's secondment and exchange program be funded and supported to encourage staff	Opportunities explored. Secondments initiated.	September 2006	Business Managers / CMB	Secondments are managed by at the Group level by AASG and PASG. Secondments can occur with APS agencies, or with international Audit General Departments. Arrangements are currently in place with the Canadian and	🟢

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development through secondments and retention opportunity.				Irish Auditor Generals. Secondments are awarded after consideration of a staff member's performance and development needs.	
Strategy 4 – To further develop and sustain a work environment and employment relations that are consistent with the ANAO being a preferred employer.					
ANAO promotion – Ensure a stronger promotion of the attractive features of the ANAO work environment and its advantages over other employers (for example, through the wording of our recruitment advertisements and other branding activities).	Attracting a greater quantity and quality of applicants.	Ongoing	Executive Director CMB	Ongoing advertising in newspapers and on the ANAO internet site is used to promote ANAO positions. Brochures and publications used in recruitment were updated during 2007. Representatives from the ANAO attend career fairs held at universities, and industry events held by CPA Australian and the ICPAA. An external consultant is currently being used to provide marketing and advertising advice, to assist in the promotion of the ANAO. The ANAO Referral Scheme launched in October 2006, is also designed to get employs involved in the promote the benefits of working for the ANAO. The ANAO average headcount has increased from approximately 291 to 297 since the introduction of the WFP.	🟢
ANAO Employment values – The promotion and adoption of APS and ANAO employment Values.	Branch meetings canvass issues. Complaints procedures developed.	June 2007	CMB	The ANAO values are underpinned by the APS Values. The ANAO Values are *Respect, Integrity,* and *Excellence,* and are supported by 7 Behaviours. The ANAO have in place *Public Interest and Whistleblowing Policy and Procedures,* which provides a framework through which alleged breaches of the APS Code of Conduct can be reported. The annual Staff Survey	🟢

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				also provides a forum through which complaints can be raised.	
Celebration of performance – The regular celebration of individual and organisational accomplishments.	Program is underway and gaining acceptance.	December 2006	CMB / All Executive Directors	An award system is in place which includes; The Auditor–General's *Award for Outstanding Achievement*, the *National Australia Day Council Medallions*, and the *Audit–General's Certificates of Appreciation*. An Awards and Recognition Scheme paper, revised in 2006, supports the awards process. Informally, function areas celebrate achievements by having periodic morning teas, or 'drinks' after work. 'Recognition' was one area that was identified as an areas for improvement in the 2007 staff survey. A 'rewards and recognition' policy was drafted in December 2007, which supports the introduction of additional staff awards for accomplishment, such as dinner or shopping vouchers. This was under consideration at the time of the audit.	🟠
A positive cultural climate – Staff input will be sought from the staff survey on how to track organisational performance in terms of creating a positive cultural climate and whether we can be seen as having a preferred work environment.	Staff input has been sought on how to track. Staff views have been sought on progress.	Annually – staff survey	CMB	A staff survey is conducted and coordinated annually. Outcomes of the staff survey are reporting to the Executive and EBOM, and are discussed at biannual SES conferences. Outcomes of the 2007 staff survey identified a number of opportunities to improve the culture, specifically around: Internal communication; recognition; performance management, and bullying and harassment. The external survey provider has been consulted on how to better measure the cultural climate, and as a result it is	🟠

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				understood that the 2008 staff survey is being updated to provide a better measure of success in this area.	